CHANGING WELFARE STATES

FROM COMPENSATING TO CAPACITATING SOLIDARITY IN EURO CRISIS TIMES

ANTON HEMERIJCK, VU UNIVERSITY AMSTERDAM

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1. Economic crises and welfare regime change

2. European welfare states in motion

3. Euro crisis and social investment imperatives
1. ECONOMIC CRISSES AND WELFARE REGIME CHANGE
ECONOMIC CRISES AND REGIME CHANGE

Great Depression (financial crisis)

*Search for Stability* – “embedded liberalism” 50/60
Social protection as economic stabilization

Great Stagflation (real economy crisis)

*Challenge of Flexibility* – “institutional liberalisation”
80/90 through gradual retrenchment, deregulation, and drift

Great Recession (financial crisis)

*Resilience Imperative* (shock absorbing through flexible adjustment in labour market “stock” and “flow”)

Faculteit der Sociale Wetenschappen
2. EUROPEAN WELFARE STATES IN MOTION
BIG (POLICY) CHANGES 1980 - 2005

• From Keynesianism to moderate monetarism (EMU/SGP)
• Cost-competitive wage moderation
• Selective sobering social insurance
• Activation conditionality and active labour market policy
• Labour marker de-segmentation (“flexicurity”)
• Minimum income protection (selective universalism)
• Multi-pillar pension reform (life expectancy factored in)
• Dual earner family support (de-familialisation)
• Human capital (re-)discovered as key life course buffer
• Financial hybridisation (from social insurance to tax financing and private contributions)
PUBLIC SOCIAL SPENDING, GDP AND DEFICITS

Graphic 1: Public Social Expenditure as % of GDP vs. Deficits

- Scandinavian Regime
- Continental Regime
- Anglo-Saxon Regime
- Mediterranean Regime
- Transition Countries
- Full line for Total

R² Linear = 0.09

Graphic 2: Public Social Expenditure as % of GDP vs. GDP per capita 2007

- Scandinavian Regime
- Continental Regime
- Anglo-Saxon Regime
- Mediterranean Regime
- Transition Countries

R² Linear = 0.119
FEMALE ACTIVITY RATE AGED 25-54 FROM 1987 TO 2007
FEMALE EMPLOYMENT AND FERTILITY 1983
Empirical analysis of the employment rate of older workers (55-64) over the years 1997 to 2007, comparing different countries: Sweden, Germany, France, Netherlands, United Kingdom, Spain, Italy, and Czech Republic.
EMPLOYMENT PROTECTION STRICTNESS (OECD)
PISA READING SCORES
EARLY SCHOOL LEAVERS

1997
2007
GINI COEFFICIENT
COMPENSATING AND CAPACITATING SOCIAL SPENDING

[Graph showing compensating and capacitating social spending across different countries and regimes.]
BEYOND SOCIAL RETRENCHMENT (WITH EXCEPTIONS)

• From fighting unemployment to raising employment in ageing societies

• From compensating income equality (Rawls) towards “capacitating fairness” in reciprocity (Sen/Dworkin) undergirded by universal minimum income protection

• Active family support to pre-empt precarious life course contingencies (“new” social risks)

• Semi-sovereign (service oriented) welfare states (EMU) presuppose strong local “institutional capacities”

Key drivers: erosion of effective (male) breadwinner provision (because economic and family-demography change) and European (economic) integration
FOUR (OR FIVE) EUROPEAN WELFARE REGIMES

Nordic (robust dual earner model)
> Universal income security
> Strong family servicing for high employment participation

Continental (beyond welfare without work)
> High social insurance benefits, contingent on employment record
> Slow on support for working families/flexicurity – dualization risks

Mediterranean (inertia through fragmentation/clientelism)
> Strict labour market regulation, underdeveloped safety nets, poor edu.
> Family compensates (poorly) for deficient formal care provision (poor institutional capacities) – segmentation backlash

Anglo-Irish (genuine social investment turn)
> Individualized low social benefits
> Social investments unable to turn tide of inequality

NMS hybridization (social investment catching-up)
> Minimum benefits, social insurance and elementary social services
> Falling demand for low skill jobs
3. EURO CRISIS AND SOCIAL INVESTMENT IMPERATIVES
EURO CRISIS WAKE-UP CALL FOR EUROPEAN WELFARE STATES AND EMU GOVERNANCE

... dramatic youth unemployment (hysteresis/baby crunch)
... continuing fragile global economic and financial situation
... worrying social policy legacies in Greece, Spain, Italy devastatingly exposed
... asymmetric competitiveness and social divergencies threatening macro-economic viability EMU
... with front-loading austerity aggravating costs fiscal consolidation in times of contraction and deleveraging
... spectre of “lost decade” for Europe (long depression in the face of high cost ageing – EU political instability)

... social investment can no longer be dismissed as “fair weather policy” (as in Lisbon Agenda years)!
<table>
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<th>Policy problem</th>
<th>Social retrenchment</th>
<th>Social investment</th>
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<td><em>Axiomatic-deductive</em></td>
<td><em>Empirical-inductive</em></td>
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<td>Core policy imperative</td>
<td>Cost containment</td>
<td>Revenue raising</td>
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<td>Engineer risk shift to the private spheres / deregulation</td>
<td>Maximize employment in open economy</td>
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<td>Policy theory</td>
<td>Trade-off ‘equity and efficiency’ “crowding out” private economic initiative</td>
<td>“crowding in” social investment economic synergies (devil in detail)</td>
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<td>Policy instruments</td>
<td>Targeted minimum poverty provision <em>ex post</em></td>
<td>Mitigate life cycle contingencies <em>ex ante</em> (skills/gender/family) Optimize ‘stock’ and ‘flow’ over the life course</td>
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<td>Macroeconomic Policy</td>
<td>Fiscal (procyclical) consolidation SGP, inflation targeting EMU, no-bail-out EU Treaty</td>
<td>Macroeconomic stabilization more than fighting inflation (sailing anti-cyclically against wind)</td>
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<td>Institutional capacities</td>
<td>Take out market barriers through NPM transaction cost (contracting out) – discipline low-trust rent-seekers</td>
<td>Institutions as both <em>constraints</em> and <em>resources</em> (high-trust public regarding social partnerships) and quality public services</td>
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<td>Positive/negative State theory</td>
<td>TINA (“European social model is dead” – Mario Draghi)</td>
<td>Capacitating and caring solidarity (recalibration ESM)</td>
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ALIGNING PRODUCTIVITY ("STOCK") AND PARTICIPATION ("FLOW") OVER LIFE COURSE

Without a magic growth driver, sustainable employment best guarantee for growth and social cohesion in ageing European societies – social investment »**crowding in**« (high employment and labour productivity returns) instead of ridistributive »**crowding out**« private economic initiative

Importance of **institutional complementarities**:

- Human capital investment push
- Child-centered investment strategy
- Reconciling work and family life
- Later and flexible retirement (and permanent adult education)
- Migration (circular) and integration through education and participation
- Minimum income support aligned to *capacitating* service provision
- Health care: saving lives and costs

But, pro-active shift towards ‘new’ social risk recalibration anathema to anti-EU domestic politics of ‘old’ risk national welfare chauvinism and EMU/SGP default theory at EU level
EU SOCIAL INVESTMENT IMPERATIVES

1. EU existential (economic and political) interests in addressing social asymmetries to forge economic stabilization in (slower) adjustment

2. Because of ageing, human capital cannot be allowed to go to waste through semi-permanent inactivity (as was the case in the 80s and 90s)

3. Social investment (because of positive macroeconomic effects) must be anchored in EU macroeconomic and budgetary governance and financial regulation that support durable and balanced growth in the real economy to achieve long-term symmetry (gradual regime change)

5. Fiscal discipline must be allowed to deliver social investment, i.e. collective action and supranational instruments needed (Eurobonds, Project Funds) – in “conditional reciprocity” over realistic social investment reforms and agreed to budget consolidation monitoring

6. Social investment can be politically embedded in an attractive normative conception of a closer “caring” Europe2020 Strategy

7. Money is cheap; but adjustment time consuming (no “quick fixes”) Unlearning most difficult part of policy learning!
Anton Hemerijck’s *Changing Welfare States* is a tour de force. Ranging broadly across countries, time periods, and policy areas, the book provides an overview of where we have been and where we might fruitfully go in terms of welfare state policy. The theoretical framework he advances deftly combines the best of institutional accounts and policy learning models into a realistic view of the possibilities of politics within evolving institutional constraints. Essential reading for scholars and policy makers alike.

*Kathleen Thelen, Ford Professor of Political Science, MIT*

*Changing Welfare States* is about making or breaking Europe—about moving to form a social union that supports and benefits from the proposed Fiscal Union, or saving the euro and satisfying the banks at the expense of European solidarity and social well-being. In these essays, Hemerijck outlines a "Social Investment Pact" and Social Union wherein national welfare states are re-embedded at the European level and integrated with EU-markets. The European social space he describes is one that could accommodate large-scale trans-European investment of the sort needed to save major parts of Europe from becoming entrapped in a permanent economic depression. We can opt for a caring Europe or an unraveling Europe, and Hemerijck’s well-researched book makes the choice clear.

*Stephan Leibfried, Professor of Political Science, University of Bremen and Jacobs University Bremen*