

Global Europe: Democracy, Policy and Institutions

Final Paper: The European Welfare State

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Abstract

The purpose of this paper is assessing the current status of the welfare state in Europe, and suggesting recommendations on the most beneficial courses of actions for the European project. The importance of this topic lies in the preservation of European social culture and values, which are challenged by changing economic situation and globalization. The European welfare state is in a crisis that comprehends different areas: equity, sustainability, and integration. First, this paper will review the welfare state in Europe and will stress the motivations for preserving it. Then, constraints and challenges of the European welfare state will be enumerated. Finally, the last section will draw conclusions and will make recommendations on the next steps that should be taken. These recommendations include three main ideas: extending the export of unemployment benefits; focusing on active policies for employment; and establishing a social partnership negotiation model.

Introduction

The ‘Report of the Inter-Regional Expert Meeting on Social Welfare Organization and Administration’ of the United Nations stresses an important relationship between welfare and development:

“Social Welfare... is regarded as a body of activities designed to enable individuals, families, groups and communities to cope with the social problems of changing conditions. But in addition to, and extending beyond the range of its responsibilities for specific services, social welfare has a further function within the broad area of a country’s social development. In this larger sense, social welfare should play a major role in contributing to the effective mobilization and deployment of the human and material resources of the country to deal successfully with the social requirements of change, thereby participating in nation building.”¹

This is the case of Europe. *“The European economy and the workfare system are two halves of a well-designed system that work in conjunction, as a single unit, to keep workers and families healthy, happy, and productive”²*. Therefore, preserving and improving the welfare state system in Europe is not only a matter of values, but also of

¹ United Nations, (1968). Report of the Inter-Regional Expert Meeting on Social Welfare Organization and Administration. New York: UN publication, sales no. E68.IV.8.

² Steven Hill, Europe’s promise, Univ. of California Press, 2010, p. 97

development. It is fair to assume that the development of the European welfare state system is an ineludible step in the construction of the common Europe.

The key question is what is the best way to do so. More than 40 years ago, Levin stated that *“one can suggest the boundaries of social welfare, point out their relation to the boundaries of economic welfare, and give illustrations of the kinds of programs for which government in an industrial society must plan”*³. This is the purpose of this paper: identifying the boundaries of the European welfare state system and making high-level recommendations on the courses of action to address the three main challenges of the welfare state in Europe. The first challenge is achieving reasonable levels of equity, social protection and fairness. The second challenge is ensuring its financial sustainability. The third challenge is encouraging market integration in Europe through labor mobility.

³ The Boundaries of Social Welfare in Wester Societies. Commission of Inquiry on Health and Social Welfare. Government of Québec / October 1970. Herman Levin, D.S.W., Professor, School of Social Work, University of Pennsylvania, p. 24

The European welfare state models

Amélie de Montchalin and Branka Loncar Mrkoci, students at the Harvard Kennedy School, provide a comprehensive description of the different European welfare state models:

- “ 1) ***The continental welfare state model*** (Belgium, France, Germany, Luxembourg, Netherlands, Austria) is characterized by the strategy of subsidizing social problems. Unemployment compensation based on social security and generous welfare state funds allow poverty reduction and very good healthcare.

- 2) ***The Scandinavian welfare state model*** (Sweden, Denmark, Finland), also known as the Swedish model, is characterized by active policies on the labor market, wide coverage of the population with social services and reduction of social differences. The conditions for exercising rights and the contributions are generous, while the accent is on services instead of money transfers. This welfare state model is based on a broad scale of taxation and a high tax burden.

- 3) ***The Anglo-Saxon welfare state model*** (Great Britain, Ireland) is known as the residual welfare state model. Its basic characteristic is selectivity and the level of job protection and preservation is low. It is based on principles of strong economic orientation and the largest extent of social security privatization. Total

funds allocated for social protection are lower than in other EU Member States with further reductions in social benefits ensured and provided by the state following the crisis.

- 4) ***The Mediterranean welfare state model*** (Italy, Spain, Portugal, Greece) is characterized by a welfare state with a pronounced internal fragmentation in the area of social benefits (over-protection of some versus no protection for others). Rigid employment protection legislation and a frequent resort to early retirement serve as means to improve employment conditions. The level of welfare state activity was further reduced following the crisis austerity measures.”⁴

Hill makes a division based on how the welfare state system is managed⁵: France, Belgium, Germany, Austria, Switzerland and the Netherlands (Continental welfare state models) use “*shared responsibility*”, whereas Britain, Sweden, Denmark, Finland, Norway and Spain (Scandinavian, Anglo-Saxon and Mediterranean models) work under the “*single payer*” system. According to Hill, these are the two main systems of welfare in the developed world: “*the single payer, or socialized, system, in which health care services and facilities mostly are government owned and operated, and the shared-responsibility system, in which services are provided by private, nonprofit insurance*

⁴ Amélie de Montchalin and Branka Loncar Mrkoci, 2013, Background Report: Are the high social costs of the crisis in some parts of the euro area unavoidable?, p. 14, IGA-663 The Euro-Crisis: Causes and Consequences, Harvard Kennedy School, Prof. Henrik Enderlein

⁵ Steven Hill, Europe’s promise, Univ. of California Press, 2010, p. 140

companies and funded by mandatory payroll deductions from employers and employees”⁶.

According to Majone, such a “*variety of welfare-state models coexisting in Europe, each model and each of the numerous national variants being rooted in historical and political traditions, and deeply embedded in different socioeconomic contexts*”⁷, is a problem.

Moreover, Sapir provides a typology of the four European welfare models⁸:

		EFFICIENCY	
		Low	High
EQUITY	High	Continental	Nordic
	Low	Mediterranean	Anglo-Saxon

Summarizing, there are four main welfare state models Europe, which are very heterogeneous: Continental, Scandinavian (referred as ‘Nordic’ by Sapir), Anglo-Saxon, and Mediterranean. The first one uses a ‘shared responsibility’ system, in which services are provided by private, nonprofit insurance companies, whereas the others use the ‘single payer’ one, in which services and facilities are operated and owned by the government. Continental and Scandinavian models achieve higher equity results.

However, Continental and Mediterranean are inefficient.

⁶ Steven Hill, *Europe’s promise*, Univ. of California Press, 2010, p. 147

⁷ G. Majone, *Europe as the Would-be World Power*, p. 138

⁸ Anfdre Sapir, *Globalization and the Reform of the European Social Models*, JCMS, 2006, Vol. 44 number 2, p. 380

Constraints and challenges

The European welfare state faces challenges in three areas: equity achieved through each of these models, financial sustainability of the welfare state models, and contribution to the integration of the European common market through labor mobility.

Equity

Sapir assesses the equity of the European welfare state models “*the Nordic [Scandinavian] and the Anglo-Saxon models are both efficient, but only the former manages to combine equity and efficiency*”⁹. On the contrary, the Mediterranean and the Anglo-Saxon systems are far from promoting equity.

Sustainability

Sapir is very clear about the financial sustainability challenge: “*the Continental and the Mediterranean models are inefficient and unsustainable; they must therefore be reformed*”¹⁰. Hill illustrates the need for these reforms in the case of the French healthcare system. According to Hill, “*hard choices have to be made about where to focus health care resources, what services to provide free of charge, and what ones to*

⁹ Anfdre Sapir, Globalization and the Reform of the European Social Models, JCMS, 2006, Vol. 44 number 2, p. 369

¹⁰ Anfdre Sapir, Globalization and the Reform of the European Social Models, JCMS, 2006, Vol. 44 number 2, p. 369

charge at least a co-payment for, which can result in shortcomings for certain forms of cancer... Like other parts of Europe's comprehensive workfare services, health care sometimes has been too generous, necessitating some cutbacks in certain services for nonessential things, such as Viagra pills and breast implants."¹¹

An additional dimension of this challenge is the effect of the welfare state in investments and development. It is reasonable to fear that the cost of a strong social protection services might prevent companies from investing in a specific country. However, Majone states that "*a number of case studies have shown that the costs imposed by social standards are only a minor consideration in the location decisions of large multinational firms*"¹². On the contrary, a well-developed welfare state system may seduce skilled professionals, mitigate risks and, hence, encourage investments.

Integration

The challenge of the integration has two dimensions: first, the contribution to market integration; second, the harmonization of different systems. Regarding the first point, harmonization of the European welfare state would contribute to market integration through labor mobility. It is important to note that a homogeneous welfare state system may be a necessary condition for labor mobility, but not a sufficient one. An example of this is the case of Spain, where labor mobility among regions with unemployment rates

¹¹ Steven Hill, *Europe's promise*, Univ. of California Press, 2010, p. 152

¹² G. Majone, *Europe as the Would-be World Power*, p. 138

above 30% and regions with unemployment rates below 20%¹³ is still very limited, in spite of workers' ability keep their unemployment benefits from one region to another.

Regarding the second point, Majone says that *“one of the standard arguments in favour of the centralized harmonization of national social policies and regulations is the need to prevent the possibility that the member states take advantage of the single European market to engage in ‘social dumping’, or in a competitive lowering of social standards, in order to attract foreign investments”*¹⁴. However, *“there is no convincing empirical evidence of a race to the bottom in social standards, even at the international level”*¹⁵.

Moreover, the lack of harmonization exists not only among nations, but also within states: *“within a particular country, differences in the quality of health care are not uncommon from one region to another, in part because their regional or local governments have a hand in deciding how much of local resources will be allocated to health care”*¹⁶. Furthermore, according to Montanari and Nelson, *“convergence is absent in key healthcare dimensions, namely coverage and provision”*¹⁷. These two ideas provide a magnitude of the fragmentation level of European welfare systems.

¹³ Instituto Nacional de Estadística (INE), Encuesta de Población Activa (EPA), Primer trimestre de 2013, p. 19, <http://www.ine.es/daco/daco42/daco4211/epa0113.pdf>

¹⁴ G. Majone, Europe as the Would-be World Power, p. 134

¹⁵ G. Majone, Europe as the Would-be World Power, p. 137

¹⁶ Steven Hill, Europe's promise, Univ. of California Press, 2010, p. 152

¹⁷ Ingallil Montanari and Kenneth Nelson, Journal of European Social Policy February 2013 23: 102-116, doi:10.1177/0958928712456574, p. 102

Conclusions and recommendations

In order to deal with the three stressed challenges (equity, sustainability and integration), European states should extend the export of unemployment benefits, focus on active policies for employment, and establish a social partnership negotiation model among businesses, labor unions, and the state. In any case, the reform of the European welfare state should not be undertaken from a supranational level.

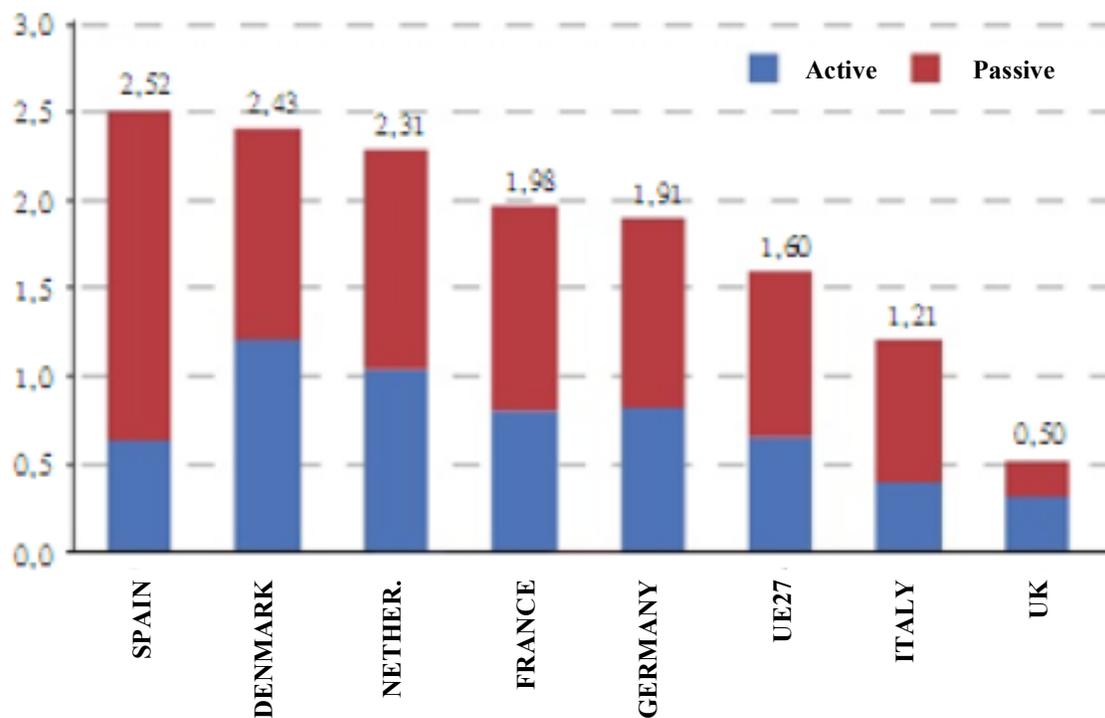
Equity

It seems clear that there are welfare state models that perpetuate inequity (Mediterranean and Anglo-Saxon) and others that promote it (Continental and Scandinavian). Blanchard suggest adopting an approach that involves deploying an insurance system that focuses on improving the employability of laid off workers, instead of preventing companies from firing employees when they have the need to do so:

“A good system should include some employment protection. But it should take a rather different form from what the form it takes in Europe today. Put simply, it should be more financial, less judicial... Firms [should] pay contributions equal to the benefits paid to the workers they layoff... Insurance should be conditional,

not only on reported job search, a hard-to-monitor activity, but also on training and job acceptance if jobs are available.”¹⁸

Blanchard’s proposal suggests a first approach to prioritize Hill’s reforms. The chart below, which shows the “*expense distribution of active policies of employment in Europe in 2008 (% of GDP)*”¹⁹, supports Blanchard’s observation:



Continental (Netherland, France and Germany) and Scandinavian (Denmark) models spend a larger ration of GDP in active policies for employment (around 1% in average), whereas Mediterranean (Spain and Italy) and Anglo-Saxon (United Kingdom) models

¹⁸ Olivier Blanchard, *Is there a viable European social and economic model?*, Conferencias Magistrales de la Fundación Rafael del Pino, 2007, p. 4

¹⁹ Raquel Lobete García, *Políticas Activas de Empleo en España*, University of Valladolid, July 2012, p. 38, Source: Eurostat 2008, <https://uvadoc.uva.es/bitstream/10324/2000/1/TFG-L%2090.pdf>

spend around 0.5%. These figures are correlated with the degree of equity achieved by each model. Therefore, it would be fair to conclude, as Blanchard did, that **European welfare models lacking of strong policies providing financial support, and encouraging training and active job search (that is, Mediterranean and Anglo-Saxon systems) should implement these policies, instead of focusing on deploying rigid employment protection legislations.**

Sustainability

In the case of inefficient welfare systems (Mediterranean and Continental), these policies may help to reduce passive policies of employment. Additionally, they would reduce frictions in the job market and, hence, they would encourage employment. This would increase productivity and revenues collected through taxes, contributing to make a more sustainable public system.

Integration

There are many arguments against centralizing the European welfare state system. Most of them are either political or technical. Majone states that *“a supranational welfare state decoupled from a common political project would indeed be a bureaucratic nightmare – and given popular resistance to large-scale transnational redistribution, an authoritarian nightmare as well”*²⁰. He also believes that *“without economic integration and a growing*

²⁰ G. Majone, Europe as the Would-be World Power, p. 130

*economy, the very idea of Social Europe becomes meaningless*²¹. However, “*only a strong social dimension, it is held, can legitimate the process of European integration*”²².

Here is the dilemma: a common European welfare state system needs political integration, but political integration should be legitimate by a strong European welfare state system.

Sapir believes that “*Europe cannot and should not have a strategy for reforming national labour market and social policies*”²³. He thinks that “*it is up to each national government to devise and implement its own strategy*”²⁴. Sapir also suggests that, “*at this stage, the best strategy would be to go back to basics and focus all efforts at the EU level on completing the single market*”²⁵.

Regarding technical arguments against centralization, Blanchard discusses “*whether the labor market institutions which have proven successful in one country can be imported with the same success by other countries, whether for example the much vaunted Danish ‘flex-security’ system can really solve the problems of France or Italy*”²⁶. He believes

²¹ G. Majone, Europe as the Would-be World Power, p. 130

²² G. Majone, Europe as the Would-be World Power, p. 128

²³ Anfdre Sapir, Globalization and the Reform of the European Social Models, JCMS, 2006, Vol. 44 number 2, p. 386

²⁴ Anfdre Sapir, Globalization and the Reform of the European Social Models, JCMS, 2006, Vol. 44 number 2, p. 386

²⁵ Anfdre Sapir, Globalization and the Reform of the European Social Models, JCMS, 2006, Vol. 44 number 2, p. 387

²⁶ Olivier Blanchard, Is there a viable European social and economic model?, Conferencias Magistrales dela Fundacion Rafael del Pino, p. 2

that “*designing a good European social and economic model implies more than just importing formal institutions*”²⁷.

Blanchard provides ideas on how to conciliate the European project with social policy exercised from the member states:

“Absent monetary policy and the use of the nominal exchange rate, Euro countries must adjust using two tools. Fiscal policy, and nominal wage adjustment. ...

*... they can only take place—at least take place quickly—if they come out of collective bargaining at a centralized level between business and labor unions, and perhaps the state. (Think Wassenaar here; think of the Dutch Economic and Social Council...). But this in turn requires representative unions, who can negotiate on behalf of workers. All this—a centralized bargaining structure ready to be used in case of need, representative unions, a continuous dialogue between unions and firms, active fiscal policy—go very much against the current grain.”*²⁸

Although pessimistic, Blanchard describes an alternative to a centralized welfare state system: a centralized negotiation structure. His idea is similar to Cini’s model of social

²⁷ Olivier Blanchard, *Is there a viable European social and economic model?*, Conferencias Magistrales de la Fundación Rafael del Pino, p. 10

²⁸ Olivier Blanchard, *Is there a viable European social and economic model?*, Conferencias Magistrales de la Fundación Rafael del Pino, p. 12

partnership at European level: “*corporatism is a way of making policy that includes not only public actors, but also interest groups as decisive co-actors (Streeck and Schmitter 1991)*”²⁹. She suggests that this model would be helpful whenever a case “*surrounds negotiations between management and labour*”³⁰.

Another interesting approach is guaranteeing national welfare benefits in spite of the country in which job seekers are trying to find a job. The European Commission has recently suggested so in the unemployment benefits area:

*“Propose a revision of the social security coordination regulation and look into extending the export of unemployment benefits for longer than the mandatory three months, to make it easier for citizens to look for a job in another EU country. Urge Member States to make full use of the current rules in allowing jobseekers to receive their unemployment benefits for up to six months while looking for a job in another Member State.”*³¹

Summarizing, integration should not be undertaken from a supranational level.

Integration should be undertaken by building a collective bargaining centralized system to facilitate negotiation among businesses, unions and states, and by extending the export of welfare benefits.

²⁹ Michelle Cini, European Union Politics, p. 286

³⁰ Michelle Cini, European Union Politics, p. 287

³¹ European Commission, 2013 EU Citizenship Report, http://ec.europa.eu/justice/citizen/files/2013_citizenship_report_12key_actions_en.pdf

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