



# **CHANGING WELFARE STATES**

FROM **COMPENSATING** TO  
**CAPACITATING** SOLIDARITY IN EURO  
**CRISIS** TIMES

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BOOK LAUNCH **NEUJOBS/OSE**  
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# OUTLINE

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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 CRISES 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”)

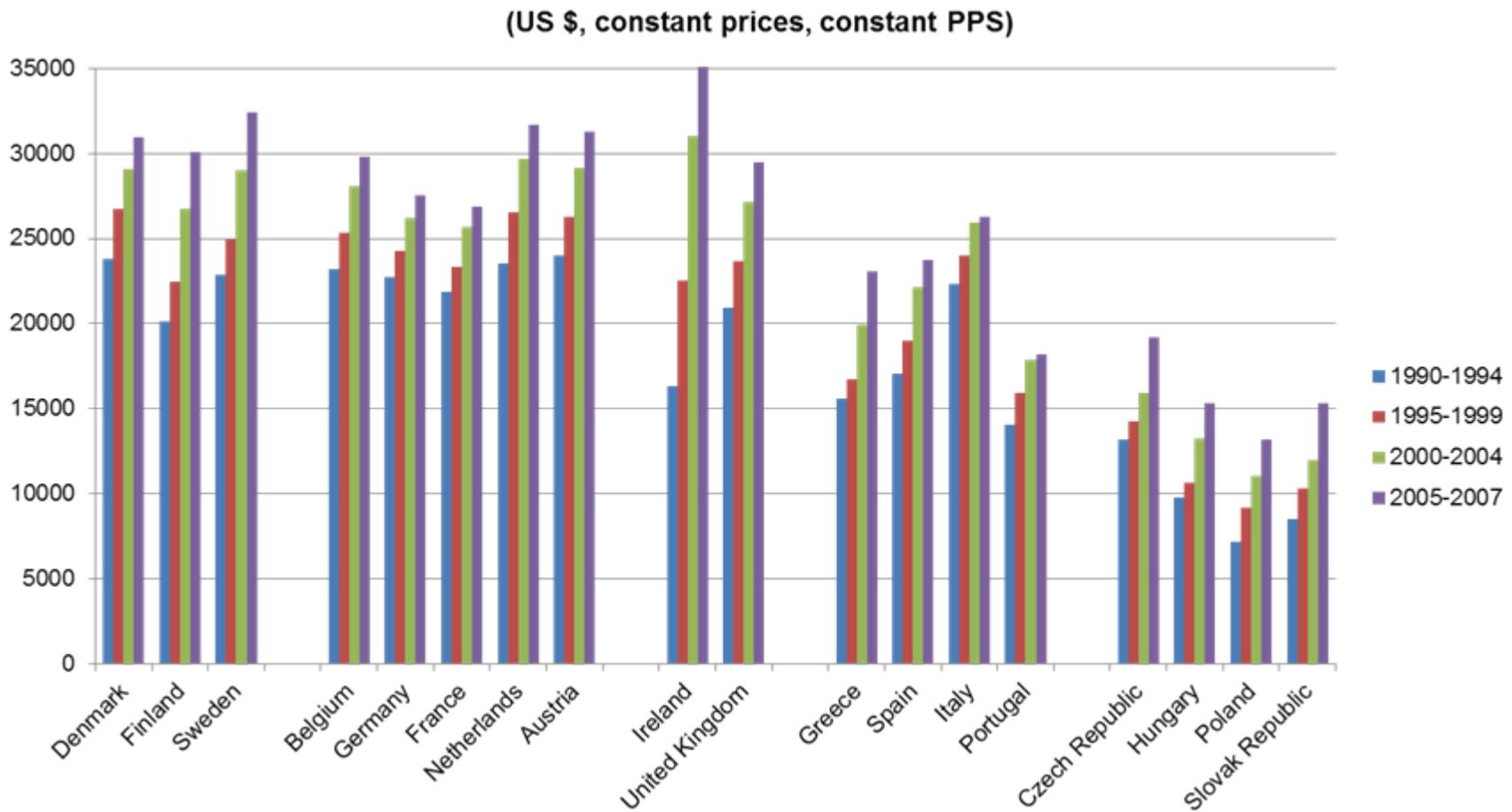
## 2. EUROPEAN WELFARE STATES IN MOTION



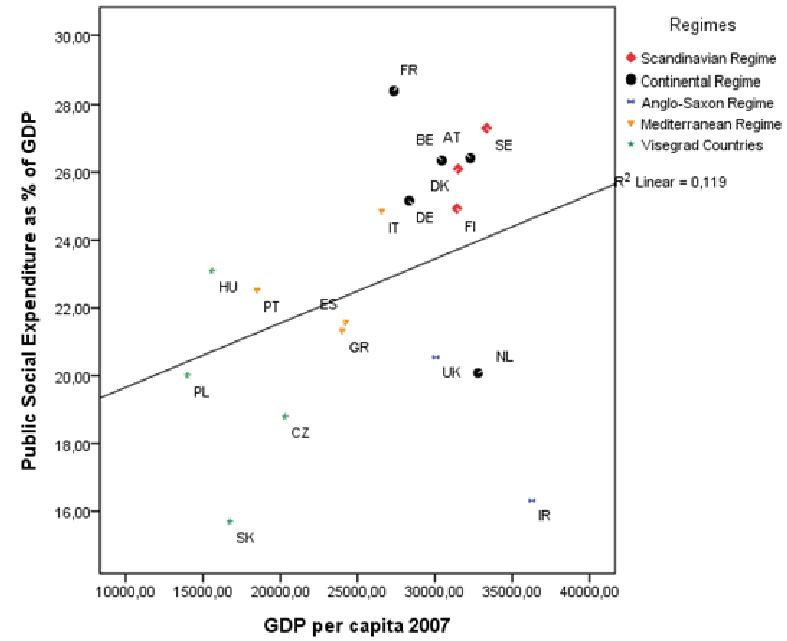
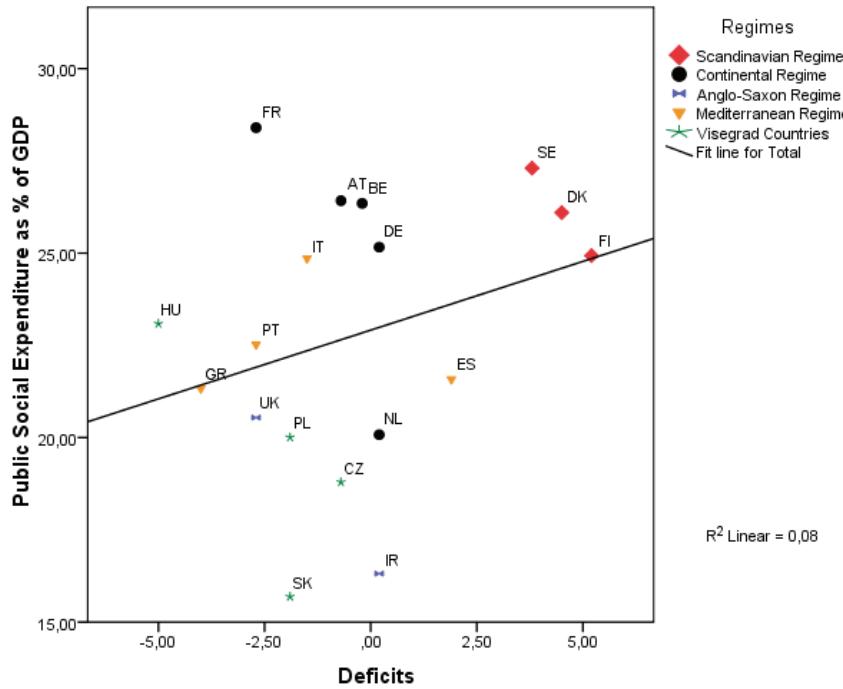
# BIG (POLICY) CHANGES 1980 - 2005

- From Keynesianism to moderate monetarism (EMU/SGP)
- Cost-competitive wage moderation
- Selective sobering social insurance
- Activation conditionality and active labour market policy
- Labour market 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)

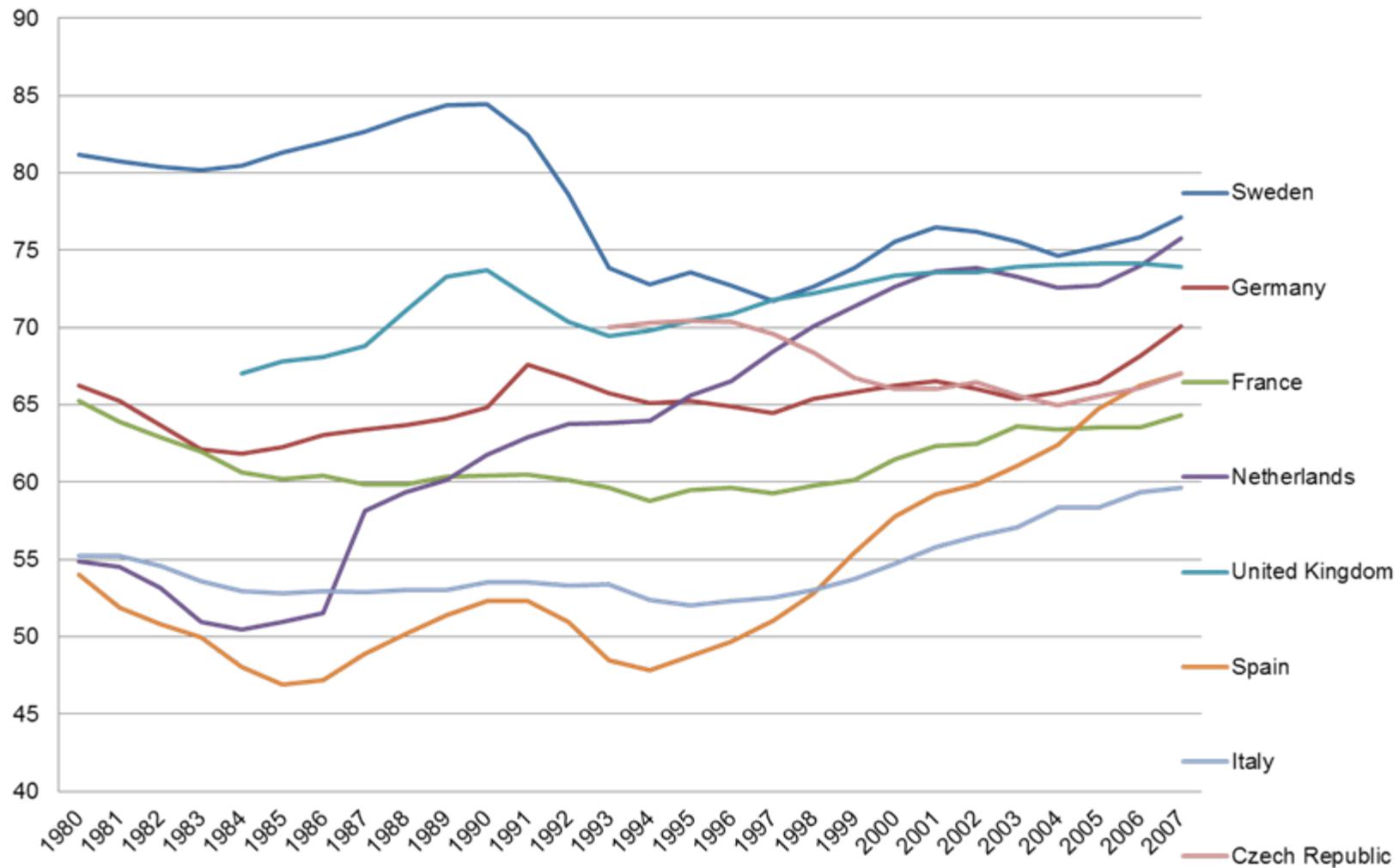
# GDP PER CAPITA



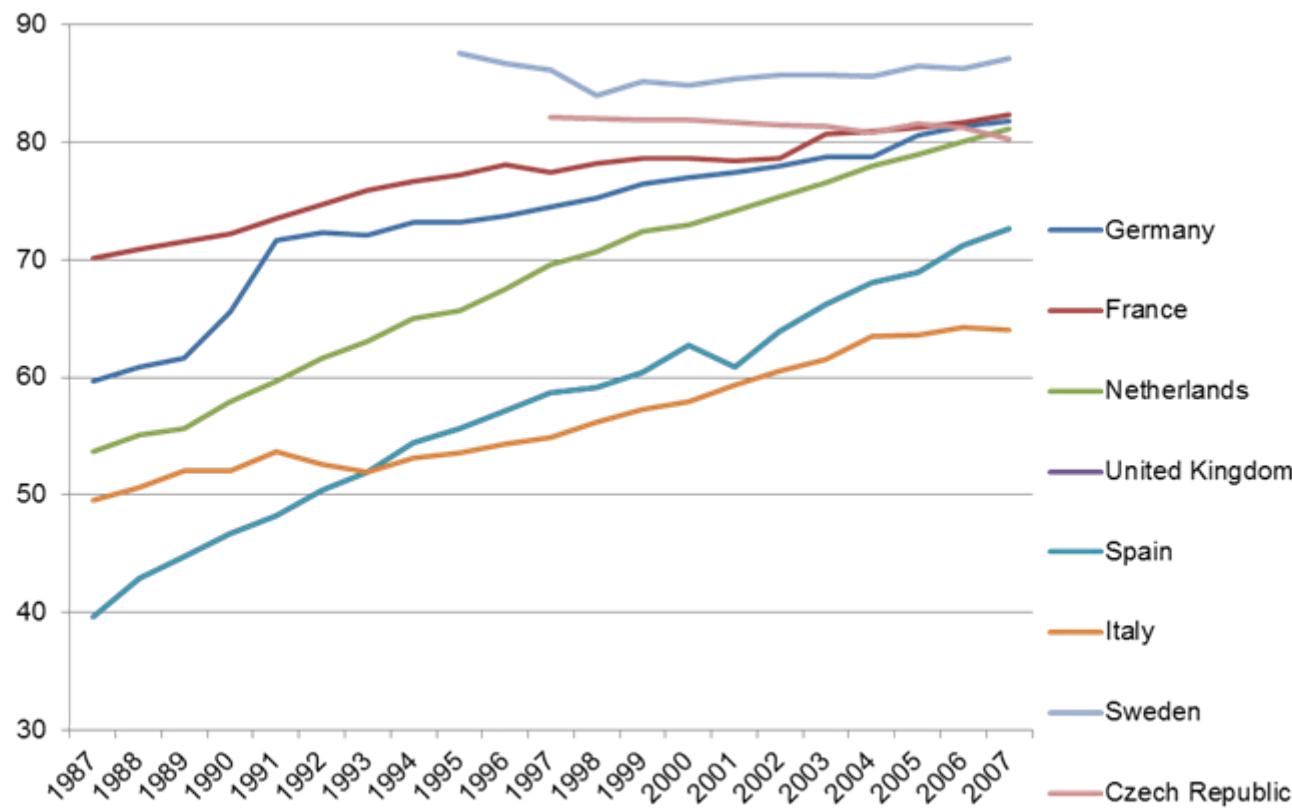
# PUBLIC SOCIAL SPENDING, GDP AND DEFICITS



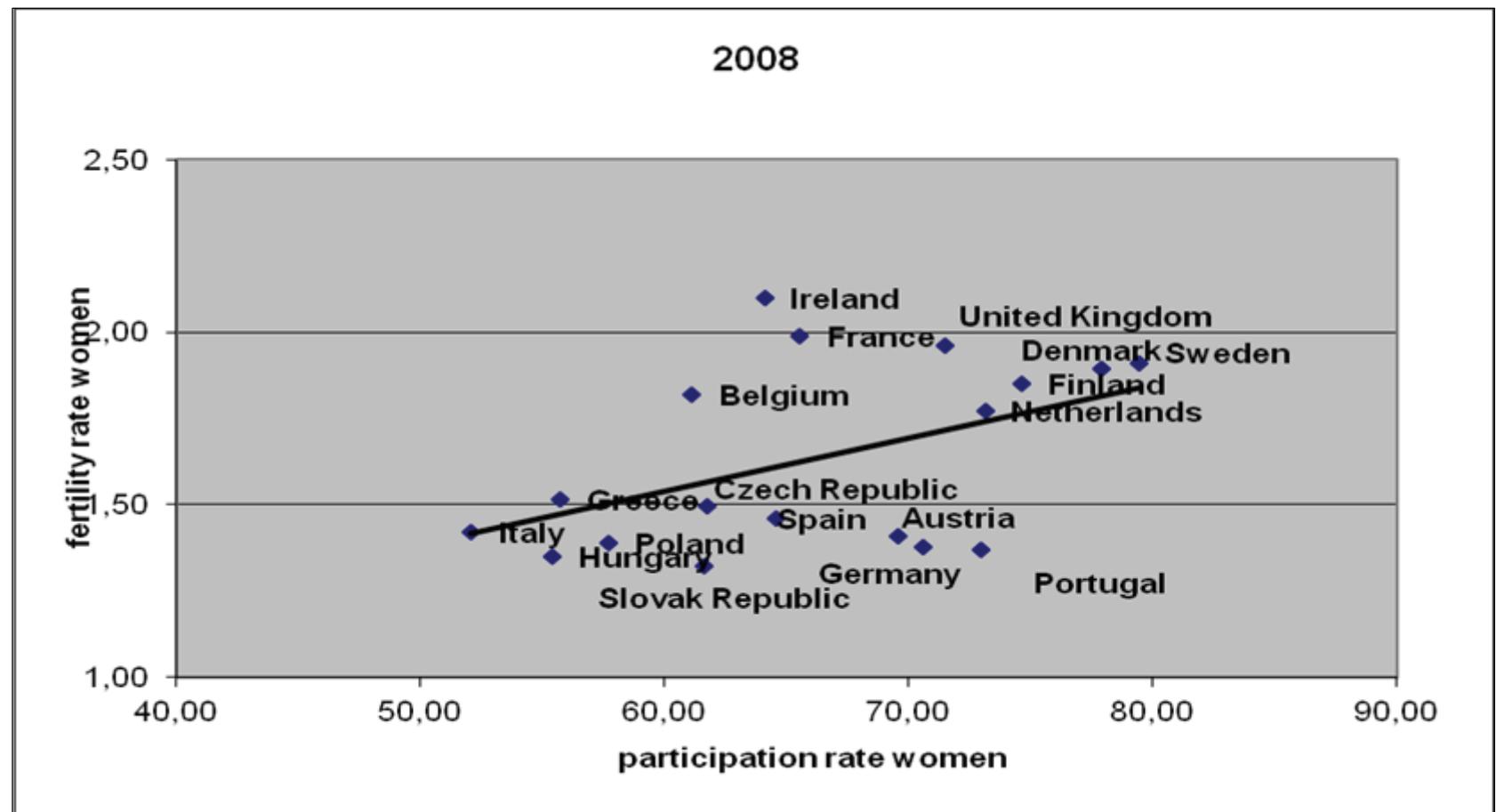
# EMPLOYMENT/POPULATION RATIO



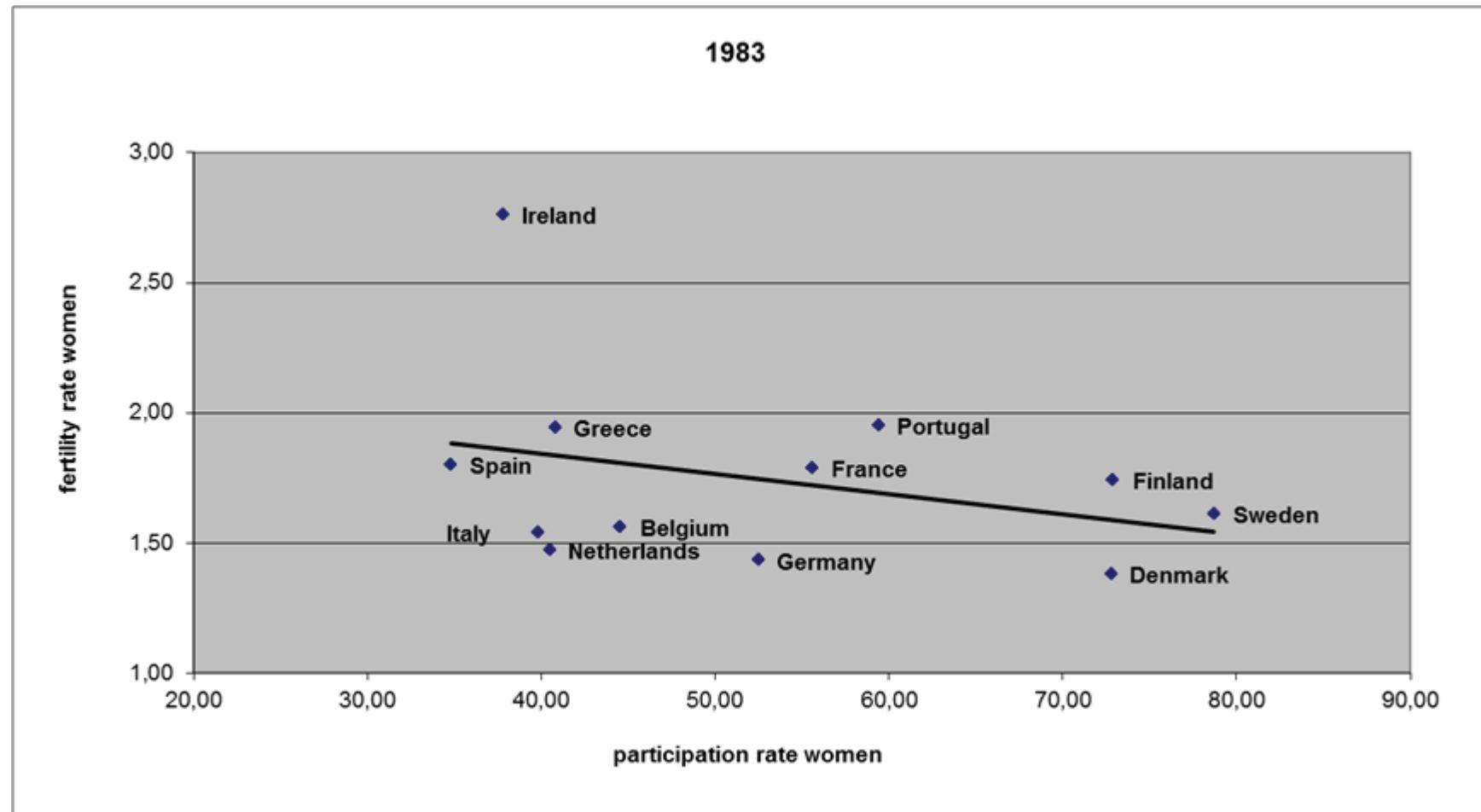
# FEMALE ACTIVITY RATE AGED 25-54 FROM 1987 TO 2007



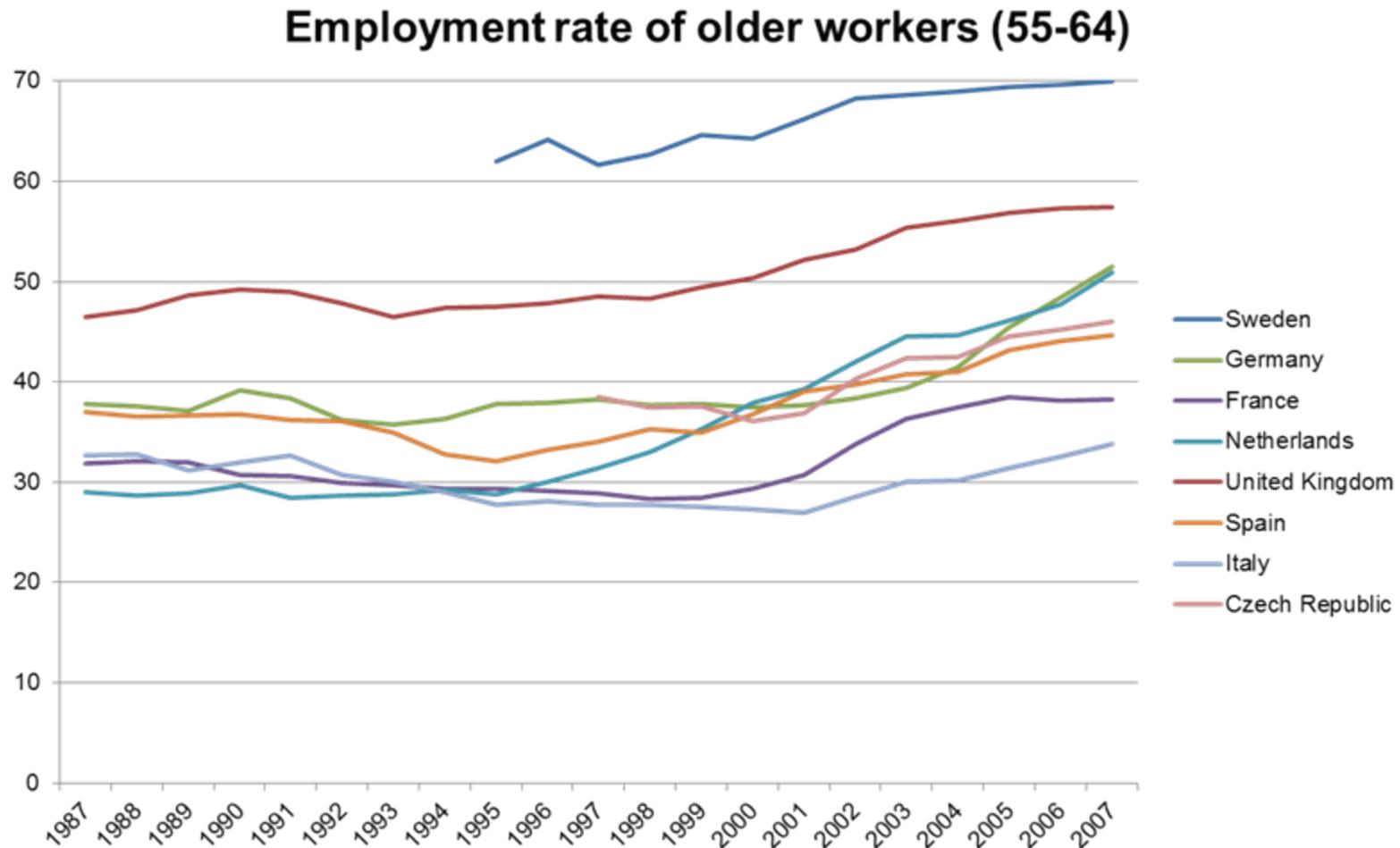
# FEMALE EMPLOYMENT AND FERTILITY 2008



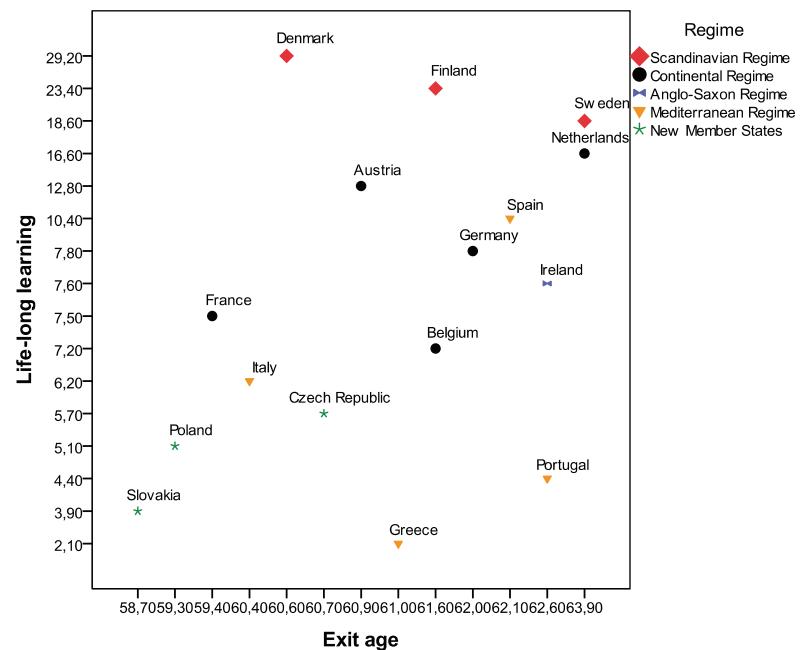
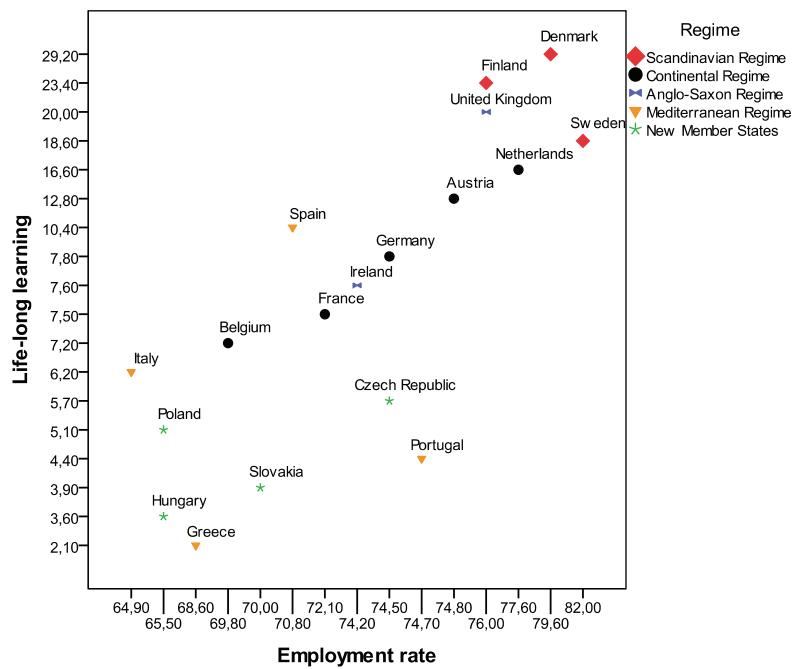
# FEMALE EMPLOYMENT AND FERTILITY 1983



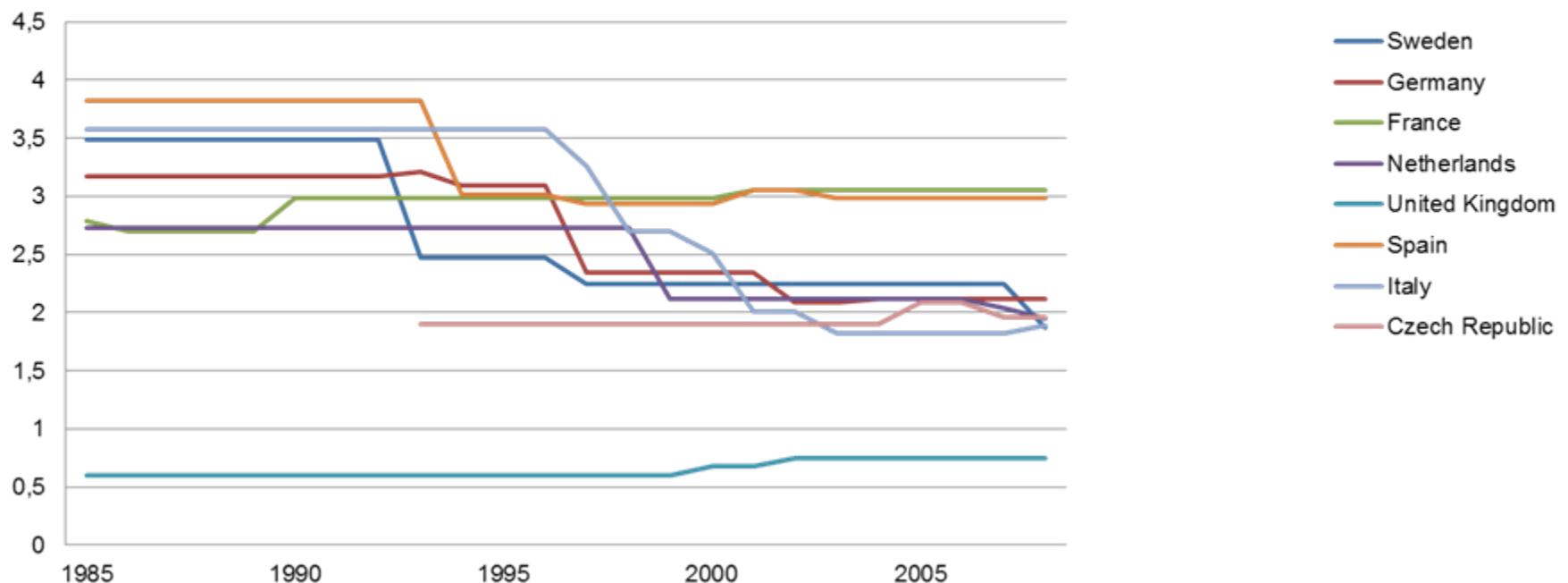
# EMPLOYMENT RATE OF OLDER WORKERS



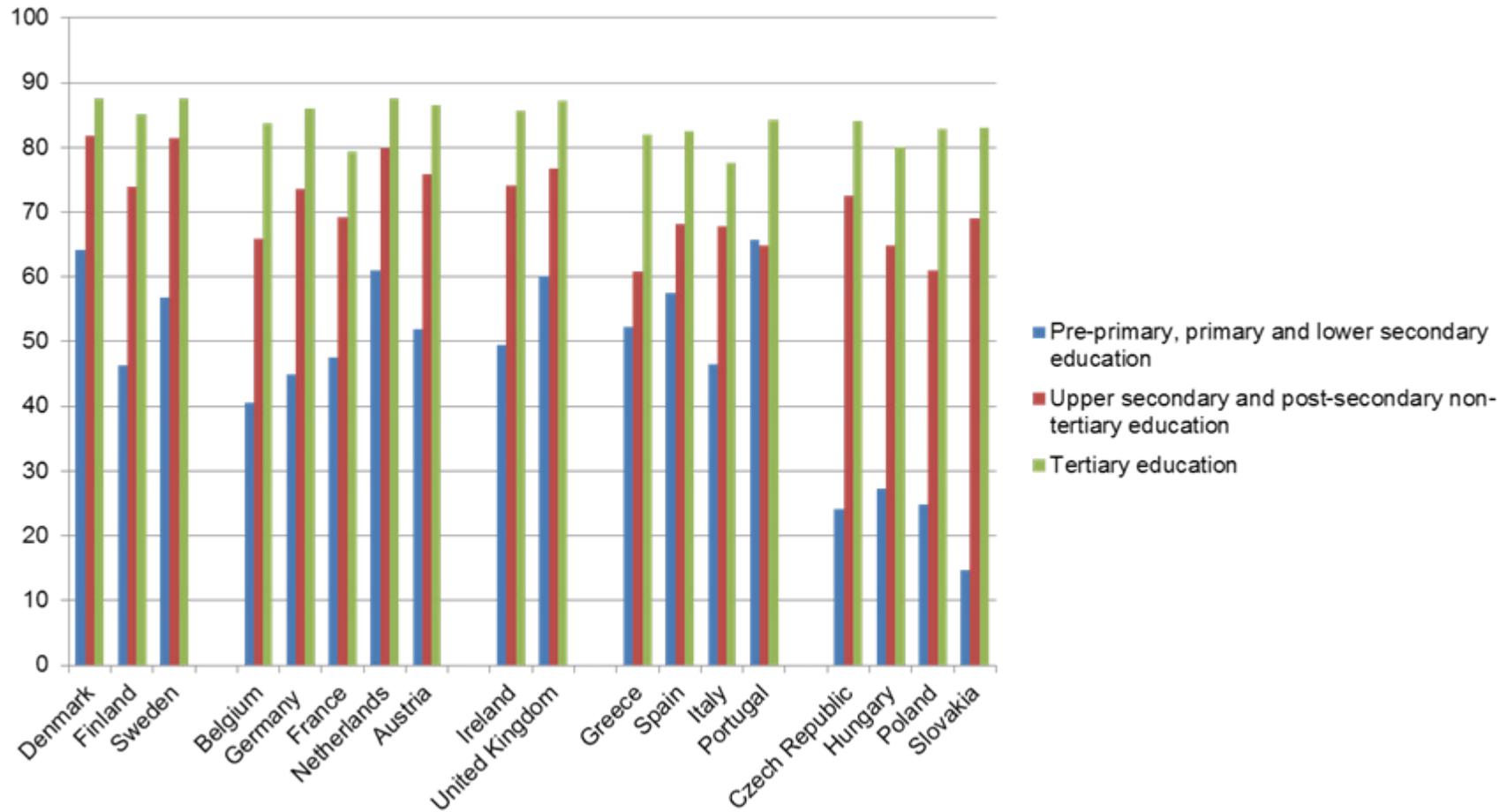
# EMPLOYMENT, LIFE LONG LEARNING AND EXIT AGE



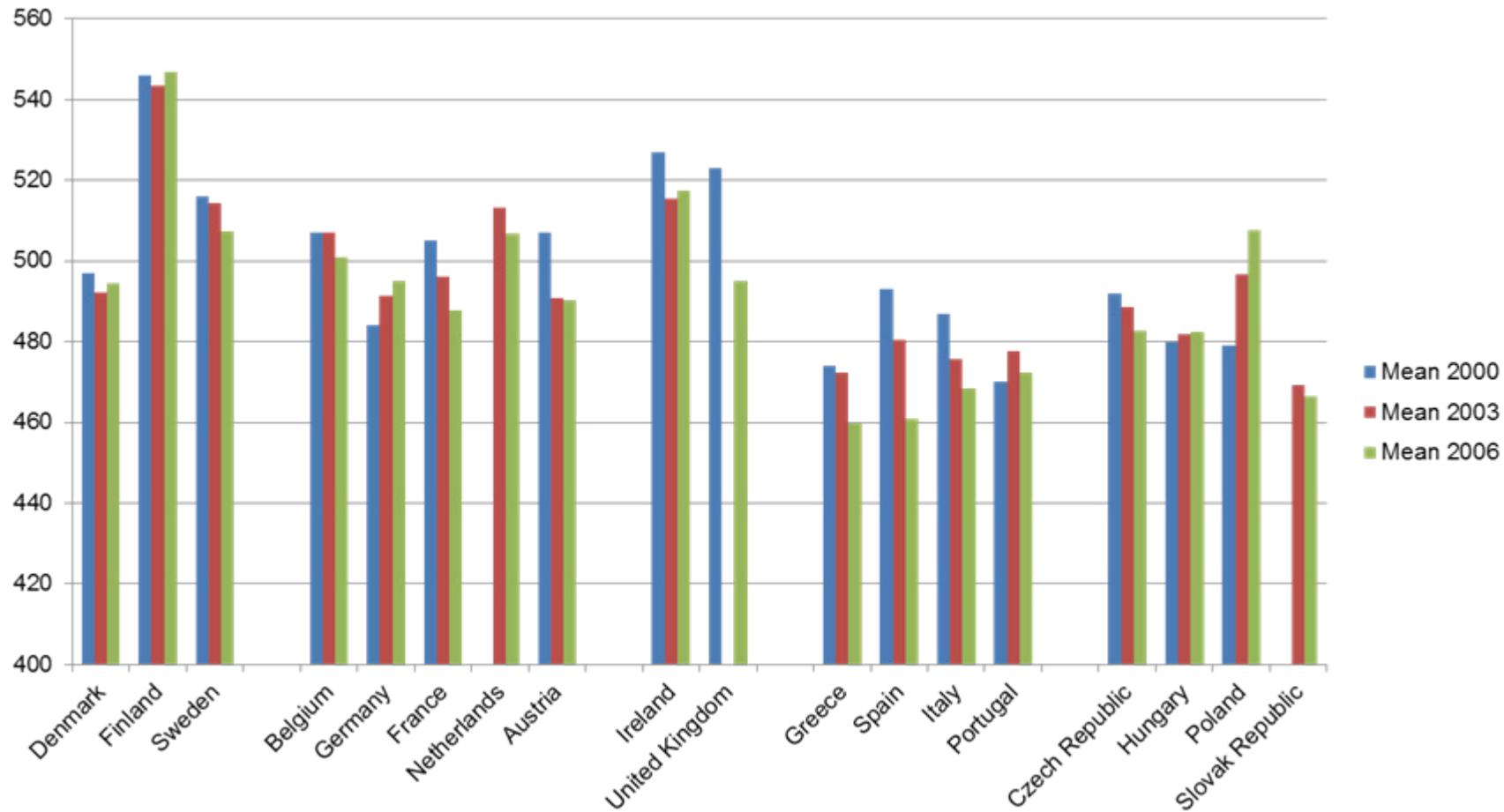
# EMPLOYMENT PROTECTION STRICTNESS (OECD)



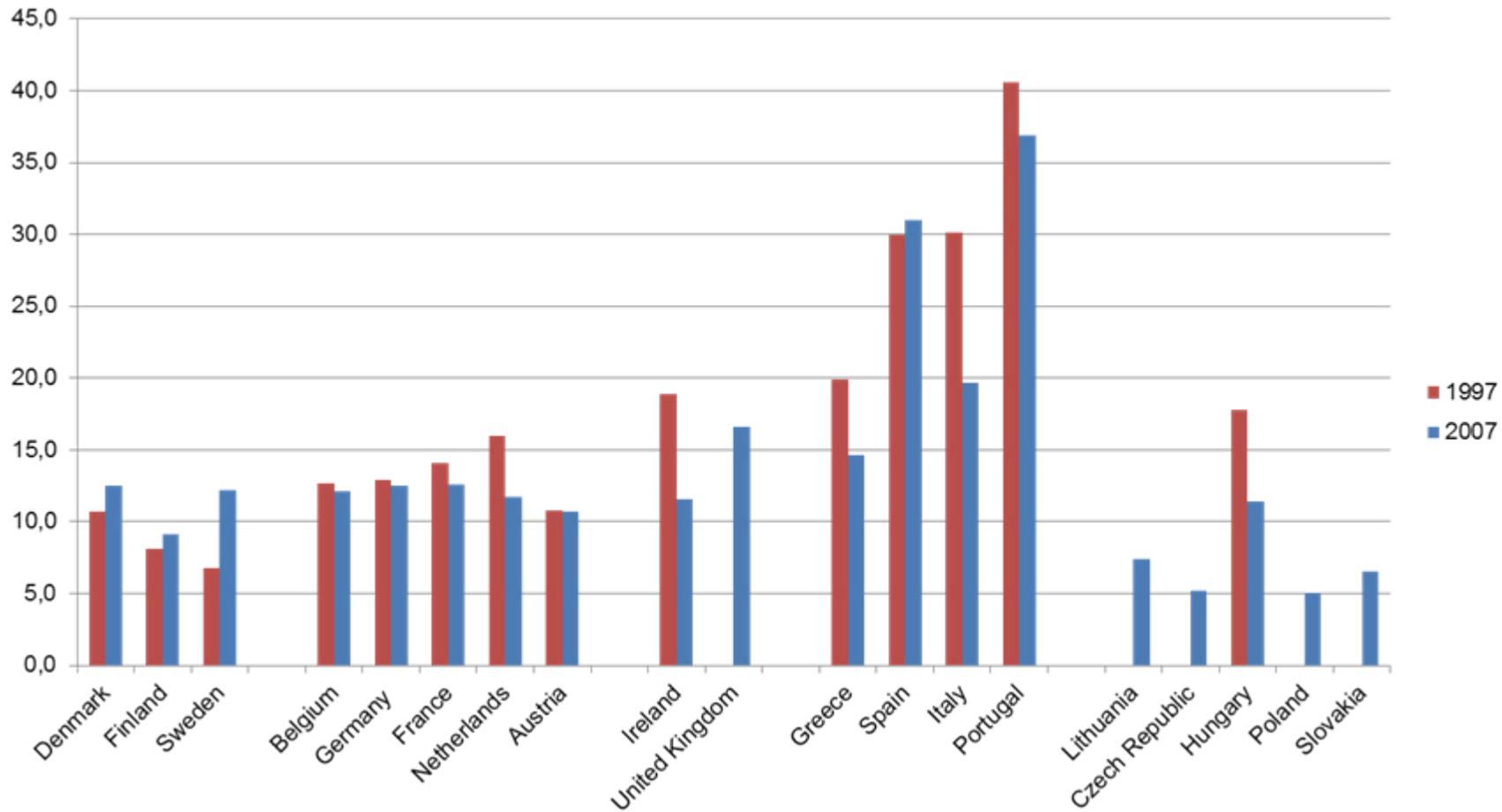
# EMPLOYMENT BY LEVEL OF EDUCATION (2007)



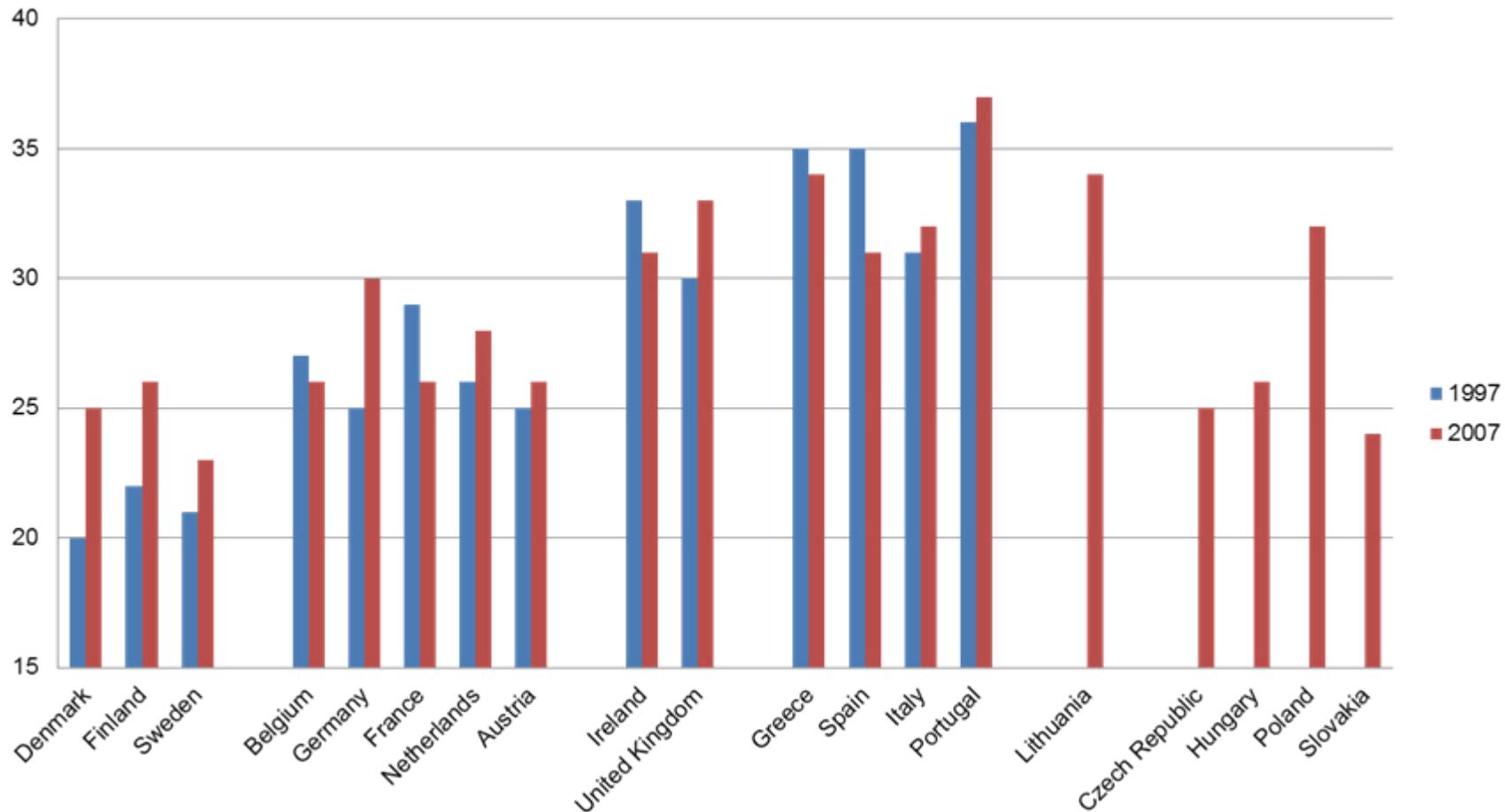
# PISA READING SCORES



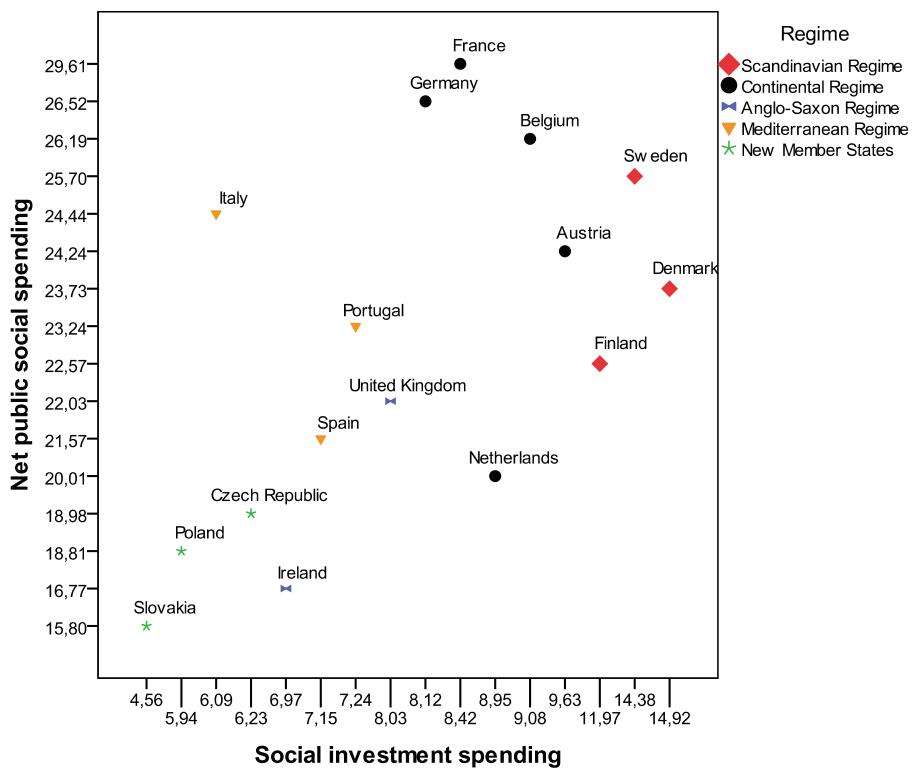
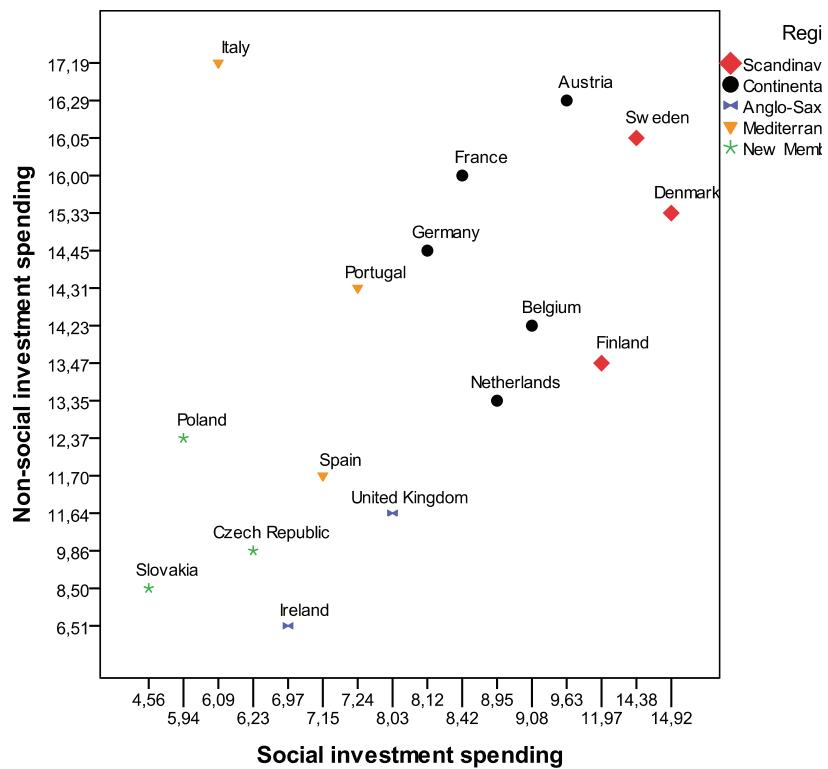
# EARLY SCHOOL LEAVERS



# GINI COEFFICIENT



# COMPENSATING AND CAPACITATING SOCIAL SPENDING



# 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)!***

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

# 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 redistributive »***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!***

# PRAISE FOR CHANGING WELFARE STATES

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*



# THANK YOU

