

DPP Scanning Docs

THE DOWNTURN AND WELFARE IN EU: WHICH WAY TO GO?_SD15

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Resumo em Português:

CRISE ECONÓMICA E PROTECÇÃO SOCIAL NA EU: QUE CAMINHO?_SD0X - A actual crise económica mundial tem muitas dimensões e muitas formas. Ela tem pressionado fortemente as finanças públicas de muitos Estados-Membros da União Europeia, com os respectivos Orçamentos a enfrentarem receitas fiscais em queda e o aumento acentuado dos gastos sociais, tornados imperativos pela recessão económica, desemprego crescente e envelhecimento da população. Simultaneamente, as principais instituições da UE apelam aos Estados-Membros para aumentarem a promoção da protecção social dos seus cidadãos. Mesmo aquele que é tido como o mais sólido e abrangente modelo de estado-providência da Europa: o modelo escandinavo, está confrontado com uma crise de estrutura e eficiência sem precedentes.

Estados Membros da UE têm de decidir se o desenvolvimento económico é essencial para o bem-estar, ou se a protecção social tem preferência sobre o crescimento económico. Será o modelo escandinavo o modelo padrão, ou seremos testemunhas da enorme mudança e da unificação dos modelos de Estado-providência da UE convergindo para o modelo anglo-saxónico? Paradoxalmente, o actual colapso económico levou à procura de maior qualidade na prestação de protecção social, por parte dos Estados-Membros.

The "DPP Scanning docs" are part of the "Horizon Scanning DPP" Project.

These documents organize, categorize and analyze drivers of change (megatrends, trends, uncertainties, weak signals and wild cards) according to the following taxonomy: Economics, Industries, Politics, Geopolitics, Environment, Territory, Energy, Business, Society, Health, and Technology.

The "Horizon Scanning DPP" Project is a systematic process of identification, categorization and selection of information designed for the warning of trends, potential paradigm shifts, disruptions and emerging issues that may be useful for different objectives, applications and users/decision makers, encouraging them to anticipate and understand the external environment and how it can interact and influence their policies and strategic decisions

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1. **Category:** Uncertainty
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3. **Theme:** Society / SubTheme: welfare
4. **Description:**

Global and European economies are still in the throes of economic recession. Economic collapse has many shapes and dimensions, therefore it is hard for states to establish a common strategy to fight the recession. Since 1980's there have been increasing reactions against an interventionist state, with growing support for the free market development within the European Community. The Current global downturn has changed state's attitudes, bringing interventionist tendencies. This implies violation of the EU convergence criteria and poses a threat to national public financial structures.

As we can see in Figure below, the slowdown of the economic activity begun in the second quarter of 2008 with the recession in most of the European member states arriving in the end of that year and the beginning of 2009.(a).

Quarterly GDP Volume Growth
Percentage change on the same quarter of the previous year

	2007			2008				2009	
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
European Union	<u>2.8</u>	<u>2.8</u>	<u>2.4</u>	<u>2.4</u>	<u>1.7</u>	<u>0.7</u>	<u>-1.6</u>	<u>-4.7</u>	<u>-4.8</u>
Euro area	<u>2.6</u>	<u>2.7</u>	<u>2.2</u>	<u>2.2</u>	<u>1.5</u>	<u>0.5</u>	<u>-1.7</u>	<u>-4.9</u>	<u>-4.7</u>
France	1.9	2.5	2.1	1.9	1.0	0.1	-1.6	-3.4	-2.6
Germany	2.6	2.5	1.6	2.9	2.0	0.8	-1.8	-6.7	-5.9
Italy	1.8	1.5	0.2	0.4	-0.3	-1.3	-3.0	-6.0	-6.0
United Kingdom	2.7	2.7	2.4	2.5	1.8	0.5	-1.8	-4.9	-5.6

Source: adapted from OECD Quarterly National Accounts, 2009 (a).

A crucial concern in this context relates to the fact that there is no common EU welfare state model. European Guidelines in terms of European Social Model are very informal, consisting mainly of general recommendations. Main EU institutions call to ensure that the welfare state is protected and promoted during the downturn (b). At the same time the EU member states have to face consequences brought by the economic crisis such as less consumer spending, decreased tax revenues and growing weight of social security in the states budgets (connected mainly with growing unemployment and ageing of the population).

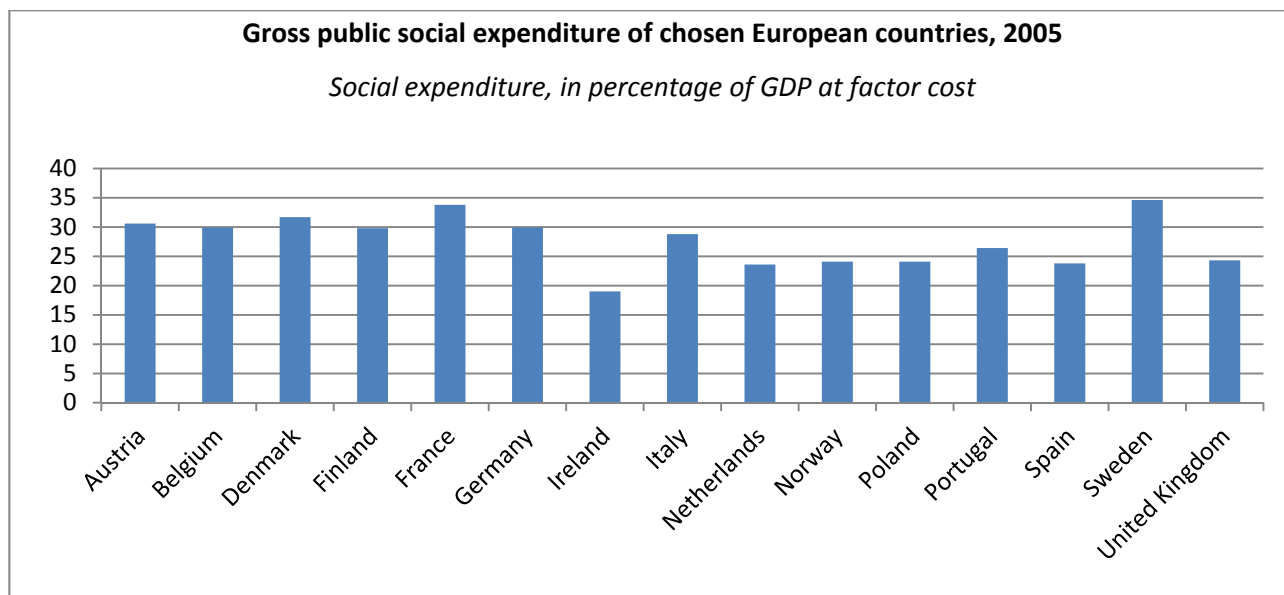
Welfare state is based on government's large share in financing social services and is strongly connected with taxation and social security systems. It is therefore dependent on budget's incomes (c). During the current economic collapse, decreasing consumers involvement, increasing unemployment coupled with

ageing of the population has been putting strong pressures on budget's incomes. In addition, most of the EU member states have decided to return to state interventionism in the market, which implies violation of the EU fiscal rules and poses a threat to public finances systems. The economic crisis and financial collapse launched growing calls for reductions and cuts in social welfare expenditures.

Public social expenditures of chosen European countries 1993-2003
(as a percentage of GDP)

<u>Year</u>	<u>Austria</u>	<u>Belgium</u>	<u>Denmark</u>	<u>Finland</u>	<u>France</u>	<u>Germany</u>	<u>Ireland</u>	<u>Italy</u>	<u>Netherlands</u>	<u>Norway</u>	<u>Poland</u>	<u>Portugal</u>	<u>Spain</u>	<u>Sweden</u>	<u>United Kingdom</u>
1993	26.0	27.0	28.6	29.9	28.1	26.1	17.1	20.9	25.1	24.3	24.9	17.0	23.2	36.2	21.0
1994	26.6	26.5	29.4	29.2	28.1	26.1	16.8	20.7	23.6	24.0	23.8	17.2	22.1	34.9	20.5
1995	26.6	26.4	28.9	27.4	28.3	26.6	16.3	19.8	22.8	23.5	23.1	18.1	21.5	32.5	20.4
1996	26.6	26.9	28.2	27.1	28.6	27.1	15.4	22.0	21.8	22.7	23.3	18.7	21.4	32.1	20.1
1997	25.5	25.8	27.2	25.2	28.5	26.4	14.3	22.7	21.2	22.2	22.7	18.6	20.8	30.7	19.2
1998	25.4	26.1	27.0	23.2	28.7	26.7	13.4	23.0	20.6	24.5	21.5	19.0	20.7	30.5	19.3
1999	25.6	25.9	26.8	22.8	28.8	26.7	14.2	23.3	19.9	24.6	22.2	19.5	20.4	30.1	19.0
2000	25.3	25.3	25.8	21.3	27.6	26.6	13.6	23.2	19.3	22.2	21.2	20.2	20.4	28.8	19.1
2001	25.4	25.7	26.4	21.4	27.5	26.7	14.4	23.3	19.5	23.2	22.4	20.9	20.2	29.3	20.1
2002	25.8	26.1	26.9	21.9	27.9	27.4	15.5	23.8	19.9	24.6	23.0	22.2	20.2	30.4	20.1
2003	26.1	26.5	27.6	22.5	28.7	27.6	15.9	24.2	20.7	25.1	22.9	23.5	20.3	31.3	20.1

Source: adapted from OECD Factbook 2008: Economic, Environmental and Social Statistics (d).



Source: adapted from OECD: Net Social Expenditure, 2005 (e).

Often perceived as the most solid and comprehensive, the scandinavian welfare model is currently struggling with unprecedented difficulties in its structure and efficiency (f). The EU member states have to decide, whether economic development is essential to welfare or if social protection takes preference to ensuring economic growth. Solutions undertaken by the EU member states to fight the economic crisis seem to indicate growing market participation by member states governments while decreasing welfare expenditures. There is significant opportunity to deepen the development of the anglo-saxon welfare model, characterized by considerable participation of the private sector in delivering social services (h). This could also mean further convergence of all UE welfare state models and EU social policy.

Development of the anglo-saxon welfare model is connected with privatization of the welfare, advocating the enhancement of customer's choice, improvement of services' efficiency, effectiveness and quality. The role of government is to commission and control the performance of transferred welfare tasks. Would such solution allow for savings in public spending, stabilization of fiscal policy and simplification of public finance's system regarding welfare issues? Would it be able to boost the market? (i).

This uncertainty gains greater complexity as the global economic crisis is entering a new stage, with signs of recovery appearing in many countries, but unemployment still remaining high and the restoration of global economy needing further support (j).

5. **Keywords:** economic crisis, welfare state, welfare state models, EU, European Social Model, social policy.

6. **Alert Indicators:**

- Decline in tax revenue and social security provisions and appropriations in state's budgets.
- Increase of state aid and market bailouts.
- Changes in the welfare structure of the Scandinavian countries – cuts in welfare benefits, restrictions on the entitlement of benefit recipients.

7. **Potential Impacts:**

Political and social impacts: simplification of the EU member states public finances systems, unification of the EU social model/policy/frameworks; acceleration of European integration and convergence and completion of the EU "four freedoms" (i).

Economic impacts: savings in the public finances of the EU member states; provision of social services commissioned to the private sector – step towards the “privatization of welfare”; enhancement of customer choice; improvement of service’s efficiency, effectiveness and quality (higher standards imposed by open-market rules of competition).

An effective welfare model needs “long-term planning, strategy and political commitment” and must be enclosed “in the legislative and/or constitutional frameworks of the country”; but it must also “reflect the social and policy context of the country” and be based on society’s specific context “taking into account factors such as poverty dynamics, demographic characteristics, the prevailing economic situation, the structure of the labour market, the degree of urbanization, and cultural values and societal consensus” **(k)**.

Two visions collide. On one side the conviction that everyone has a right to guaranteed social services and only government is considered as the most reliable provider; on the opposite side, the “market-oriented” principle: “people should pay for services they use and business should have opportunity to provide for them” **(l)**.

The current economic collapse exposed the weaknesses of the welfare model based on Scandinavian patterns. The enduring public finances and fiscal policies crisis of the EU member states has prevented the adoption of balanced solutions. Most of EU member states chose to bailout the market, causing significant temporary threat to welfare state. In the face of economic, demographic and social changes, reorganization of social security systems and welfare state models are crucial. Can also present an opportunity for the EU member states to strengthen the integration process and to unify welfare state and social policy models.

8. Degree of Exposure:

EU member states and other European countries are struggling with significant decrease of tax revenues, economic recession, increasing unemployment rates and ageing of the population and will have to launch welfare structural reforms to come across the growing demographical and economic challenges.

9. Drivers and Inhibitors:

- Globalization, post-industrialization, demographical changes including ageing of population (*driver* for the reform of welfare state models)
- Consequences of global economic crisis – growing unemployment, decreased consumer spending, decrease in income from tax revenues in the state’s budgets (*driver* for the reform of welfare state models)
- Growing calls for reductions and cuts in welfare expenditures and growing states expenditures: bailouts, state aids – necessity of structural reform of public finances system (*driver for the Anglo-Saxon welfare model*)
- Further progress in European integration, including the necessity for convergence in state’s social policies (*driver* for the reform of welfare state models)
- Significant crisis of the Scandinavian Welfare State Model (*driver to the Anglo-Saxon welfare model*)
- Welfare historically attributed to the government and perceived as its duty – lack of society’s trust in the private sector as provider of social services (*inhibitor for the Anglo-Saxon welfare model*)
- Differences between welfare state models and social policies within the UE member states (no dominant model of welfare state or social model/policy in the UE; demographical, political, social and cultural differences between EU member states) (*inhibitor for the Anglo-Saxon welfare model*)

10. Time Frame:

Next few years, but with impact in the following decades, depending on the dynamics of the European integration and on the global economic crisis phenomenon.

11. Likelihood:

We assume that this force of change may evolve in multiple ways regarding its direction, pace and intensity.

12. Sources¹:

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- (b) <http://www.corii.ie/Justice/669-eu-election-issues-the-future-of-the-welfare-state>; "EU Election Issues: The future of the welfare state" **(2)**
- (c) <http://media.leidenuniv.nl/legacy/KPG2004.03.pdf>; "Are public and private social expenditures complementary?", Koen Caminada, Kees Goudswaard **(3)**
- (d) <http://oberon.sourceoecd.org/vl=1632462/cl=25/nw=1/rpsv/fact2008/100202.htm> **(3)**
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- (f) <http://www.social-europe.eu/2009/09/hypotheses-on-high-youth-unemployment-rates-in-scandinavian-countries/>; "Hypotheses on high youth unemployment rates in Scandinavian countries", Lorenza Antonucci **(1)**
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- (j) http://www.oecd.org/document/24/0,3343,en_2649_201185_41707672_1_1_1_1,00.html; "Tackling the financial and economic crisis" **(2)**
- (k) <http://www.oecd.org/dataoecd/63/10/43514563.pdf>; "Promoting pro-poor growth. Social protection" **(2)**
- (l) <http://www.australianreview.net/digest/2004/05/meagher.html>; "Do Australians want a private welfare" **(2)**
- (m) <http://countrystudies.us/portugal/62.htm> **(2)**
- (n) <http://www.oecd.org/dataoecd/6/31/20213255.pdf>; "OECD Economic Outlook. Portugal" **(3)**

¹ The following categorisation is used to classify the sources: fringe (1); mainstream (2); expert (3).

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