Future of the welfare state?
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Introduction

The welfare state is said to have been in crisis several times since what was labelled the welfare state’s golden time of expansion from 1960 to the first oil crisis in the early 1970s. Welfare states have been recalibrated, recast, dismantled, restructured, and many other words have been used to describe the various types of changes in what and how the welfare states finance and deliver welfare services in kind and in cash. How the balance has and is constantly changed between state, market and civil society is also continuously open for scrutiny. However, it seems that the many and varied incremental changes in welfare states on the one hand follow the historical path (e.g. there is some path-dependency); however, on the other hand, the welfare states change in such a way that they are no longer the same type and model as they used to be. In the wake of the financial crisis several welfare states have undergone strong types of retrenchment, while some welfare states have been more resilient to change than others. Globalisation and regionalisation have seemingly had a stronger impact upon countries’ economic options, and, thereby also on welfare states. The question is, therefore, Will there still be a future for welfare states? Or will we be moving towards a more market-based type where the distribution of income and wealth, welfare and various types of objective and subjective elements traditionally being part of the welfare state will be left to the market and civil society to organise and structure?

Still, earlier in history some have argued that the time of the welfare state is over. However, before reaching such a conclusion one needs to go into why we have a welfare state (e.g. the core reasons for the welfare states as they still exist), and therefore why there will still be a need for a welfare state. This is not necessarily informing us about the optimal size, how to choose a good institutional structure or the splitting of financing and delivery in the different welfare states. It is, as is argued by Barr, that the welfare state is like a ‘piggy bank’ (Barr, 2001) and that the welfare state helps increase society’s efficiency and intergenerational distribution of consumption possibilities.

This final chapter will, given that the topic is the future, be more speculative in its approach, although it will draw upon the existing knowledge of the welfare state and its historical development, and how the various welfare states can and do have an impact upon everyday life and societies’ development.
The chapter will first discuss whether crises are new, and, then recapitulate why we have a welfare state. It will look at the challenges facing welfare states and recent developments, and then conclude on the prospects and ideas about the welfare state in the future. Given that the analysis is not about one specific country but more generally, this also raises the question whether we will be witnessing continuously very different types of welfare states (cf. Part II on typologies and methods), or whether welfare states will converge so that the differences in welfare states are mainly the priorities agreed among different sectors (e.g. health, the elderly, transfers, social services, families, etc.; cf. Part III on central policy areas).

Is the economic and fiscal crisis of welfare states new?

Industrialisation and the risk of being unemployed, having a work accident, becoming ill or having no one to support one during old age may be argued to be the initial reasons for the development of welfare states, such as, the development in Bismarck’s time and social insurance stemming from this period. These old risks still prevail and, with demographic change and ageing of populations, this will become even more important.

Given the economic problems for welfare states in the wake of the financial crisis, the impact crises seem to have and what will be important for the welfare states’ future, it is also important to look into whether this is a new issue.

There have been many economic, bank and fiscal crises in economic history in all types of societies: crises in the development of prices of raw materials, notably oil prices in the 1970s, and many years seeing high levels of unemployment. Stagflation and recession have thus always been a part of welfare states’ development.

There was a bank crisis in the USA in 1907, and the famous crash at Wall Street in 1929 and a change away from the gold standard, which was given up in 1931. The crash in 1929 led to a long period of low economic growth and a very high level of unemployment given that the public sector at that time used only more limited measures in order to reduce the impact upon economic activity and employment in times of recession. Fewer fiscal automatic stabilisers were thus built into the societal models for steering the economies.

Still, the crisis in the 1930s has been seen as one of the reasons for the development of social policy in the USA by Roosevelt’s New Deal setting the scene for combating the economic crisis while at the same time coping with the high level of unemployment and economic depression. Keynes’ arguments for intervention in the economies and trying to handle business cycles also stem from this time. ‘Look out for employment and the economy will look after itself’ has been a key message from this time. This therefore also reflects the fact that a Keynesian paradigm has been a central tenet in welfare states’ development in several countries.

How to solve the world’s economic and political problems following the Second World War was inspired by the famous Beveridge report, and was also a core reason for the development of the British welfare state. When the world settled and more free movement of goods and services developed, welfare states in Europe advanced rapidly in what were later called the golden heydays of the welfare state in the s1960s and 1970s until the oil price crisis took over and showed the clear contradictions of varieties of welfare capitalism and contradictions between growth and economic management. Despite this, many welfare states, especially in Europe, continued to grow and measured their spending on welfare as a proportion of GDP; and spending levels in the more mature welfare states were around 25 to 30 per cent of GDP when the last crisis started in 2009 and are still more or less at that level today.

There have been several other times of economic crisis, starting in Asia in 1998, and the international fiscal crisis, starting in the USA in late 2007, which has ended up in what has been
labelled the first crisis of globalisation (Brown, 2010), all indicating a need for concerted international economic action. However, it has proven difficult when the crisis seems to ebb to agree upon international coordination or common initiatives to cope with the economic impact of the crisis. A theoretical as well as a political conflict between the understanding and acceptance of a Keynesian argument for the need for intervention in the development of societies and a more non-interventionist liberal or neoliberal approach with a focus on a free market economy still exists. The difference in focus on that monetary policy is still important and seems to influence welfare states’ development, although less so than in the past.

Every economic crisis has had an impact upon the economic growth, and the business cycle seems to take longer to recover after a financial crisis (cf. the impact of the last financial crisis upon the world economy and how slow the recovery has been). However, the net impact upon the overall level of welfare may be lower due to the higher level of economic growth before the crisis began in 2008, while at the same time the expectation by voters due to this increase was perhaps higher than ever before. The crisis has had further repercussions on the level of unemployment and the ability to sustain welfare benefits, as well as direct cuts in many countries. Economic crisis of the magnitude we have witnessed in recent years may thus be argued to be a new social risk, whereby the welfare state will have a new role by ensuring that the necessary economic stabilisers are in place, reducing the impact upon core welfare issues by the changing economic climate.

There is a need for international coordination of economic development. This is also important due to the fact that the market will presumably not clear by itself. One problem is that

the global capital flows and global sourcing of goods and services that characterize globalization are not complemented by the institutions and culture of a global market that functions sufficiently well for us to gain all the benefits of market disciplines.

(Brown, 2010, p. 89)

Besides, if the need is an increase in demand, only coordinated actions can ensure this without negative impacts upon individual countries. Growth in one country can spread to other countries, as can also a downturn in the economy.

Economic crises and the impact upon nation states are seemingly spreading further and faster around the world than ever before, so future economic crises, as there will be, imply that welfare states need to be prepared for exogenous shocks that will put pressure on their economic options. The interconnectedness of the economies has increased, implying also new roles for welfare states. Given the size of welfare states today, on the one hand they have an option to positively influence the economic outcome for families caught up in the crisis, while on the other hand they are more economically restricted than earlier also due to the fact that several countries have had many years of public sector deficits and increased levels of debts. This has been going on without trying to finance the welfare state by, for example, demanding the necessary level of taxes and duties or a reduction in spending or increase in economic growth.

The many years of deficits also reflect that there is at the same time a risk that welfare states will be used as scapegoats for crises and that cuts in welfare spending will result. This is due to the fact that welfare states are still only to a more limited extent looked upon from a social investment approach. Naturally, there is a need for having public sector income to cover expenditures, but as long as the tax system is presumed to be the burden instead of as part of the solution then this will be difficult. However, recent years have, at least at the rhetorical level, seen an increase in probing into a social investment perspective with both positive and critical stances towards this idea (Midley et al., 2017). Social investment tries to see the public sector as part of
the solution by investing in people, infrastructure and development that can have a positive impact for societies.

This is furthermore due to the fact that the changing economic crisis has shown that there will be a need for a larger type of economic buffer in nation states and at a global level. Buffers are needed in the public sector as well as in the financial sector and other important economic institutions. There will presumably also be a reluctance to increase spending, as this may be difficult to change in the future. The need for larger buffers is also due to the fact that there will be new crises or at least economic downturns also in the future. The learning of agents as a reaction to bubbles in the economy is seemingly only more limited (Taleb, 2010) (e.g. when new options for speculative profits arise people will still believe they are able to win and to speculate better than others in the market). Therefore, there will be a need for a society which is able to counteract bubbles and economic crises, the implication being that there is a need for some kind of national or international reserve fund. Before this has had time to build up there is a risk that the pressure on welfare states will be immense, and also that welfare states will be more vulnerable to the variations in economic development.

A specific problem is that in the financial system, and presumably also in other markets for goods and services where a high and speculative income is possible, as in the housing system, there will be a tendency for some to try to get their slice of the cake and make risky investments that may have a negative impact upon other members of society. How to regulate this will be difficult, but the suggestion to “inject morals into markets and empower individuals in society” (Richardson, 2011, p. 209) seems less likely to be the right solution. Moral is always good, but how to ensure that this is kept and that all citizens abide by it is less obvious. In addition, an indication of that normative solution to the crisis is less likely to have a long-lasting effect as it can be difficult to implement, implying a need for a state or concerted type of state action.

There have already been several responses to the fiscal crisis and deficits in welfare states. In principle, they need to use a variety of responses: higher taxes and duties that will also imply a less hidden economy, ensure economic growth and prioritise public sector spending. In this sense, this is also at the core of why we have a welfare state.

Why we have a welfare state

This section will deal with core reasons for having a welfare state (e.g. mainly market failure and the common pool argument), but also how criticism of the welfare state has been argued especially from a liberal perspective. Further, the original main arguments for a welfare state will continue to be a reason for having a welfare state, or whether new issues also enter the equation.

The market left to itself will imply a risk of market failure, the implication being that certain goods and services will not be provided and some people will not be able to get access to welfare and welfare services. This is, as just one example, often the case with long-term care, as it is difficult for the individual to foresee the need for this service. A further implication of a completely free market can be that unemployment will be high and that the degree of inequality is higher than what individuals are willing to risk if having to decide behind the veil of ignorance in a Rawlsian understanding. Furthermore, in some areas the welfare state is more efficient than either an insurance market (Barr, 2001) or leaving the issues to the free market. The market left to itself will create monopolies and increasing economic inequality (for the development in recent years see Piketty, 2014; Reich, 2015).

In several areas, there are thus efficiency arguments for the welfare state’s intervention, and in others there are reasons of equality, at least in access or options for choosing to supply certain
types of services, and to ensure that all have some income to pay for shelter and food. In most countries hospitals, for example, provide a service with universal access and often free of charge. The efficiency argument has to do with the common pool argument, such as that by pooling resources it is cheaper instead of everyone having to save money, for example, to be taken care of in old age, also given that we do not know beforehand whether we will need this service. In addition, recent years have seen arguments revolving around the welfare state being understood as a social investment state (Esping-Andersen, 2002; Midley et al., 2017), given that certain types of services will not be delivered or at least not sufficiently by the market. This perspective has, at least to a certain extent, been followed also by a common European (EU) employment strategy in relation to affordable and high-quality daycare for children. This strategy has had the impact and intention to create both an option for more equal access to the labour market for men and women, but also an increase in the labour force to ensure a growth in economies. In this way the welfare state is in line with investment in infrastructure and education, enabling countries to compete with other countries. There is also a risk that a high degree of inequality will reduce economic growth, due to, for example, the fact that those without income will not be able to afford or be willing to invest in education.

Understood in this way, without the welfare state societies will not be able to prosper, as they are a core part of societal investment in the future. This has further been used as an argument for supporting especially very young children, as a good start in life will ensure higher labour market participation, lower levels of crime and more trust in others in the future. Societies with higher levels of welfare, if measured by GDP per inhabitant, experience a higher level of happiness (Greve, 2011; Helliwell et al., 2017), and more equal societies tend to be more cohesive, more healthy and to have less crime (Wilkinson and Picket, 2010).

The other viewpoint is that a welfare state needs to be financed, and taxes and duties will imply distortions in the way the economy is working and thereby reduce the utility of citizens. Thus the financing of the welfare state in this view has a negative impact upon economic development, and a reduction of public sector spending and lowering of taxes and duties can by dynamic impact imply more positive economic development for welfare states. This is a continuation of an older debate on the impact of public sector growth upon economic performance. A theoretical discussion includes whether or not there exists a so-called Baumol’s disease in public sector service provision. However, measurement of productivity is not easy, one argument being that service provision has a lower productivity level than private industrial production.

Still, the overall goal and need to have stable societal development point towards the core reasons for having a welfare state. This includes the need to correct market failures such as monopolies, ensuring public goods and regulating with regard to externalities. Furthermore, the wish to ensure a decent living standard and access to key types of goods and services, such as healthcare, seems likely to be part of welfare state development. Finally, the welfare state can help individuals through the life course.

**Changes in recent years**

Recent years have seen many and very diverse changes in welfare states. Discussions on transformations and changes in welfare states are not new (see chapters in this book on different regions, countries and regime typologies).

The expected demographic changes, especially in the more affluent societies around the globe, but also in China in just 15 to 20 years’ time, with a growing number of elderly compared to those on the labour market, have raised discussions on the sustainability of the welfare
state. Demographic changes are implying a pressure on public sector spending and the possible increase in production due to lack of labour. Therefore, changes in the pension system, retirement age and more targeting of welfare state expenditure, services as well as income transfers, have for long been on the agenda. In several countries reforms of the pension system have taken place in the past 10 to 15 years, and had been on the way also prior to the economic crisis. These changes imply a higher reliance on occupational and private pensions and a clearer link between contributions, return on investment and actuarial calculations in relation to average life expectancy and risk of being in need of an early retirement pension. In most countries they also imply a later retirement age and more unequal living standards for pensioners.

The past 10 to 15 years have also, in contrast to changes mentioned above, in Europe at least, seen a development towards more services provided or supported by the welfare state in areas such as childcare, education, healthcare and care of the elderly. These changes in the welfare state from its historical central perspective of providing mainly cash benefits with regard to social risk to a move towards more benefits in-kind may also be attributed to different perspectives on the welfare state’s role (e.g. an increased focus on the welfare state as having an investment function). The intergenerational perspective is still there however, implying that the welfare state helps in levelling out consumption possibilities over the lifetime in an effective way.

However, the impact of the latest fiscal crisis starting in 2008 upon welfare states, with many governments in Europe and the USA having high levels of public sector deficits as well as high levels of public sector debts, put forward or reinforce a liberal perspective on the agenda with a strong focus on reduction in the size of the welfare state, again with differences among countries. This is despite the fact that a deficit can also be remedied by increases in taxation. A reduction in welfare spending from the public sector with more focus on what the private sector and families/civil society can deliver implies that the welfare state’s ability to deliver welfare will be reduced. It further reduces the welfare state’s capacity to be the one that in times of economic crisis reduces the impact of economic development upon private households (e.g. it will be less able to reduce the impact of the business cycle). Still, now ten years after the crisis many countries are also becoming aware of the positive impact of welfare state spending, and the demand for changes in inequality also increases the role of the welfare state.

At the same time the wish and need for welfare services has been growing in countries with higher living standards, following traditional economic analyses that there is an income elasticity above one in relation to these types of goods and services. Occupational welfare and welfare through the tax system have thus to a larger degree been complementary instead of substitutions to public welfare. There has also been a role for civil society and voluntary organisations and an ongoing debate about the role also in providing welfare services. The welfare mix is thus undergoing constant change, and boundaries need not be fixed over time.

Migration within and across economic areas between the North and South may also imply a pressure on welfare states, a pressure that is due to the risk of increased spending for those arriving who are not able to support themselves by getting or having a job on the labour market. However, at the same time there is a growth in opportunities to increase production by having a larger labour force than would otherwise be possible and which may counteract the consequences of demographic change. Migration has raised a further challenge for welfare states, as there has been (often supported by populist parties) an ambition to focus welfare on the native population and to reduce the focus on non-natives, also labelled welfare chauvinism (Schumacher and Kersbergen, 2016).

Despite earlier economic and political crises in many welfare states, especially in Europe, as also argued above, the society has taken over a larger part of the responsibility in relation to care for children and the elderly, what may be understood as a focus on social investment. This
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shows that the welfare state has a larger role in relation to services than historically, and that the boundaries between state, market and civil society are seemingly constantly undergoing change. It is not possible to foresee how the boundaries will be aligned in the future, but it is obvious that there will be a role for the state in order to ensure welfare, at least for the most vulnerable, but also in a broader sense in helping to ensure societal development.

Focus in the years to come will presumably be on sustainability both in relation to financing the welfare state, but also the way in which new initiatives will be enacted, as willingness to try new ways is less likely to be the case in times of economic difficulty (Thelen, 2004), and also that new ideas still matter (see also Chapter 25). If this diagnosis is correct, the implication is that the coming years will see a clear and more structured focus on the role of the welfare state, and it is less likely that the welfare state will be involved in and take on many new types of initiatives unless the focus can be mainly on those seen as really deserving. It will be more of the same, with a strong and continued focus on the overall level of spending and at which groups this spending will be directed. Focus will presumably also be on long-term sustainability, both with regard to economic options, number of jobs and impact upon the environment. However, economic growth and societies becoming more affluent may imply increased demand for services and thus also for welfare services from the public sector.

Recent years have seen a strong increase in the debate on inequality and the growing divide in society, especially since Piketty’s book (2014). It has even been argued that in order to saving capitalism a new policy is needed (Reich, 2015). The many and varied negative consequences of inequality in several countries for productivity and economic growth have moved the debate upon how to develop welfare and welfare states. At the same time this has increased the focus on how to understand welfare and to measure social progress: money is not enough; well-being and happiness are also important.

The efficiency of the welfare state may be argued not only to be related to social investment, but also to the ability (with as little money as possible) to reduce the degree of inequality being the outcome of the markets’ way of working. Therefore, there has also been a focus on how the welfare state can redistribute wealth between the rich and the poor, and how the welfare state can redistribute consumption possibilities over the life cycle. Furthermore, more equal societies have an impact upon health, crime, etc. (Wilkinson and Pickett, 2010). This is despite the fact that reduction in poverty has also historically been one of the welfare state’s core issues harking back to the poor laws in many countries. One of the challenges is how to combine a reduction in poverty with ensuring a certain degree of equality while at the same time being able to finance welfare states.

In the same vein there is also constant discussion of who the welfare state should help. Should it only be those very poor and/or deserving/non-deserving dependants who are eligible for benefits? This also includes debates on whether income transfers should be universal or means-tested and how strong the means test should be. Whether there is a need for some kind of citizens’ income is also an issue for the future with the possible risk of losing many of those jobs we know today, meaning that more people will be outside the labour market.

In many countries, the debates on migrants and their impact upon welfare states have been growing partly as a consequence of increased migration due to political instability around the globe, but also the overall worldwide level of economic inequality. Furthermore, developments on the labour market with many traditional white-collar workers losing their jobs have increased tensions in several countries, and paved the way for more populism – often using migrants as scapegoats.

Exactly how welfare states can ensure jobs, a decent living standard, integration and social inclusion will be a central challenge for their long-term survival. Solutions to these issues are important in order to ensure welfare states’ legitimacy.
Conclusion

The welfare state is here to stay; however, its size, structure and ability to achieve the goals of equality and full employment and the impact of nation states upon welfare in a still more global and regionalised world are open for discussion.

We have in the past few years witnessed, in some ways, a retrenchment in the classic welfare state’s activities (e.g. income transfers), while at the same time there has been an increase in the welfare state’s role in relation to new social risk and delivery of services, implying that the welfare state is bridging the intergenerational gap and being more in line with a social investment approach. There has also, at least among some countries that are regionally close to each other, been a tendency towards convergence, not necessarily in the sense of structural convergence, but more in the sense of the economic effort used in relation to welfare issues. At the same time welfare states have moved from mainly providing income transfers to specific groups to having a larger role in providing welfare services, including care for children and the elderly, a educational system and universal healthcare provision in most countries.

The welfare state will also have a central role as the one with the options and power, making it possible to reduce the negative impact upon employment and equality from the large up- and downturns in economies, and radical changes in the labour market. Whether it is possible on a global scale to agree upon measures to reduce the variations is more doubtful.

This also implies that welfare states in the future may, presumably to a lesser degree, be put into typologies or welfare regimes, except perhaps instead increasingly divided into several geographically based regimes (e.g. Southeast and Northwest Europe, the USA, Asia and Southern America). Still, this does not imply that there will not be differences and national diversities given the varied historical traits, but more that the outcome and impact of welfare states, including the size of the economy and the need for financing, will be around the same level in at least regionally based geographical areas. The national variations may have an impact on who gets what and under what conditions, as well as an impact upon the degree of equality in consumption possibilities and access to different kinds of goods and services. Boundaries and understanding of who is deserving and who is not deserving different kinds and types of benefits can thus also change, and these changes may have an impact upon how welfare states will be structured and who they will support in the future.

We will presumably also need and demand welfare in the future, notwithstanding how we define it (cf. Chapter 1). However, the balance between actors, and who will benefit and who will pay, and the varieties across countries, may also be expected to prevail in the future.

References


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