

## OBSERVATIONS ON SOCIAL AND ECONOMIC WELFARE IN THE EUROPEAN CONTEXT

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### **Abstract**

*In the globalization era that we are witnessing, the social problems of welfare and development have become key points on the agendas of European countries and not only. The present economic and political context has proved once more that social welfare represents an essential objective of any society.*

*As the core objective of any economy is to create goods and services in order to satisfy needs on the one hand and social discontent occurs in societies characterized by obvious inequalities on the other hand, it will be natural that any nation will try to achieve a system producing social-economic welfare or, in other words a welfare economy. The role of the state in this field will consist in the creation of tools and methods which should lead to the redistribution of incomes, as economic welfare in a consumption society is deeply connected to the welfare of individuals, families, groups; consequently the standard of living becomes the most important indicator measuring the level of economic welfare.*

*The present article is a comparative study of different types of welfare states as well as a comparative presentation of the situation of the welfare states for different European countries.*

**Key-words:** *welfare, welfare state, consumption society, welfare indicators, standard of living, mechanisms of producing welfare*

**JEL Classification:** D<sub>60</sub>

### **Introduction**

The present article is an attempt to point out key facts related to the evolution of the welfare state in an European context, bringing in this way a contribution to the clarification and theoretical grounding of this complex concept.

The final decade of the last century and the first decade of the present century have been marked by an accelerated expansion of the globalization process – expression of the neoliberal capitalism domination at a world level. A promoter of the triade liberalization-dereglementation-privatization and of the international integration of national economies, globalization should not be regarded as a force destructing old structures but a force creating new values and identities.

The partisans of globalization believe that it has the potential to bring a higher degree of welfare to everybody while its detractors consider that it has a

devastating effect on developing and under-developed countries. The 2001 Noble prize laureate for economics J.E. Stiglitz believes „that people all over the world should collaborate with the purpose to solve the problems that affect us all no matter their nature: health problems, environmental problems, problems related to economic stability” (2003:425).

The idea of welfare has always been among the main preoccupations of both individuals and governments; it has constituted a subject of reflection and analysis for social and economic thinkers such as: Albert Schweitzer, T.H. Marshall, N.Barr, P.Spieker, A.Pigou, F. Hayek, V.Pareto, J.K.Galbraith or Jeremy Bentham.

### **Literature Review**

The concept of welfare state has a rather recent history. The specialized literature places it somewhere around World War II. In Great Britain it was used in the Beveridge Report in 1942, and it came to refer to the process started at the end of the 19<sup>th</sup> century by which the state assumed certain functions in assuring collective welfare and social protection. The concept is based on two main components, a redistributive component whose main goal is social welfare and an institutional component – the main actor managing the process of creating welfare is the state, which deals with certain inputs and outputs whose values and balance are supposed to create social welfare.

### **Theoretical Background**

At the same time, we believe that we can speak about three sides of the welfare generation process, all of them playing an essential role in the present European social-economic context and Romania is not an exception. A political component can be identified (welfare is the manifestation of a certain political community’s will) as well as a social component (welfare is the expression of social solidarity) and not ultimately an economic component (as welfare promotes economic development, economic security and stability, the elimination of poverty).

Broadly speaking the welfare state can be defined as the organized power used (by means of political and administrative tools) in order to modify the market forces and tendencies in three different directions:

- the guarantee of a minimum income;
- the reduction of the insecurity degree (in case of illness, old age, unemployment);
- the offering of certain social services (at optimal standards) to all the citizens.

There are certain theories regarding the birth of the welfare concept and necessity. Industrialization is considered as the key factor promoting welfare in the earlier stages of its study. Christopher Pierson (1991) enumerates among the most important the decline of rural population and population employed in agriculture, the development of urban areas with a specific lifestyle, the creation of a more and more educated urban working class who became aware of certain states that had to be recognized as such and dealt with properly: unemployment, old age, work

incapacity because of illness, accidents, etc. From this perspective the welfare state appears as an outcome of the needs generated by the development of industrial societies.

The modernization thesis considers the welfare state as the product of two revolutionary changes the industrial one – just like in the previous theory and the political one which was translated in the birth and development of more and more citizens' rights, among which one of the most important is the universal suffrage, which had as a consequence the re-invention of political parties as mass political parties. World politics and intercultural exchanges have led to the consolidation of welfare states.

A third theoretical assumption and the last one we are going to mention refers to power resources model. According to this third model not only economic and social developments contributed to the birth of the welfare state but also the political powers in a state. The power resources that can be mobilized by a state are deeply connected to the social classes and the fight between the logics of the economy and the logics of politics have led to the creation and development of social citizenship and welfare state.

### **Types of Welfare States**

Economic, social, statistical researches have revealed that there are differences among countries regarding their effort to assure their citizens' welfare. We owe to Richard Titmuss (1970, 1997) one of the first professional attempts in classifying the types of welfare states in terms of their strategy.

The minimum (residual) welfare state has a very low degree of involvement in the creation of welfare for its citizens. It assumes a low degree of responsibility in terms of welfare and only a limited number of citizens enjoy the support of the state; the premises of this model is that the basic needs of an individual can be fully satisfied by two natural entities: the market economy and the family. Only when these two entities fail or disappear will the state take responsibility for the welfare of a citizen. Low taxes and low public expenses are among its main characteristics as well as limited social transfers which are not oriented towards reducing social inequalities.

Such a welfare state is characteristic for traditionally liberal countries: the USA, the UK, Canada and Australia.

A second model is the model of the industrial state for reaching performances which places a great importance on satisfying social needs according to productivity and individual performance. Germany is an example of such a state.

The model of the institutional state redistributing welfare considers welfare as a major institution and objective. It respects the principle of universality as the whole community benefits from the welfare policies and it is highly oriented towards reducing social inequalities. Typical examples of such welfare states are the Scandinavian countries, the Netherlands, Austria.

Another interesting classification belongs to Gosta Esping-Andersen (1990) who uses different criteria in classifying welfare states. The researcher

suggests an analysis that should take into account characteristics of a structural nature such as the degree of universal access to benefits, the degree of differentiation of social benefits by social groups, the ratio between the public and the private pension system. The result is a classification of welfare states into three types: strongly liberal states (Australia, Canada, Japan and Switzerland), strongly conservatory states (Austria, Belgium, France, Germany, Italy) and strongly socialist states (Denmark, Finland, the Netherlands, Norway, and Sweden).

The strongly liberal welfare state is dominated by the logics of the market and the rules for benefiting from the state support are very strict.

The strongly conservative welfare state offers the church a strong role and the traditional family is considered very important. The principle of subsidiarity is also very well represented, that is the state will intervene to regulate only situations that cannot be solved by the family or the church.

The socialist (social-democrat) welfare state privileges universal equality and the state is not just one of the factors dealing with the assurance of social support but the main actor in the process of creating the social and economic welfare of its citizens.

We should nevertheless mention that there is no state that should fall completely under one of these categories; real state just borrows more or less characteristics from one or more of the above mentioned categories.

As far as Romania is concerned, the domain of social policies is still in a phase of research and defining, a phase of assuming an identity.

Four decades of communism have changed not only the face of the Romanian economy but also the way people situate themselves in their relationship with the state. Only younger generations which have now emerged on the labor market are characterized by a different relationship with the state which is no longer seen as the powerful entity which should take care of us all. The welfare state needed to be completely re-defined after 1989 in order to meet the requirements of the market economy. Another key stage in its re-definition was the European Union accession which shaped the Romanian welfare state even more and offered it its main present characteristics but we should not forget about the international economic crisis which has left strong marks on the characteristics of welfare policies all over the world.

As in all the other former socialist countries, the institutionalization of social policies during the period of transition to democracy had a strong impact upon the outcomes of such policies. New social policy legislation was adopted but in a rather slow rhythm. For example, until 1995 there was no important new social policy legislation with the single exception of the universalization of child allowance in 1993. New regulations in the fields of education or health responded only to immediate necessities. However the situation changed starting with the mid-1990's. The trade unions lost their great power and workers gradually became the main losers of transitions and they have kept a rather limited power to negotiate (a situation which is still valid today).

In parallel expenditures on pensions and health increased and international actors have started to have an impact on the adoption of certain legislation in the

field of welfare policies: the World Bank offered guidelines in the field of social assistance, the ILO contributed to employment policies while UNICEF was involved in the reformation of child care legislation. Many international organizations have focused their activities towards capacity building (they offered monitoring expertise to that the administrative capacity of the Romanian state should strengthen).

After 1989 the social services had a slow development in Romania on the one hand because they require high involvement of local actors and on the other hand because they needed the emergence of expert system and complex financial and accountability systems.

The most underdeveloped areas of social protection are still those that rely on social services, such as social care, social integration of the disabled, community services for the elderly and other disadvantaged groups.

However the involvement of international organizations helped to the change and creation of new legislation but the inadequate institutional capacity at local level slowed down the reform.

In the area of social security reforms most delays and problems were (and still are) encountered in the domains that depend on the state in a high degree, such as the pension reform. The first major step in reforming the Romanian pension system was taken very late, in 2001 when the formula by which the benefit level used to be calculated was modified in order to better reflect the correlation between the contribution level during the whole career period of a person and the level of the pension he or she would receive at the end of the career. The first consequence was a negative one, the substantial lowering of pensions for those to be retired.

The law regarding privately administered public pensions funds (second pillar) was passed in 2004 and was followed a year later by a framework legislation regarding the creation, organization and functioning of the Monitoring Commission of the Private Pension System. The system has already been implemented and it fits the CEE reform pattern inspired by the World Bank. In the near future it seems that great difficulties will be generated by the traditional pension system, more exactly by some of its main characteristics: high dependency ratio, low coverage of rural population.

Although more than two decades have passed since Romania has become a market economy implementing welfare reforms it is very difficult to place it in one or the other welfare state categories, a situation which is characteristic for most former communist countries. The accession to the EU has changed things even more as it is now supposed to implement European regulations.

For example in our country, as in the rest of the CEE countries reforms of social assistance and family benefits have followed a neo-liberal trend, the reforms aiming at offering a minimal social protection while adhering to an austerity state budget and reducing fiscal burdens. The coverage and level of benefits decreased while social contributions and taxes were maintained at a high level. More than that, pressure on social expenditure continued to increase as the employment rate decreased and the number of pensioners increased.

## Conclusions

Researchers dealing with the concepts of welfare and welfare state have attempted to offer them various definitions and characterizations. It is nevertheless difficult to place a state in exactly one category and Romania is no exception. If the economic crisis is to be taken into account a classification becomes even more difficult using the existing patterns. A re-design of the definition of the welfare state might prove to be necessary after the experience that all the world's states have undergone during the past few years.

As far as Romania is concerned, after the transition to democracy the generation and implementation of social policies were shaped by domestic pressures (Chirimbu, 2007). By contrast, after the mid 1990's policies were highly influenced by the involvement of international actors, which aimed at shaping the content of legislation according to a neo-liberal ideology. International NGO-s and consultancy firms had an impact on the development on local knowledge and expertise, especially in the light of Romania's pre-accession to the EU efforts.

The concept of welfare state is nowadays an ever complex one. Assuring an optimal welfare level to all its citizens has become a great challenge for all state, all the more for Central and Eastern European ones.

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