

THE ROLE OF SOCIAL POLICY WITHIN ECONOMIC POLICY: THEORETICAL CATEGORIZATION

Christiana Kliková¹, Igor Kotlán², Zuzana Machová³

Abstract

Social policy is an integral part of the life of modern society, which focuses on addressing its shady sites and bottlenecks, to which other policies do not respond or cannot react naturally. The definition of social policy is not definite as well as its relationship to economic policy. While some economists argue that social government expenditure negatively affect economic performance, we show possible channels that social policy may positively affect general economic policy through. The aim of this paper is thus to discuss the role of social policy in a society with regards to its relationship to general economic policy. We conclude that if social policy is realized in a way that its stimulus function prevails and simultaneously the concept of a society of free citizens is applied, it may positively affect economic performance and thus economic policy in general.

Keywords

Social Policy, Society, Economic Policy, Government Expenditure

I. Introduction

Social policy is a concept that we meet not only in everyday life when reading daily newspapers, listening to radio reports or watching TV, but also in various technical texts. Social policy therefore forms an integral part of every developed society. It is influenced by the social reality and living conditions of the population. But what does it mean?

In general, we can characterize it as a set of measures aimed at improving the basic living conditions of the population and ensuring social reconciliation within the given economic and political possibilities of the country. Krebs (2010) presents social policy as a policy which primarily focuses on man, the development and cultivation of his living conditions, his dispositions, the development of his personality and the quality of life. Another definition describes social policy as an institutionally embedded deliberate effort expressed by specific program objectives, activities and resources aimed at protecting, reproducing and developing the social system or its parts, groups or individuals (Tomeš, 2010).

Some theorists perceive social policy only as a state or public policy, others perceive it more widely as social efforts of also other, non-state actors. The range of views on social policy is also related to the perception of the notion of "social" itself. We can perceive it as activities that act in the sense of improving people's living and living conditions (narrow concept) or broadly, as a synonym for everything social.

It is clear from these views and wording that social policy is a complex phenomenon that affects all aspects of society. It should be emphasized that social policy is always part of a particular social unit, a social system, where social policy acts on a social system in the sense of its cultivation, and the social system gives social policy economic, possibly philosophical and other stimuli. Thus, we

¹ University of Social and Administrative Affairs, Vítězslava Nezvala 1, 736 01 Havířov, Czech Republic. E-mail: klikova@vsss.cz.

² University of Social and Administrative Affairs, Vítězslava Nezvala 1, 736 01 Havířov, Czech Republic. E-mail: igor.kotlan@vseo.cz.

³ University of Social and Administrative Affairs, Vítězslava Nezvala 1, 736 01 Havířov, Czech Republic. E-mail: machova@vsss.cz.

can state that social policy is an integral part of the life of modern society, which focuses on addressing its shady sites and bottlenecks, to which other policies do not respond or cannot react naturally.

Mutual relationship between economic and social policy is not considered definite as well. Social policy is, however, often understood as part of general economic policy that aims at achieving economic growth primarily. As such, according e.g. to Barro (1990), it may affect economic policy negatively as social expenditure is considered unproductive, unlike investment expenditure of government. The aim of this paper is thus to discuss the role of social policy in a society with regards to its relationship to general economic policy. It makes a basis for future research aiming at identification and quantification of channels that social policy may affect economic policy through.

II. Basic principles of social policy

For choosing the basic principles (that is, the thought processes) that are relevant to social policy, it is important what positions and what social-policy doctrine of thinking these principles are based on.

In a European context, social policy has evolved and developed under the influence of one of the three social-political doctrines that have formed over time. Those are:

- Christian social learning,
- conservatism,
- democratic socialism.

All social-political doctrines attempt to define the concept of social justice, in which the key element is relationship between freedom and justice. Freedom and equality are generally considered to be the defining features of democracy, even though they are mutually exclusive: freedom leads to inequality, equality reduces freedom.

Christian social learning is based on Christian philosophy and understands social justice as a guarantee for everyone. Its tool is mainly charity activity, which is based on the principle of Christian mercy. This doctrine is based on the belief that the social status of an individual is not only his private affair but that the entire religious community is responsible for him. It recognizes personal freedom, but stresses that there is no moral obligation, and that a certain part of the responsibility for the social situation in society is also borne by the rich and the powerful. It also recognizes inequalities, but not all are considered desirable and just. Any material misery should therefore be eliminated best by means of redistribution, both through charitable activities and through the direct participation of the state. This doctrine is defended primarily by the Christian Democrats.

Conservatism (liberalism) refers to a social concept that emphasizes the importance of the individual's freedom (and thus responsibility). The conservative concepts of social justice are based on the belief that the social status and well-being of citizens should match as much as possible their economic performance. In other words, the higher the efficiency of the economy, the more it can be redistributed, but with the knowledge that excessive social welfare weakens economic incentives and dampens individual economic activity. Obviously, this concept does not support state solidarity and redistribution processes. The bearers of this doctrine are conservative, respectively Republican or Liberal parties.

Democratic socialism, as a social-political doctrine, shares with the Catholic doctrine a belief in the need for dignified material security for the lives of all citizens. In this case, however, it is state that has a social responsibility for all citizens, and therefore, there are emphasized mainly extensive redistribution processes, collective bargaining and labour protection (the main components of the

welfare state). In this social-political doctrine, great emphasis is placed on equality, not only in civil rights, but also in social rights.

The different doctrines, however, differ greatly in how they interpret the principles of social policy and which of them they emphasize. Among the basic, typical principles of social policy, we can include:

- the principle of social justice,
- the principle of social solidarity,
- the principle of equivalence,
- the principle of subsidiarity,
- the principle of participation.

The principle of social justice is the oldest one and at the same time the most important principle of social policy, because social justice is the basis of the rule of law of a democratic state. Every democratic society seeks social justice, and therefore this principle should belong to the basic moral values of every individual in society. Yet it is interpreted differently because justice is always related to certain traditions, religious perceptions, culture, values and interests. Therefore, we distinguish three types of answers to questions such as "What is social justice?" and "Can justice exist?":

1. The principle "to everyone equally" is based on the requirement of absolute solidarity. Its application is feasible only in societies where there is such a lack of resources that it is sufficient only to satisfy the most basic needs. In developed societies, the pursuit of this principle leads to demotivation, economic inefficiency and, as is known from the socialist era, to general dissatisfaction, as the expression of income levelling is uniformity in consumption. Ignoring the diversity of the needs of the population is necessarily accompanied by the ignorance of man as a personality.

2. The "to everyone according to his needs" principle addresses the problem of the constantly growing needs of a person and their satisfaction. Needs are in fact endless, while resources are severely limited. It is clear from this fact that this principle, inherent in Communist ideology, is completely unrealistic.

3. The principle "to everyone according to his merits" is based on the generally accepted principle of interdependence between performance and remuneration. Its implementation, however, is linked to a fundamental problem – how to determine the amount of remuneration corresponding to a certain performance and how to apply the criteria for determining the merits of different activities. If this principle is applied in market economy, the remuneration corresponds to the amount of the social need of the given activity, expressed by the demand for this activity. We can certainly discuss whether it is fair that a car mechanic has a higher income than a salesman, but if this difference has arisen due to the functioning of the market, it is not up to anyone to make that difference. In this case, the term social justice loses any sense. However, it is important if the amount of the remuneration for the performance is determined authoritatively. See also Uhrová and Skalka (2016) or Pernica (2016) on minimum wage consequences.

The principle of social solidarity is based on the consciousness of human belonging, on the belief that man is a social being. Solidarity can be understood in the sense of:

1. Forced solidarity, the importance of which increases with the growth of risks in modern society. It is the solidarity given by the redistributive systems determined by legislation. The growth of forced solidarity has positive consequences in that the satisfaction of the basic needs of the population in any social situation is guaranteed by the state, which increases the feeling of social security. At the same time, however, it carries the risk of diminishing the activities of individuals when it exceeds its certain degree and limits the voluntary solidarity.

2. Voluntary solidarity, which is in fact a complementary form that is traditionally implemented within families and charity through churches and charitable organizations. These are transfers from rich to poor, from economically active to economically inactive and from childless families to families with children. Solidarity is an expression of human understanding and community, so solidarity arises primarily spontaneously as a multi-faceted charity activity carried by various non-governmental organizations. In addition, solidarity is also implemented on the basis of a consensus across the society through redistributive and transfer policy of the state (Balek, 2011).

The principle of equivalence is, in its essence, an absolute opposite of the principle of solidarity. In general, the principle of solidarity prevails in a society where social policy "interventionist" schemes prevail, and where the level of social earnings depends on the amount of income from economic activity, the principle of equivalence applies. At present, it is clear that both of these principles are crucial in modern social policy and strongly interrelated.

The principle of equivalence in social policy thus promotes motivation for work, social independence of individuals and their self-sufficiency; as a result, leads to lower demands on the scale of redistribution for social purposes and limits some "scatteriness" of the state. The criterion of its applicability, of course, remains that this principle contributes to the creation of a functional and sustainable social system.

The principle of subsidiarity is seen in modern society as a principle that combines personal responsibility with solidarity. It is based on the belief that everyone must first help himself. However, if a situation occurs when one cannot take care of himself, this responsibility goes to the family. If the family fails, other entities enter the system, with the state being the last instance if these other entities fail. This means that the state will only begin to help if all the options and possibilities of such "self-help" are exhausted. But the state is also obliged to ensure conditions for these other entities to be able to do so. The principle of subsidiarity also emphasizes the importance and necessity of actions of other entities to ensure social security and the interest or better obligation of the state to support such activities. The discussion about this principle of social policy has recently been very numerous - this principle disturbs the citizen-state bond and critics of the principle of subsidiarity object that its application can lead to serious social consequences.

The principle of participation is an expression of the requirement for every member of the democratic society to participate in its functioning. Members of society should therefore have the opportunity to participate in what is immediately affecting their lives. As a result, man ceases to be only a passive recipient of social assistance but becomes an active participant in this process. It can be said that the fulfilment of the principle of participation is a gradual and long-term process, which can be understood as a transition from man as predominantly social policy object to man as a full and responsible subject of social policy. The possibility of citizen participation in the creation and implementation of social policy leads to greater identification of this policy; this is then strongly reflected in the effectiveness of social measures. However, the application of this principle requires a developed civil society, because citizen participation in social policy is actually determined by the extent to which citizens can participate and to what extent they want to participate in decision-making on social measures.

III. Functions of social policy

Social policy performs many functions in society. We consider protective, distributing (redistributive), homogenizing, stimulating and preventive as the most important.

The protective function of social policy lies in the mitigation, resp. eliminating the consequences of certain social changes in people - loss of employment, old age, illness. This feature is historically the oldest one.

The redistribution function relates to the solution of differences and inequalities in the living conditions of people and is considered the most important but at the same time one of the most complex functions because its base consists in modifying the initial and imperfect distribution.

Primary distribution of pensions in a company depends on:

- the distribution of the stock of factors of production among economic subjects,
- institutional organization of the economy,
- the ability of economic operators to make effective use of these factors.

This reality, together with the fact that each individual in society is endowed with different capacities and different sizes and the structure of wealth, causes real income and property inequality in society. And this fact is the reason for a permanent discussion about whether or not the state has to correct these inequalities in the distribution of pensions, i.e. whether or not to implement a redistribution policy. By redistributing, the initial unequal position of people is mitigated to such an extent as society deems desirable. It is implemented through various mechanisms, including the market mechanism, the voting process, negotiation between social partners, traditions and customs (e.g. charity, inheritance), illegitimate mechanisms (fraud, violence, etc.) and is implemented primarily for the purpose of following:

- All citizens have decent living conditions. It is based on the premise that all citizens do not participate directly in economic activities, but all must participate in the use of economic resources;
- All citizens have equal opportunities (all members of the society have to ensure the same "start" conditions).

Redistribution takes place through taxes and transfers and should take place primarily vertically (from wealthy citizens to the poor). There is an increasing degree of horizontal redistribution (within the same income groups). The result is a final breakdown of the incomes, which is characterized by lesser inequality than in the case of the primary division.

Very important is the answer to the question of what should be the redistribution rate. Its level is dependent on many factors such as, for example, the economic development of the country, its political stability, social sentiment, religious perception, historical development, etc. In general, however, we can state that the degree of redistribution must be within the two barriers that are formed as follows:

1. Too much redistribution that weakens incentives to work, but also to business. In the case of progressive taxation, some members of the society who get into higher tax zones prefer to rely on social benefits and to choose to work in the shadow economy or prefer leisure. Business entities suppress a high rate of tax on their investment activity and mitigate their motivation and inventiveness.
2. Too low redistribution that can lead to social instability and unrest, to widening social disparities and excessive poverty.

The homogenization function is very closely associated with the redistributive function and is considered a relatively new function of social policy. It serves to eliminate unjustified differences in living standards and to some income compensation (e.g. social assistance to low income groups of the population). Homogeneity in any case does not mean the standardization of living conditions, but the process in which the society has the same opportunities to educate, work, take care of its health, etc. Krebs (2010) states that the homogenization function is most evident in the social help to low-income groups of the population. In their case, social policy measures are adjusted to the level of a socially recognized standard, thus creating the conditions for a roughly homogenous satisfaction of basic living needs.

The stimulus function is geared to supporting the desired (intended) development of social processes. It focuses on supporting the desirable social behaviour of individuals and social groups, thus curbing social unrest and preventing social conflicts. Sometimes it is referred to as a productivity feature because its effects directly affect the performance potential of the workforce and its productivity. hereby it must be stated that this function unlike others aims directly to support economic activity of individuals.

A preventive function serves to prevent unwanted social situations. It therefore concentrates on its own removal of causes that could lead to unexpected social situations. The preventive function of social policy is now of importance, because modern social policy represents a large-scale existential prevention that focuses on lifestyle management. It also envisages extensive awareness-raising and advisory development of the type (e.g. career counselling, etc.).

IV. Types of social policy

Depending on the degree of state participation in the creation and management of social policy and the intensity of redistribution processes, we usually distinguish three types of social policy that already Titmuss (1974) defined as redistributive, performance, and residual.

The redistributive (universalist, civic) type with the dominant role of the state perceives the social needs of people as social rights. In its essence, it is geared towards universal provision of social benefits (i.e., for the whole population or selected social group) no matter what their needs and possibilities are. This type of policy is close to the Scandinavian states, Denmark, the Netherlands and some other countries. It is a type of social policy that has been applied in the former Czechoslovak Socialist Republic and some other states of the so-called socialist block of Eastern Europe, and cannot be said to be of a civil type because it was not based on the democratic organization of society.

The performance (corporate) type is based on the belief that social needs are primarily to be met on the basis of work performance and merit. It is based on wider co-operation of citizens and, as a rule, also on the application of social insurance. The redistribution rate is lower compared to the redistributive type, because the state guarantees only basic socially recognized minimum needs and thus creates scope for non-state actors. This type of social policy is close to Germany, Austria, France, etc.

The residual type relies almost exclusively on the market and its institutions, or family. It emphasizes individual responsibility for satisfaction of social needs. The role of the state as a subject of social policy is greatly suppressed here, and the redistribution rate is the lowest of all types. The social policy of the liberal state provides citizens with only the necessary assistance that no one else can provide and tries to avoid the social charms of taxpayers. This type of social policy is applied, for example, in the United States and Japan, and the United Kingdom is approaching it.

Such distinctive types of social policy as described above, of course, do not exist in this model form. Real social policy in each country is the result of many different factors and is always the resultant combination of all the above types. Therefore, the countries that have been presented as examples of the application of the different types of social policy only tend to these types.

V. Social policy and economic policy

As already stated within the introduction, social policy is without any doubt very closely linked to economic policy. Nevertheless, there is no consensus about their mutual relationship. We can rather speak about their interdependence, which stems from the knowledge that every economic policy has its social impacts and vice versa - for a social policy to be effective, high economic performance

and hence effective economic policy is necessary. An effective economic policy then helps to produce the resources that are the basis for financing social policy. Thus, we can say that the economic policy with its measures ensures the economic basis of social policy (see e.g. Slaný, 2003, Žák, 1999). In this case, social policy plays a passive role with regard to economic policy. From a different, and maybe prevalent, point of view, active role of social policy towards economic policy lies in creating the assumptions and dispositions of people for work performance and their motivation to responsible acting and self-realization, on basis of active components of social policy (education policy, health policy, housing policy, etc.). It is therefore obvious that economic and social policies are very influential to each other.

Economic policy affects social policy through:

- a system of taxes and a system of interest rates,
- income policy,
- a system of tax relief,
- structural policy,
- the rate of inflation.

Social policy then affects economic policy through:

- the level of human capital (quality and quantity of labour),
- the conditions of employment of workers,
- by setting social security contributions,
- laying down the conditions for granting social benefits,
- a rescue social network,
- social security benefits.

The more developed the society is, the closer the link between economic and social policy is.

VI. Concepts of social policy

As is clear from the above, discussing the future character of society is always a discussion of the mutual relationship between economic and social policy. At present, this discussion is based on two concepts:

1. The concept of civil society that understands social policy as a service to the public, the guiding criterion of which will be the expansion of space for the positive liberty of all. This concept assumes that social policy is based on the following principles:

- activity (social policy),
- solidarity,
- subsidiarity,
- work-related setting of the conditions for the provision of social services,
- the quality of reproduction of the population,
- democratic governance of public services.

2. The concept of a society of free citizens, which considers social policy only as state-guaranteed solidarity among the citizens, the real source of which is not the state, but the citizens themselves. This social policy is based on three responsibilities:

- state liability towards taxpayers,
- the responsibility of recipients of social benefits towards those citizens who contribute to these benefits,

- state responsibility towards recipients of social assistance.

The practical realization of this concept of social policy is based on the fact that funds intended for social purposes are market-conform and therefore do not restrict personal initiative, and are addressed. Especially within this concept, also an approach given by Iversen and Soskice (2001) should be considered who claim that social policy preferences are based on composition of skills of an individual and his previous investments into the skills.

If the social policy is realized in a way that its stimulus function prevails and simultaneously the concept of a society of free citizens is applied, it may positively affect economic performance and thus economic policy. This suggests that the conclusions made by Barro (1990), Gemmell, Kneller and Sanz (2011), Denaux (2007), and others could be revised, and their models extended with more aspects of social policy reflecting specific channels based on behaviour of individuals with respect to effects of social benefits they achieve in particular social situations.

VII. Conclusion

As social policy is not a definite concept and its relationship to economic policy is not clear, the aim of this paper was to discuss the role of social policy in a society with regards to its relationship to general economic policy. We introduced various concepts of social policy, its functions and possible models. The discussion suggests that unlike most of economic approaches, social policy may positively affect economic policy if not only social expenditure made by government is considered but if its stimulus function prevails and simultaneously the concept of a society of free citizens is applied. This initial discussion makes a basis for future research aiming at identification and quantification of channels that social policy may affect economic policy through.

References

- Balek, P. (2011). Sociální politika. In: Balek, P. et al. *Výukové materiály pro obor sociální práce* [online]. KSP FSE UJEP Ústí n. L., 2011 [cit. 2. 1. 2018]. Dostupné z: <http://inul.fse.ujep.cz/download.php?id=782>
- Barro, R. (1990). Government Spending in a Simple Model of Endogenous Growth. *Journal of Political Economy*, 98(5), 103–125.
- Denaux, Z. S. (2007). Endogenous growth, taxes and government spending: Theory and evidence. *Review of Development Economics*, 11(1), 124–138.
- Gemmell, N., Kneller, R., Sanz, I. (2011). The Timing and Persistence of Fiscal Policy Impacts on Growth: Evidence from OECD Countries. *Economic Journal*, 121(550), F33–F58.
- Iversen, T., Soskice, D. (2011). An asset theory of social policy preferences. *American Political Science Review*, 95(4), 875–893.
- Krebs, Vojtěch a kol. (2010). *Sociální politika*. Praha: Wolters Kluwer ČR, 2010. ISBN 978-80-7357-585-4.
- Pernica, M. (2016). Conditions of Minimum Wage Indexation in Czech and Slovak Legislation in the Context of Business Economics. *DANUBE: Law, Economics and Social Issues Review*, 7(4), 243–258.
- Slaný, A. et al. (2003). *Makroekonomická analýza a hospodářská politika*. Praha: C. H. BECK, 2003. ISBN 80-7179-738-3.
- Titmuss, M. R. (1974). *Social Policy: An Introduction*. London: Routledge, 1974. ISBN 13: 978-0043610183.

- Tomes, I. (2010). *Úvod do teorie a metodologie sociální politiky*. Praha: Portál, 2010. ISBN 978-80-7367-680-3.
- Uhrová, N., Skalka, P. (2016). The Impact of Minimum Wage Changes on Management in the Czech Republic. *DANUBE: Law, Economics and Social Issues Review*, 7(3), 183–189.
- Žák, M. et al. (1999). *Velká ekonomická encyklopedie*. Praha: Linde, 1999. ISBN 80-7079-057-1.

