

THE ROLE OF WELFARE STATE WITHIN ECONOMIC POLICY: THEORETICAL CATEGORIZATION

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Abstract

The welfare state is currently becoming a highly controversial topic; it is generally considered to be very problematic because the ever-increasing costs of social measures hold back economic growth, resulting in a loss of effectiveness in social spending. This article addresses the issue of the welfare state existence; it describes the genesis of the welfare state and the main factors that influenced its creation. The article looks in detail at its typologies, especially at the Esping-Andersen's and the Titmuss's. It deals with the development of the welfare state after the Second World War until the 1970s when the oil crisis emerged, followed by the welfare state crisis; its current aspects are not only economic but also political and demographic. The conclusion of the article presents a model proposal of the reformed welfare state as suggested by prof. Karl Aininger (WIFO, Austria) and voices a belief that a reformed welfare state can continue to function; however, it depends on how much the risks that it faces can be identified and eliminated.

Key words

Economic Policy, Social Policy, Society, Welfare State, Crisis

I. Introduction

The opinions on the role of the state in the society went through long-term development and adapted to how social thinking changed and developed; there was a consensus in the belief that the state is irreplaceable in protecting the lives of its citizens and in guaranteeing their freedom of property, personal freedom and security; in other words, the state held the duties of a “night watchman.” The primary objective of the state was to preserve the freedom of each individual, though in the period of classical liberalism, freedom was defined negatively: no one could threaten the life, freedom or property (ownership) of anyone else. This implies that everyone was fully responsible for their own destiny. It was only in the late 19th century that the idea of positively defined freedom appeared in the work of Thomas Hill Green ([1879] 1999)³, and the state's responsibilities began to extend to other areas as well: support in old age, illness, period of unemployment, etc. This way, the role of the state deepened, and the state was to help secure dignified life for its citizens; this de facto laid the foundations of the welfare state, which has survived, in a certain modified form, until today.

II. The State and the Society

The idea that the state should help its citizens secure the life of dignity has led to the separation of two fundamental principles on whose basis the essential starting points are formulated for the process of state protection in regard to the rights of citizens and their interests. The first principle is the protection of citizens' real subjectivity, which is the protection of human individuality, protection of personal freedom and the protection of rights to decide and perform activities by individuals; unless the freedom of other members of the society is compromised. This principle is put into practice by

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³ Thomas Hill Green (1836-1882) was an English liberal philosopher.

The Role of Welfare State within Economic Policy: Theoretical Categorization

establishing such institutions that have the power to impose penalties (i.e. right of coercion) but also by building the mechanisms that prevent their own abuse of power.

The second principle may be formulated as the transfer of a certain kind of care from the citizen to the state. In this case, the state does not specify a particular area in which the citizen can freely realise his potential – by contrast, the state enforces the individual to behave in a certain manner (such as to pay taxes).⁴ In return, the state will provide him the necessary care when needed.

These two principles generally define the role of the state as a "social institution": the state "establishes the rules of the game" and monitors their compliance (Mlčoch, 1996).

In the economic terms, the minimum role of the state is associated with the creation of enforceable ownership and contractual arrangements and with the creation and management of the currency. This role of the state is generally recognised and consensually accepted. Somewhat differently is approached the role of the state when remedying market failures; it becomes the subject of various controversial discussions and reflections which derive from underestimating (or overestimating) its possibilities. One extreme is the idea that the state is a perfectly informed entity equipped with the best intentions that knows best how to proceed and how to minimise or eliminate any market failure. The other extreme lies in the conviction that we need the state not to deal with market failures but to allow the very existence of the market, which is unsustainable without the state enforceability of human rights (life, property and freedom). (Kinkor, 1999).

These views are consistent with the accepted and advocated economic doctrine in the sense of interventionism or liberalism and its subsequent outcome in the form of an interventionist or liberal economic-political concept.

Although both of these economic-policy concepts correspond to the market-price coordination mechanism, the crucial difference between them lies in the significance that they attribute to the state's interventions in the economy: while the liberal concept understands state interference as totally inappropriate and disruptive and looks for the reasons why the state should not interfere in the economy, the interventionist concept is based on the belief that the market is not able to solve all the problems on its own and that it is therefore necessary for the state to intervene in the economy.

If the institute of the state is viewed from today's perspective, it is clear that it becomes a symbiosis of political, economic, legal, social and many other cornerstones from which it is built. And it is social policy that (at the European level) becomes one of the most important policies in terms of increasing the standard of living of individuals.

III. The Origins of the Welfare State and its Causes

The welfare state can be understood as the highest form of interventionism implemented in a market environment. Put very simply, it is a state which strives to secure the conditions of "decent life" for all of its citizens. To define the concept, however, is very difficult and inconsistent, which is chiefly due to the variety of forms of the welfare state. M. Potůček (2010, p. 252) states that "...the welfare state is based on the idea that the social conditions of an individual are not only a matter of his and his family but also of the society..." M. Večeřa (Večeřa, 1993, p. 50, 51) defines the welfare state as "...a state in which the democratically organised power through social security legislation and state administration:

1. guarantees a minimum income for individuals and families at the level of living wage
2. provides social security that allows to prevent, mitigate or overcome social risks in order to ensure a reasonable minimum level of social security and social sovereignty

⁴ See e.g. Macek (2015), Uhrová, Skalka (2016), or Vavrečková, Tichá, Ondrůšová (2017) for more on related topics.

3. ensures a high level of adequate services for all citizens without making any distinctions between the social status...“

V. Krebs (Krebs, 2010) understands the welfare state somewhat differently, who states that we can see it as a state with strong public sector or as a state looking for a third way between the centrally controlled economy and the free market economy. According to M. Pick (Pick, 2004, p. 150, 151), the welfare state is “...a state which, in a developed form... regulated also the creation of resources, macro-economically intervened in the stimulation of demand as well as micro-economically in the competitiveness of businesses... and ...was not just a political compromise between the left and the right or between socialism and capitalism. It was a new, viable model... “

Different theorists, however, agree that, in the strict sense, the welfare state represents a certain range of providing the key public social services (especially related to health, education, housing, income and care services).

The first ideas on the concept of the welfare state can be found in the works of J. Locke, T. Hobbes, J.J. Rousseau and J. Mill, and they can be seen in the ideas of the French Revolution as well. It is well known that individual social laws appeared in many countries long before the emergence of the welfare state, though until the end of the 19th century, the state had a very limited role in social policy. It was only the so-called Bismarck's social reforms carried out in Germany⁵ and the implementation of similar reforms in Austria-Hungary (the so-called Taaffe's reforms) which started to largely shape the future system of social security and are therefore considered to be the first manifestation of the state's comprehensive action in the social sector and the first step towards the welfare state. However, the creation of the welfare state is associated with W. H. Beveridge⁶, who used this term for the first time in 1942 to call his model of the universal minimum social security. The causes that led to its creation are mostly (Krebs, 2010): advance in scientific knowledge, introduction of new technologies, orientation towards the cultivation of human factor, change of relations between the individual and the state, limitation/exclusion of the traditional ways of addressing the social assistance through one's own power, etc.

According to Večeřa (Večeřa, 1993), most concepts of the welfare state explain its genesis by the social consequences of the industrialisation process and the emergence of industrial society. The basic prerequisites for the existence of the welfare state are mainly:

- pluralistic democracy,
- liberal economy,
- some minimum decentralisation of state power and administration.

The term welfare state is used more broadly (and more and more often) to define a specific type of state or a certain form of political environment. The main features of the welfare state are listed in Table 1.

The welfare state primarily seeks the economic and social security for its citizens, reduction of income inequalities and sustainable economic growth and development. To that end, it uses a number of policies (e.g. programmes to combat poverty, providing education to the population, health care, social security, state control as well as market and production regulation and employment safeguarding). Since the 1960s, the welfare state has also entered the spheres of civil rights and environmental protection.

⁵ Between 1883–1889, the compulsory sickness and accident insurance was introduced as well as retirement and disability pensions.

⁶ William Beveridge (1879–1963) was a British economist, politician and social reformer. He worked as the director of the London School of Economics and Political Science and was the chairman of the state committee of the British Parliament; with his team, he created a comprehensive, elaborated and interconnected system of measures for Churchill's government that aimed at providing employment, health care and a minimum standard of living for all citizens of the United Kingdom.

The Role of Welfare State within Economic Policy: Theoretical Categorization

The basic objectives to be fulfilled by the state include:

- ensuring the prosperity of the economy,
- reducing the poverty of its population,
- ensuring social equality,
- ensuring social integration and preventing social exclusion,
- ensuring social stability,
- ensuring the independence of individuals.

Table 1 Characteristics features of the welfare state types

Welfare state type	Residual	Performance-related	Institutional
characteristics	Liberal (Anglo-Saxon, residual)	conservative (continental)	social-democratic (Nordic, Scandinavian)
the state's responsibility for fulfilling the needs	minimum	optimum	complete
distribution according to the needs	marginal	secondary	primary
range of obligatorily provided services	limited	extensive	complete
population covered obligatorily by provided services	minority	majority	everyone
amount of contributions	low	medium	high
part of the national income intended for the state services	low	medium	high
neediness examination	primary	secondary	marginal
nature of the society's clients	the poor	citizens	members
clients' status	low	medium	high
specific country – example	United Kingdom	Germany	Sweden

Source: Krebs (2010), Keller (2011)

Due to different concepts of the welfare state in various countries, which is given by natural conditions, social sensitivity, traditions, religious perception, predominant habits, culture, historical development, etc., several typologies of the welfare state have been created; the best known of these is the typology by Esping-Andersen⁷, which is shown in Table 2. According to Esping-Andersen, the basic criterion for distinguishing between the different types of the welfare state is the relations between the state, the market and the family and the decommodification rate.

⁷ Gøsta Esping-Andersen (1947) is a Danish sociologist and political scientist who is involved in the research of the welfare state and its role in market capitalism. Having elaborated the typology of the welfare state, he later extended the three basic types of the welfare state with the South-European (rudimentary) type, into which he included Spain, Italy and all other European countries of the Mediterranean region.

Table 2 Esping-Andersen's typology of the welfare state

Welfare state type	Liberal	conservative	social-democratic
Alternative name	<i>Anglo-Saxon</i>	<i>corporatist</i>	<i>Scandinavian</i>
The prevailing manner of solidarity	individual	statist	universal
Decommodification rate	low	high	highest
Role of the state	low	medium (subsidiarity)	high
Role of the market	high	low	low
Role of the family	low	high	low
Criterion for receiving benefits	necessity	status	citizenship
Example	USA	Germany	Sweden

Source: Esping-Andersen, G. (1990)

Note: Decommodification is a socio-political concept for exempting individuals from being dependent on the market (the fact that people can freely decide not to take part in labour if they deem it necessary, and they do not have to worry about losing their job, income or the standard of living).

The manifestation of decommodification can be considered the social policy instruments such as guaranteeing a minimum living wage or support in social-related occurrences (e.g. illness, old age, maternity, parenthood).

Decommodification does not have to be provided only by the state but also by the family, community, church, etc.

Another well-known typology is by Richard M. Titmuss⁸, which differentiates the welfare states between the following types: the residual, the industrial achievement performance and the institutional redistributive (Table 3).

Table 3 Titmuss's typology of the welfare state

Welfare state type	Residual	Industrial achievement performance	Institutional redistributive
principle of legitimacy	necessity	performance	equality
Clients	the poor	the working people and their families	citizens
The state's responsibility	minimum	optimum	complete
Distribution according to the needs	marginal	secondary	primary
Mandatory services	limited	extensive	exhaustive
Population covered with mandatory services	minority	majority	everyone
Level of benefits and public spending	low	medium	high
Income testing	primary	secondary	limited
Region	England	Continental Europe	Scandinavia

Source: Titmuss (1974)

The differentiation of welfare states by type may facilitate their more specific delineation; for it is clear that different systems of welfare state secure their citizens against the same risks (such as illness, injury, old age, unemployment, etc.), but they do so through different institutional structures, at varying degrees and through different methods of funding (Keller, 2011). However, the question

⁸ Richard Morris Titmuss (1907-1973) was a professor of social policy at the London School of Economics and Political Science from 1950 until his death. He was involved in the creation of social policy and administration both in the UK and internationally: he helped shape the British welfare state. He elaborated the "public welfare" structure into three basic categories that are currently generally accepted: 1. "social welfare" – social services

2. "fiscal welfare" – financial benefits paid from the state budget (family allowances)

3. "occupational welfare" – benefits paid through the employer (bereavement support)

The Role of Welfare State within Economic Policy: Theoretical Categorization

remains as to how the ongoing globalisation will “erase” these differences among the types of the welfare state.

IV. The Development of the Welfare State

The extension of the welfare state took place along with massive social reforms after World War II, while the 1950s and 1960s being traditionally referred to as the golden era of the welfare state. Western countries recorded economic growth, and full employment allowed to extend social services and benefits. With the onset of the oil crisis in the 1970s, however, the welfare state enters its crisis as well. There are new challenges to be faced by the state: the changing structure of the labour market and the family, there is increased employment of women on a larger scale, and new issues emerge, such as environmental protection and equal opportunities for men and women and for people of different races; new phenomena, such as ageing population and globalisation, also come to attention. The period from the late 1970s is therefore referred to as the era of belt-tightening, in which governments struggled with slow economic growth, rising unemployment, budget deficits and, in connection with the ageing population, also increasingly burdened budgets by the pension and the healthcare systems. This economic downturn, which was also amplified by the oil shocks, is symptomatic for the welfare state crisis that was caused both by declined government revenue, which had been funding the social measures, and by increased necessity of funds as a result of rising unemployment and the number of people in need of social assistance. At that time, the criticism of the welfare state, which had been led mainly ideologically by liberal economists (F. Hayek, M. Friedman, etc.) intensified, who blamed the welfare state for restricting the freedom of individuals and the free market. The criticism of the welfare state now primarily focused on (Potůček, 2010):

- rising costs of social measures, which hinder economic growth and which (due to mandatory spending) increase even if the economy stagnates or slumps,
- loss of efficiency of social spending as the institutions providing the functions of the welfare state are costly, cumbersome and work inefficiently and non-transparently,
- legitimacy of the welfare state, which is being questioned as a result of the citizens' loss of confidence in the state's ability to consistently fulfil the principles on which it was based,
- unfavourable demographic development in developed European countries, which even leads to reforms of insurance schemes based on solidarity between generations.

Nevertheless, there are still some tendencies in Europe to re-establish the welfare state on entirely new foundations; therefore, the debate on the welfare state mainly concerns the questions of how the welfare state should be, how it should work, how it should be organised and what its extent should be in order to meet the requirements for its rational and effective long-term functioning. The comparison of the original and the modern concepts of the welfare state, proposed by K. Aiginger,⁹ is shown in Table 4.

⁹Karl Aiginger (1948) is an Austrian economist; he is a professor at the Vienna University of Economics and an honorary professor at the University of Linz. Between 2005 and 2016, he was the head of the Austrian Institute of Economic Research (WIFO). j

Table 4 The original and the modern concepts of the welfare state

The original European model of the welfare state	Proposal of the new model of the reformed welfare state
Job security	Assistance with finding a new job
High degree of compensation	Incentives to accept a new job (return to workforce)
Structural changes in the existing (often large) companies	Creation of jobs in new businesses, services, "self-employment"
Comprehensive coverage of health care, pensions, education expenditure	Payment based on personal responsibility
Regulation of the labour & product market	Flexibility as the strategy of companies and the right of employees
Focus on stable, all-day work	Part-time work as a result of individual choice, governed by rules (legally regulated)

Source: Aiginger (2004)

V. Conclusion

The purpose of this article was to point out the genesis of the welfare state, its basic objectives, to list the most significant typology and its developmental stages. After years of rapid growth, the welfare state (the state of prosperity) has now entered a state of crisis and has become a subject of strong criticism. According to Keller (Keller 2011, p. 15), this is criticism coming from both the right and the left: Critics from the right-wing of the political spectrum "...blame the welfare state for having bound the market excessively, thereby preventing it from addressing the issues of the society by itself..." By contrast, critics from the left-wing of the political spectrum criticise the welfare state that "its socially-compromise measures have saved the system that is at the root of the creation of social inequalities and alienation..." Nevertheless, the disputes over the "nature" of the welfare state and its criticism take place both in the political and economic perspectives as well as the social and cultural ones.

The strongest criticism of the welfare state comes from the right: in terms of the economics, it is mainly the level of taxation that discourages entrepreneurs to conduct their business; on the other hand, its generous social security strips even the working people of any incentive to work. At the political level, the welfare state turns its citizens into passive consumers of its care. At the social level, there is a predominant view that an excess of social security distorts economic life. At the cultural level, there is a belief that the post-war development of industrialised countries has been influenced by the growth of consumption so much that we can speak about a society which is composed almost exclusively of the middle class only, which, however, takes extraordinary pride in the social status, influenced in the modern society particularly by education, income, property, social recognition of one's career, share of power, etc. This questions one of the fundamental premises of the welfare state – the idea of equal approach to all citizens and to all business entities.

Nevertheless, I believe that the future of the welfare state (after it has been reformed) is possible. However, it depends on how much it is possible to eliminate the risks arising as a consequence of an inadequate labour market, diminishing position and influence of the unstable, incoherent and often non-functioning family and the changing role and gradual weakening of the state's function in the society due to ongoing globalisation.

At least partially can we bring some optimism in these thoughts with Offe's¹⁰ famous witticism: *Capitalism cannot exist with, neither can it exist without, the welfare state.*

¹⁰ Claus Offe (1940) is a German left-wing political sociologist. He mainly pursues the possibilities of how democracy can function within a capitalist socio-economic system. He is now a lecturer at the private Hertie School of Governance in Berlin.

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