

PERSPECTIVE OF THE EUROPEAN SOCIAL MODEL

– FROM WELFARE TO WORKFARE

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Abstract

This article discusses the future of the European social model. Social systems are in the EU Member States very different, not only as a result of the previous historical development, but also of the economic level. Individual systems differ in their financing and also files of social benefits. All systems are, however, based on the principle of solidarity. Functioning of social protection systems is closely connected with employment. Active participation in the labor market is usually the main source of income of individual, but is also important for the public budget. In the long run will have strong impact demographic trends.

The first part of article contains the basic theoretical background – a typology of welfare states. The second part is focused on testing the hypothesis: Reduction in social expenditure is essential for the sustainability of the European social model. It is looking for answer to the question: Is the European welfare state perspective? Analysis of secondary data was used as the main method (especially the analysis of government spending, their development and structure). The article concludes with recommendations how to deal the indicated problem.

Key words: European social model, social protection, welfare state, social expenditure

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Introduction

Social systems are in the EU Member States very different. Their financing and also a set of benefits are various. However, all social systems have two basic objectives – employability and decommodification (i.e. the ability of individuals and households to maintain a socially acceptable standard of living without participation on the labour market), both in the short and long term (see Table 1).

Tab. 1: Objectives of social protection systems

Objectives	Short term	Long term
Decommodification	Temporary income to protect people from precarious situations (e.g. unemployment or disability benefit)	Continuation of income in the case of structural or long-term events. Retirement pensions not linked very much to past labour market record.
Employability	Re-employment, secondary status, fixed-term jobs, integration schemes in companies	Development of personal projects that are not necessarily immediately profitable in the short term on the labour market, skills development

Source: Vielle, Walthery (2003, p. 85).

European social protection systems provide compensation for loss of income or reduce it below the minimum limit (e.g. the living minimum). The most common reasons include job loss, illness, disability, advanced age, etc. But the risk situation can also occur as a consequence of large health care spending, or family expenses. All social protection systems also include instruments to help individuals who are unable to care for themselves.

Functioning of social protection systems is closely linked to employability. Active participation on the labour market is the main means of guarantee incomes, and therefore a decent standard of living. Employment (employability) is also a prerequisite for further functioning of the European social model, which is based on solidarity.

1 Typology of welfare state

There are different typologies of welfare states (also social models, European models) in the theory. For example, *Esping-Andersen (1990)* offers three types of welfare state – corporative/conservative, liberal and social democratic. This typology was later supplemented by another model – Mediterranean welfare state (*Ferrera, 1996*).

In this connection are very interesting studies of André Sapir. He deals not only with the classification of the European social models, but also with the influence of globalization on their further development (e.g. *Sapir, 1996*). Sapir uses four different models that cover four different areas – Nordic, Anglo-Saxon, Continental and Mediterranean. Differences among the European countries are relatively large but in individual models can be seen certain trends (see Table 2).

Tab. 2: The European social models – basic characteristics

Model	Basic characteristics	Country
Nordic	<p>The highest level of social protection expenditures, sophisticated social policy</p> <p>Large public service sector</p> <p>Active employment policy, flexicurity</p> <p>Strong labour unions ensure highly compressed wage structures (high wages but also high progressive taxation, egalitarian tendencies)</p> <p>High GDP redistribution, low incidence of poverty</p> <p>Environmental protection</p> <p>High employment, emphasis on equal opportunities</p> <p>Priority is educated population – a factor of competitiveness</p> <p><i>Negatives: expensive model – financed mainly by public funds (high tax burden reduces competitiveness), prerequisite for sustainability is high employment</i></p>	<p>Denmark</p> <p>Sweden</p> <p>Finland</p> <p>Netherlands</p>
Continental	<p>Relatively high social protection, generous social benefits, social benefits depend on previous income levels</p> <p>High tax burden and also high wage contributions to social insurance</p> <p>The principle of solidarity</p> <p>Passive employment policy</p> <p>High protection of workers (collective bargaining)</p> <p>Strong position of trade unions in society</p> <p>Significant state intervention into the economy</p> <p>Low risk of poverty rate</p> <p><i>Negatives: Expensive labour force reduces competitiveness, high social benefits and rigidities on labour market strengthen unemployment (trend towards long-term unemployment), prerequisite for sustainability is economic grow and high employment</i></p>	<p>Germany</p> <p>France</p> <p>Belgium</p> <p>Austria</p> <p>Luxembourg</p>
Anglo-Saxon	<p>Unified social security benefits at the level of guaranteed minimum</p> <p>Cash transfers are primarily oriented to people in working age</p> <p>Minimal protection of workers on the labour market – but more flexibility</p> <p>Various degrees of active employment policy are focused on helping to the most vulnerable groups; the aim is to shorten the period of receiving social benefits as much as possible</p> <p>High income inequality</p> <p>Minimal state intervention into the social sector, the role of the market as basic source of social security</p> <p>Responsibility of the individual for himself</p> <p><i>Negatives: low offer of public services, shortcomings in healthcare</i></p>	<p>United Kingdom</p> <p>Ireland</p>
Mediterranean	<p>Less sophisticated social security system</p> <p>Social protection expenditures and the level of social security system do not reach the continental model countries; low unemployment benefits</p> <p>Concentration social spending on old-age pensions and helping to the most vulnerable population groups</p> <p>Early retirements and exclusion of the elderly population segment from an active participation on the labour market</p> <p>Passive employment policy</p> <p>Higher income inequality</p> <p>High protection of employees against dismissal has a great tradition, but there are big regional differences (because protection rules are created on regional levels)</p> <p>The state relies on help of family</p>	<p>Italy</p> <p>Spain</p> <p>Greece</p> <p>Portugal</p>

	<p>High protection employees-men as breadwinners while other groups on the labour market suffer from high unemployment High female unemployment and preponderance irregular work among women Equal opportunities policy is marginal <i>Negatives: inefficient and inflexible system, new jobs are not created, high risk poverty, absence of effective instruments to reduce this risk</i></p>	
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Source: Own processing

From tablet 2 it is clear that the Continental model provides the greatest protection. The Anglo-Saxon model, which is based on the concept of a liberal market economy, is at the opposite pole. The Nordic model puts emphasize on unemployment benefits and the Mediterranean model emphasizes the protection of employees by strict legislation.

New EU member countries have many specifics (especially former Soviet bloc countries). In the literature sometimes are also used terms – the Central European Model (involving the Visegrad countries) and the Baltic model (involving the Baltic countries).

But it should be stressed that any typology is simplistic and only expresses the general tendencies.

2 Crisis of the European social model

The generous social protection systems were gradually formed in the European countries during the second half of last century. Later it began to use for these systems the name welfare state. The principle of solidarity is the main principle of the European welfare systems functioning. High social protection is made possible by extensive redistribution processes. These systems were formed in a time of rapid economic growth (50s until the beginning of the 70s).

In the first half of 70s, however, external economic environment began to gradually change and the labour markets were changing also. The *unemployment* rate exceeded 10%. Unemployment has become a permanent phenomenon on the European labour markets. Even in periods of economic growth it persisted slightly below to 10%. In the 80s it appeared another problem – *long-term unemployment*, with all the negative effects (economic and social) (about unemployment see e.g. *Pavelka 2011 and 2014*). Following 90s years brought many qualitative changes in the external environment – increasing competition and pressure on the quality of workforce above all. And also a new phenomenon was appeared – *disadvantaged population groups* on the labour market. Especially due to lack of education they have limited access on the labour market. Just these population groups are most affected by long-term and even persistent unemployment, which is a common cause of social exclusion and poverty.

In the early nineties the number of unemployed who received long-term social benefits increased. Doing so generous social benefits often reduced the motivation of returning to labour. Then the phenomenon called *social parasitism* (i.e. a lifestyle based on social benefits) created. Long-term unemployment is a big burden for public finance, causing loss of qualification and skills and reducing the overall potential of the society.

Therefore, the most European countries gradually began to reform their social systems in the second half of the 90s. The so-called *post welfare state* is still based on the principle of solidarity but the state guarantee for the protection of individual in difficult situations was reduced.

It should be also emphasized that since the 90s changes in the external environment have a significant impact on the behaviour of firms, their organizational system and management, etc. But these topics go beyond the scope of this article (closer to these topics see e.g. *Strítěský, 2013, Legnerová, 2014*).

In the first decade of the new century, the development of social systems was increasingly directed towards strengthening the individual's responsibility for his living situation. So-called coercive principle was newly implemented into social protection systems. This principle favours those unemployed who are actively seeking work. Entitlements to social benefits were tightened also. These changes are sometimes referred to as the transition from welfare to *workfare*.

Despite these measures, state expenditures on the social sector continue to growth. There is one topical question in connection with this fact: *What is the future of the European welfare state?* It shows that a necessary precondition for the sustainability of the European social system is the reduction of social expenditures. But the current trend is reversed and can be described (somewhat simplifying) as follows:

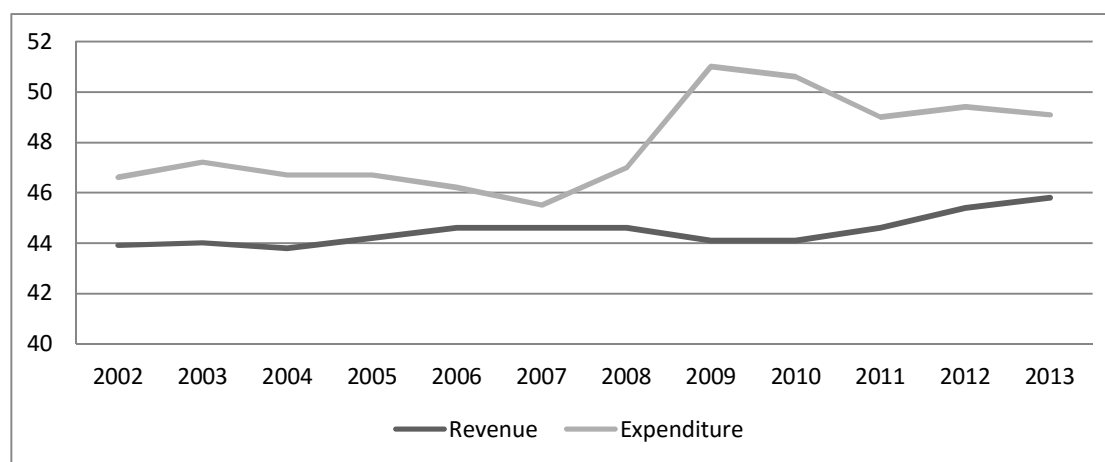
Big social expenditures → increasing contributions for employee and raising taxes → increasing costs of production and service provision → reducing the competitiveness of enterprises and the decrease in purchasing power of the population → the decrease of production and growing unemployment → increasing social expenditures...

In the EU countries, total government spending exceeds total revenues in the long term. Moreover, the growth of public expenditures and social expenditures of which is considerable. For example, Germany's total public expenditures amounted to slightly over

30% of GDP in the beginning of the 60s. But in the first decade of this millennium it was already over 45% of GDP and only social expenditures reached 25% of GDP!

Expenditures of the EU countries grew continuously during the whole past first decade. In 2013 expenditures of EU 27 amounted to 49.1% of GDP and revenues were 45.3% of GDP (in the euro area were expenditures even 49.8% and revenues 46.8% of GDP). Mismatch between expenditures and revenues deepened significantly in the years 2007 – 2009 as a consequence of the financial crisis and following recession (see Figure 1).

Fig. 1: Development of total expenditure and total revenue in the EU 27 (% of GDP)

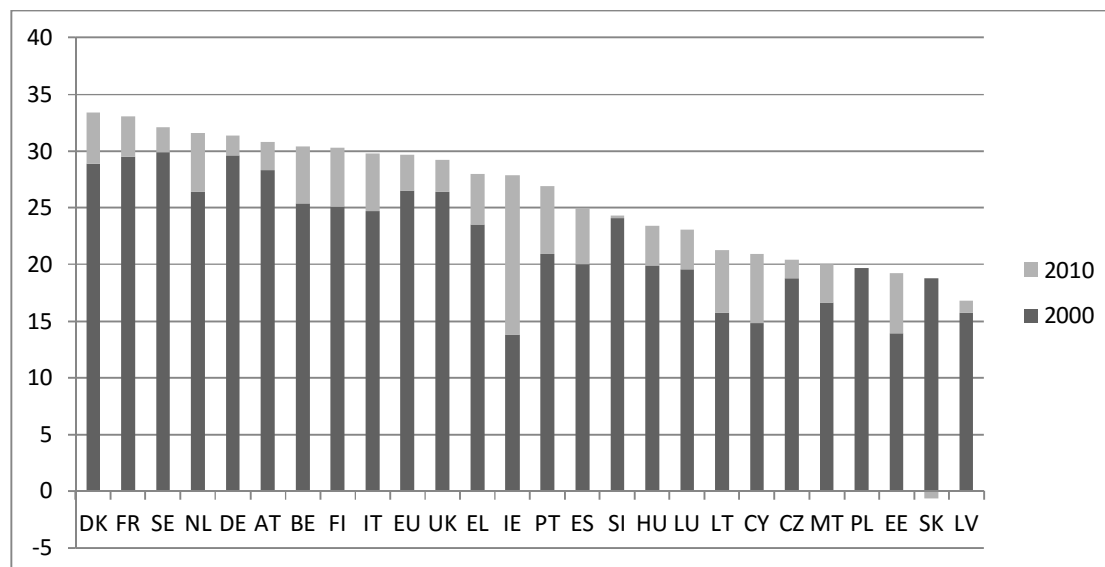


Source: Eurostat (2015-05-02), own processing

The important is not only quantity but also structure of public expenditures. For example, social expenditures reached 43.4% of total expenditures in the EU countries in 2011 (and even 46.8% in the euro area). The volume of social expenditures is different in each country. It depends especially on the economic level and the type of social system (Figure 2).

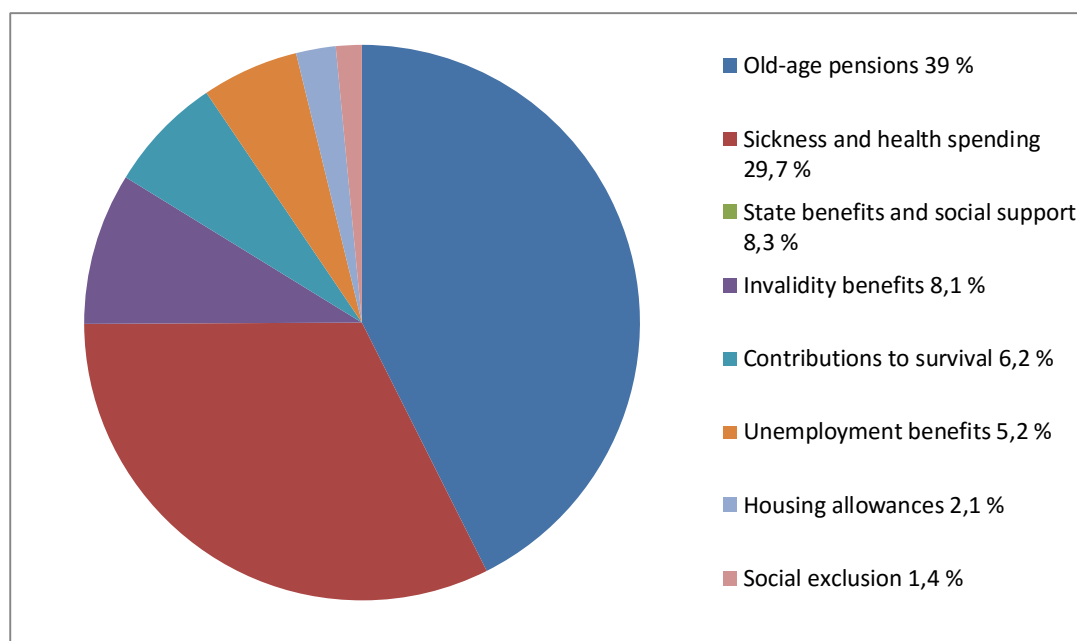
From Figure 2 it is clear, that social expenditures were increasing in almost all the EU countries in the years 2000 – 2010 (on average of 3.2%), except Poland, Slovenia and Slovakia. In Slovakia social expenditures even fell by 0.6%. On the other side, the biggest increase of social expenditures was in Ireland (14.1%). The consequences of the US financial crisis were also reflected in social expenditures. These earnings reached their minimum in 2007 (26.1% of GDP in EU 27) and conversely maximum in 2009 (29.6% of GDP); and they continue to remain above 29%.

Fig. 2: Total social expenditures in the EU 25 countries (comparison 2000 and 2010, % of GDP)



Source: Eurostat (2015-05-02), own processing

Fig. 3: Expenditures on various social benefits in EU 27 (2010)



Source: Eurostat (2015-05-02), own processing

The largest part of social expenditures includes old-age pensions. Demographical trends in Europe are characterized by aging populations, increasing life expectancy and a low

birth rate. Therefore, we can expect further increase in expenditures, especially on old-age pensions and health care. These benefits represent nearly 70% of total social expenditures and existing predictions indicate that the situation will deteriorate further. Statistical data show that 3.9 of people worked for one pensioner (average in EU 27) in 2008. And it is projected that only 1.9 of people will work for one pensioner in 2060.

The development of revenues and expenditures and their structure indicate that the European social model in its current form is unsustainable. Prerequisite for the sustainability of European welfare state is the realization of complex reforms.

There are mainly these reforms:

- of social security systems (from welfare to workfare),
- of pension systems (increasing the retirement age, a multi-pillar structure),
- of health systems (higher participation),
- of labour markets (realization of flexicurity concept).

Public finances reform and the optimal tax policy are also the important parts of the whole complex of the above mentioned measures.

The ultimate goal of reform steps should be to close the gap between revenues and expenditures of public budgets, to halt the indebtedness of countries and to ensure the sustainability of pension systems in the long term.

Conclusion

Social protection system is in each European country different. It depends on the economic level but also on the previous social development. Therefore, the aim of the EU is not to create “a common European social system”. However, all European countries are looking for an answer to the question: How to ensure the sustainability of social security system for future generations?

In the EU countries are public expenditures higher than revenues over the long term. This disproportion between revenues and expenditures was deepened in the years 2007 – 2009. The largest part of the expenditures includes social transfers and the most of which is redistributed to old-age pensions and to health care. Discrepancy between revenues and expenditures has serious consequences: indebtedness of countries, increasing contributions for employees and raising taxes, and ultimately a decrease in overall competitiveness.

In the basis of statistical data and the results of demographic projections can be inferred that the main prerequisite for the sustainability of the European welfare state (though in a much more economical form) is the realization interdependent reforms (see above). Reform steps are also the main condition for maintaining the competitiveness of the EU countries in the future period.

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