

Fault lines in europe's social market economy

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OUTLINE

1. Deep economic crises and welfare regime change
2. European welfare states in motion under the EMU/Single Market
3. Welfare performance at a glance
4. The “double bind” of the Euro crisis
5. In defense of affordable social investment (fully integrated in EU macroeconomic governance as common political purpose)

1. ECONOMIC CRISES AND WELFARE REGIME CHANGE



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THREE PERIODS OF EU-WELFARE STATE DEVELOPMENT

1. Great Depression (**financial** crisis)

Search for Stability – “embedded liberalism” 50/60

- social insurance buffers (Beveridge) as economic **stabilization** (Keynes) – ‘elective affinities’

(baby boom) in shadow EU market integration

2. Great Stagflation (**real** economy crisis)

Challenge of Flexibility – “institutional liberalisation”

80/90 – hard currency/lean state (**re-)allocation** (OECD)

(last quarter baby boom enter labour market) – *EMU*

3. Great Recession (**financial** crisis)

Resilience Imperative – *ex ante* life course “stock” and “flow” **investment** with universal minimum income “buffers” (in times of accelerated ageing)

IRREVERSIBLE FORCES IN THE BACKGROUND

1. Accelerated economic internationalization
2. Post-industrial labour markets, family and gender role transformation (rise of 'new' social risks)
3. Demographic ageing in context of staying power of 'old' social protection commitments/clienteles
4. Intensified European integration (based on EMU fiscal consolidation/hard currency regime)
5. Unanticipated economic and social divergencies of EMU and Europe's tardy crisis response record
6. But: robust stabilizers and hyperactive ECB
7. The rise of national welfare chauvinism in hard times

3. WELFARE STATES IN MOTION UNDER SINGLE MARKET/EMU



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big cumulative welfare transformation in shadow of macro supply-side monetarism

- Cost-competitive wage moderation
- Selective sobering up social insurance (no “dismantling”)
- Activation conditionality and active labour market policy
- Labour market de-segmentation (“flexicurity”)
- Minimum income protection (more universalism)
- Multi-pillar pension reform (life expectancy factored in)
- Dual earner family support (female employment and ECEC)
- Human capital (re-)discovered as ‘life course buffer’
- Parametric health care reforms with exceptions
- Financial hybridisation (from social insurance to general taxation and private contribution financing) with upward spending convergence in Southern and NMS
- Governance change (aligning benefits and services) requires positive coordination/strong institutional capacities

CONTINGENT CONVERGENCE

Nordic (fiscally robust dual earner model)

- > Universal income security, family policy, and equal opportunity education
- > Strong social support high employment participation for all

Continental (beyond “welfare without work” trap)

- > Sobering social insurance benefits, shift to tax financing, activation
- > Slow on support for working families/flexicurity – *dualization risks under depressed domestic demand*

Mediterranean (continued inertia and fragmentation)

- > Strict labour market regulation, pension-heavy, underdeveloped safety nets, deficient skill formation systems
- > Family compensates (poorly) for deficient formal care provision
- > Weak (clientelist) public administration/institutional fragmentation
- > But: pension reform through social pacts on entry EMU

Anglo-Irish (genuine social investment turn not enough)

- > Benefit residualisation and more targeting in shadow finance-led growth
- > Social investment progress, but *unable to turn tide of inequality*

UNANTICIPATED WELFARE DIVERGENCE UNDER EMU

Nordic (fiscally robust dual earner model)

- > Social investments stand the test of the crisis (with benefit normalization)

Continental (beyond “welfare without work” trap)

- > *Germany* and *France* gradual endorsement of social investment, but depressed demand reinforces dualisation, frustrating service sector (job) growth
- > *Netherlands* Procyclical social investment in ‘good’ and retrenchment in ‘hard’ times

Anglo-Irish (genuine social investment not enough to fight inequality)

- > Procyclical social investment in ‘good’ and retrenchment in ‘hard’ times – private debt overhang resulting from deep financialization

Mediterranean (regressive institutional fragmentation/reform fatigue)

- > Low interest rates EMU trigger reform standstill in *Greece* and *Italy* (public debt overhang) and house price bubbles in *Spain* (from private to public debt overhang) leading to sovereign debt crises requiring deep internal devaluations (accelerated by EMU design faults)

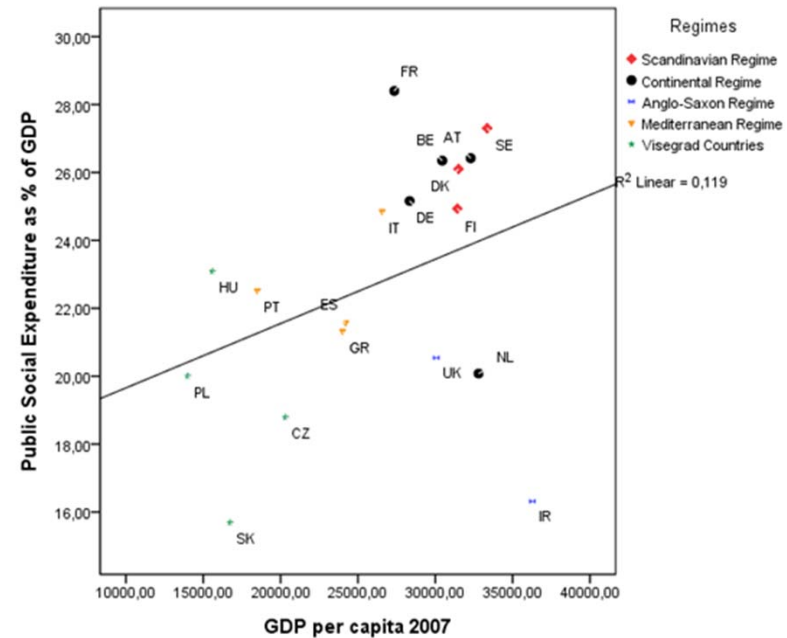
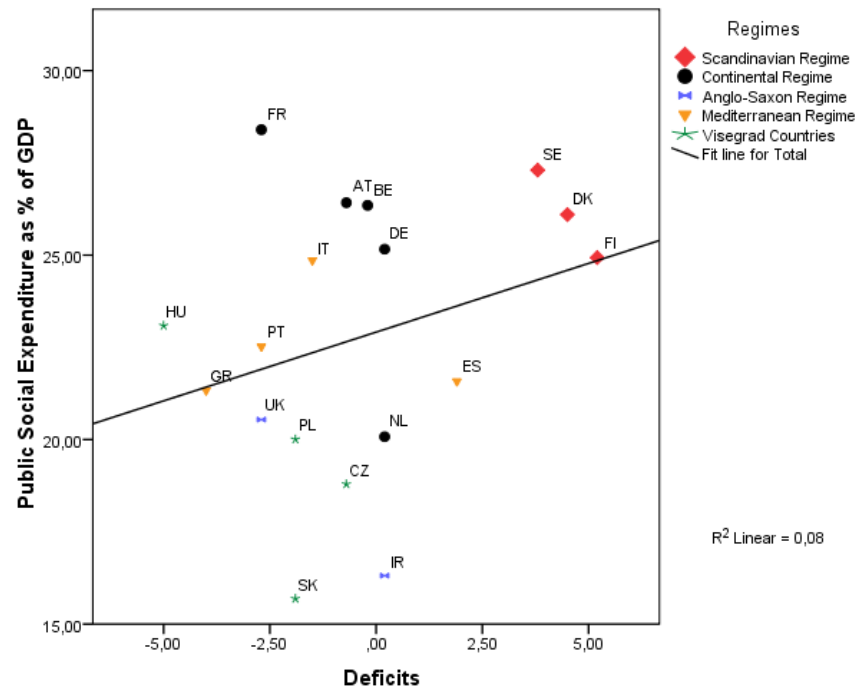
4. WELFARE PERFORMANCE AT A GLANCE



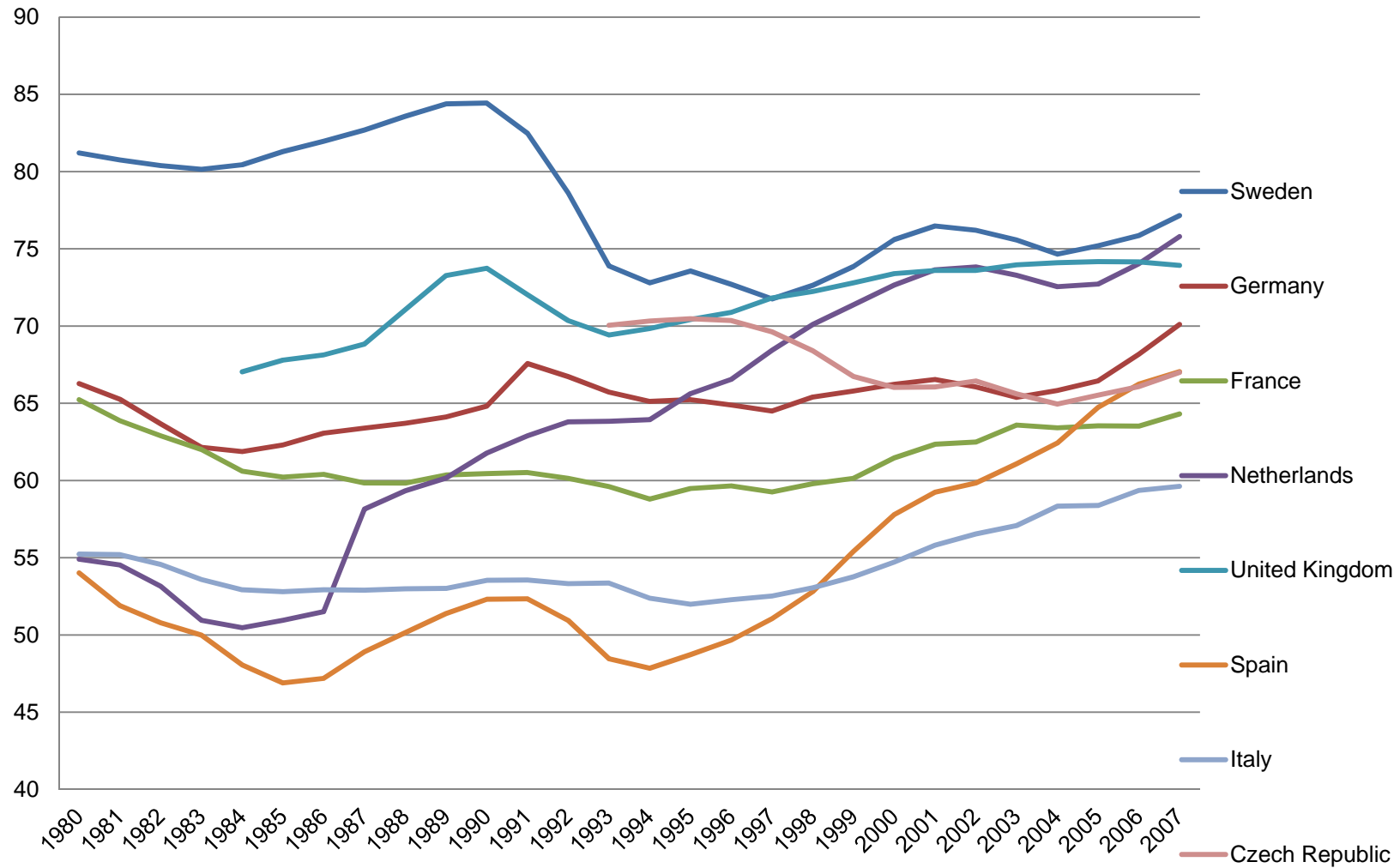
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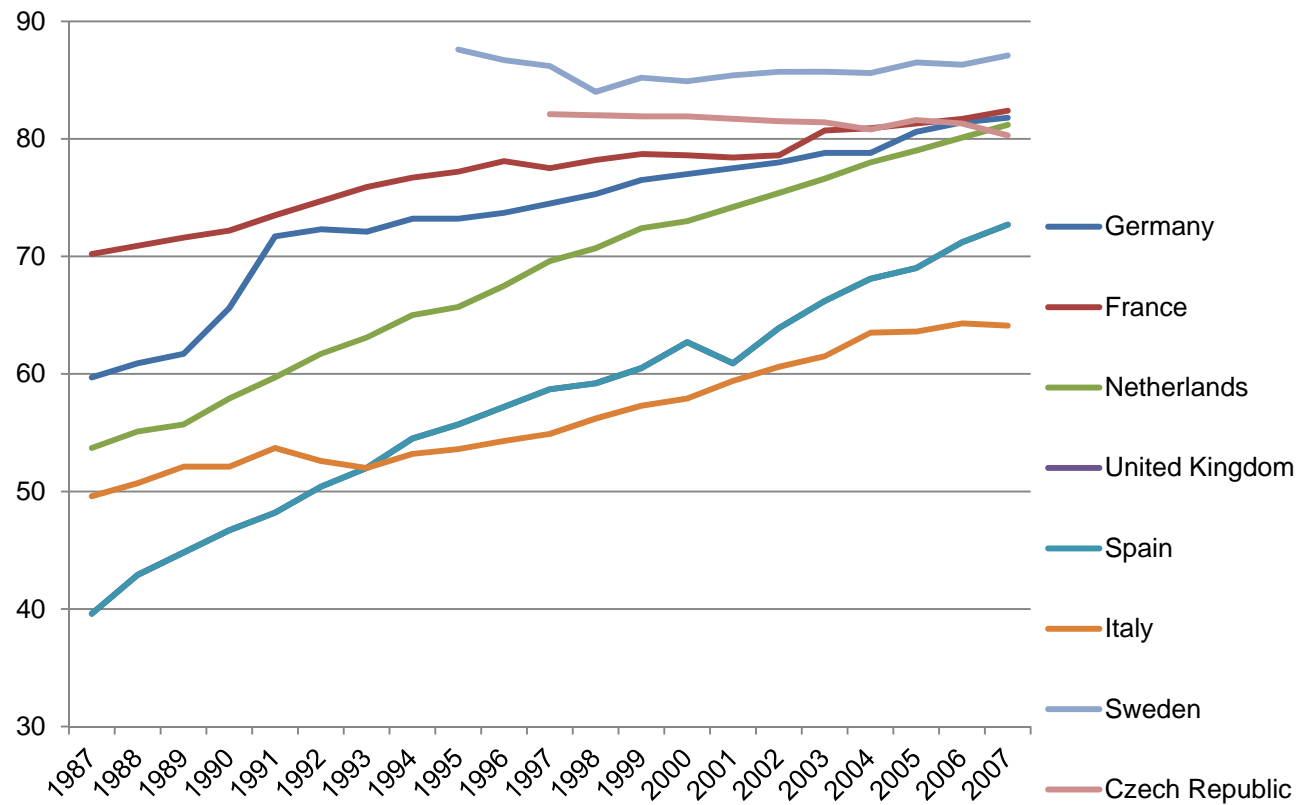
PUBLIC SOCIAL SPENDING, GDP AND DEFICIT/SURPLUS



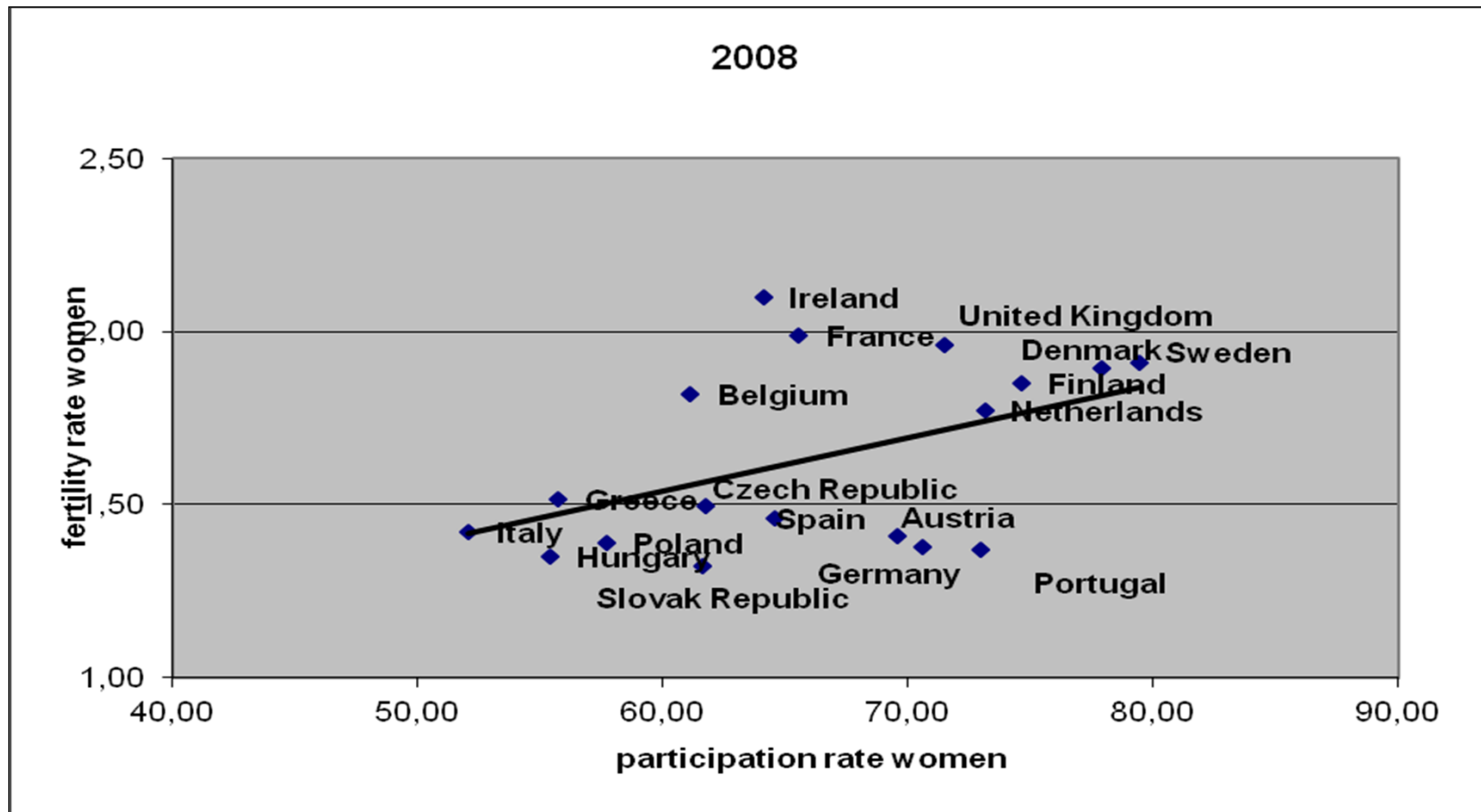
EMPLOYMENT/POPULATION RATIO



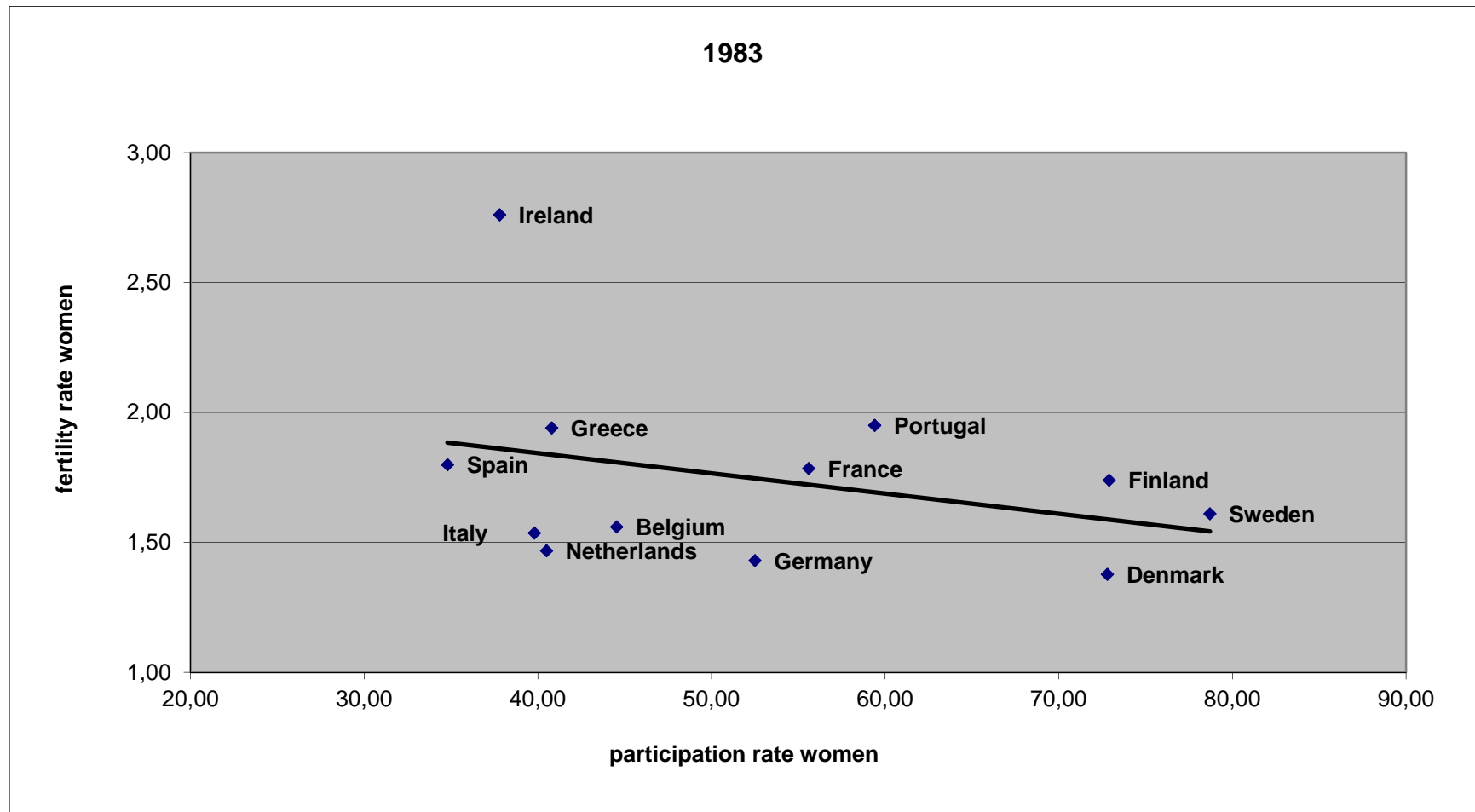
FEMALE ACTIVITY RATE AGED 25-54 FROM 1987 TO 2007



FEMALE EMPLOYMENT AND FERTILITY 2008

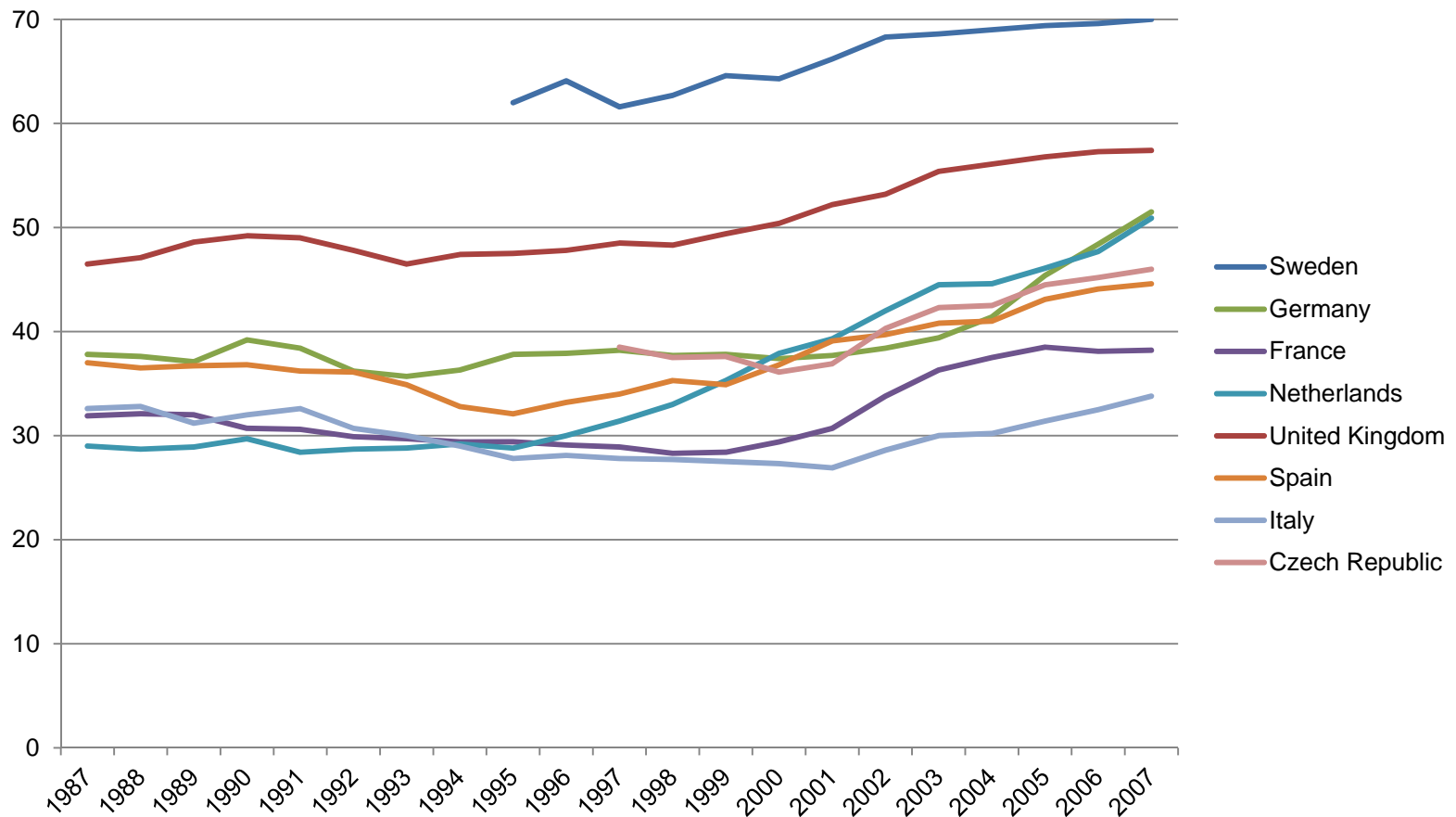


FEMALE EMPLOYMENT AND FERTILITY 1983

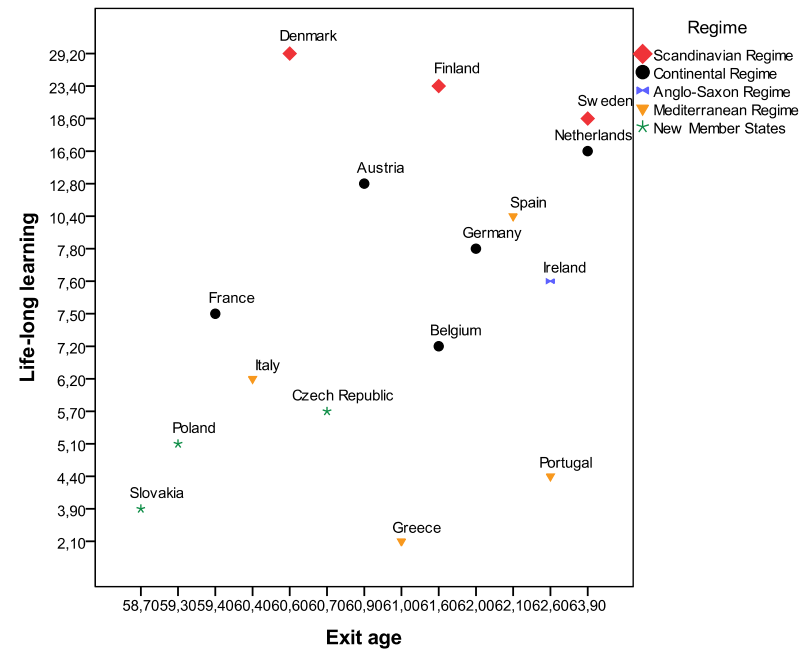
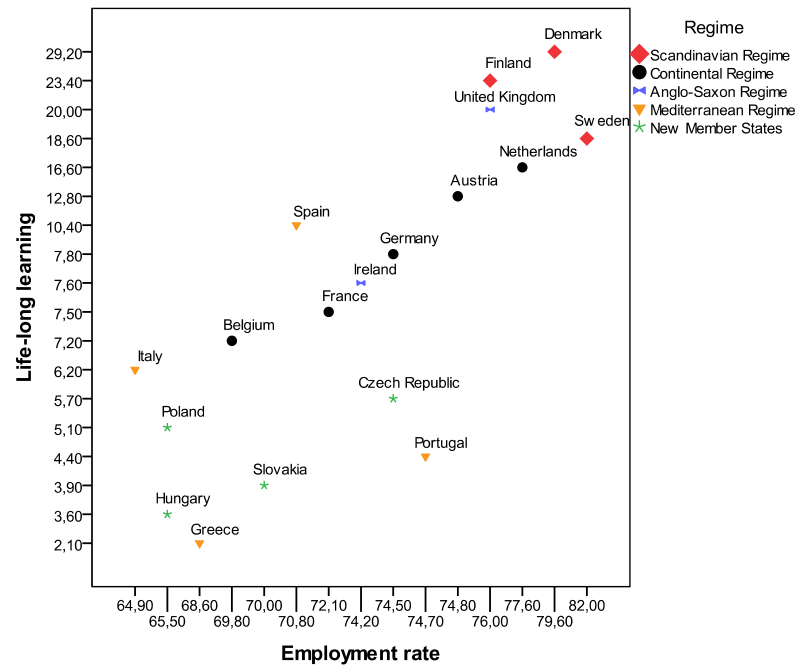


EMPLOYMENT RATE OF OLDER WORKERS

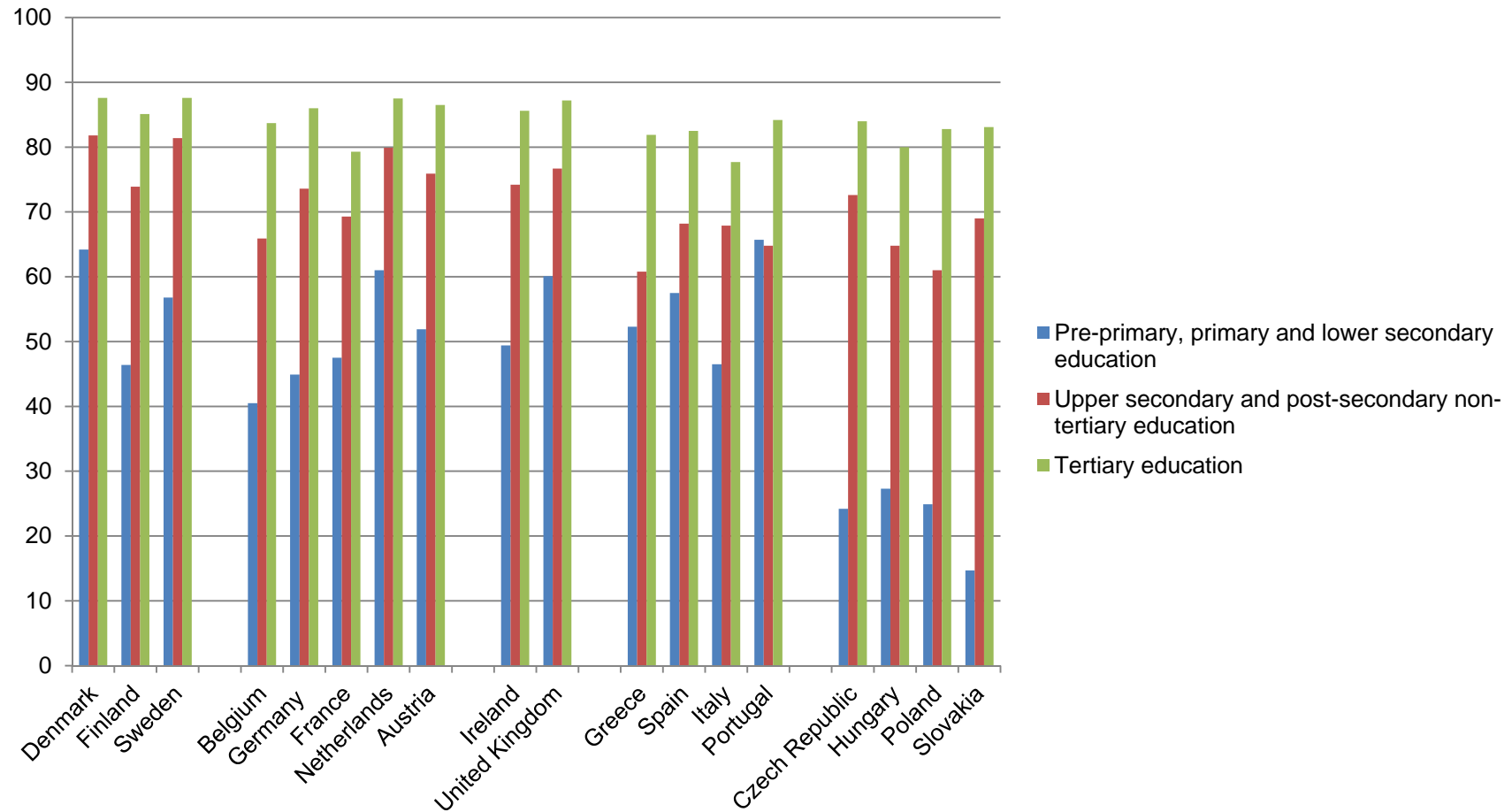
Employment rate of older workers (55-64)



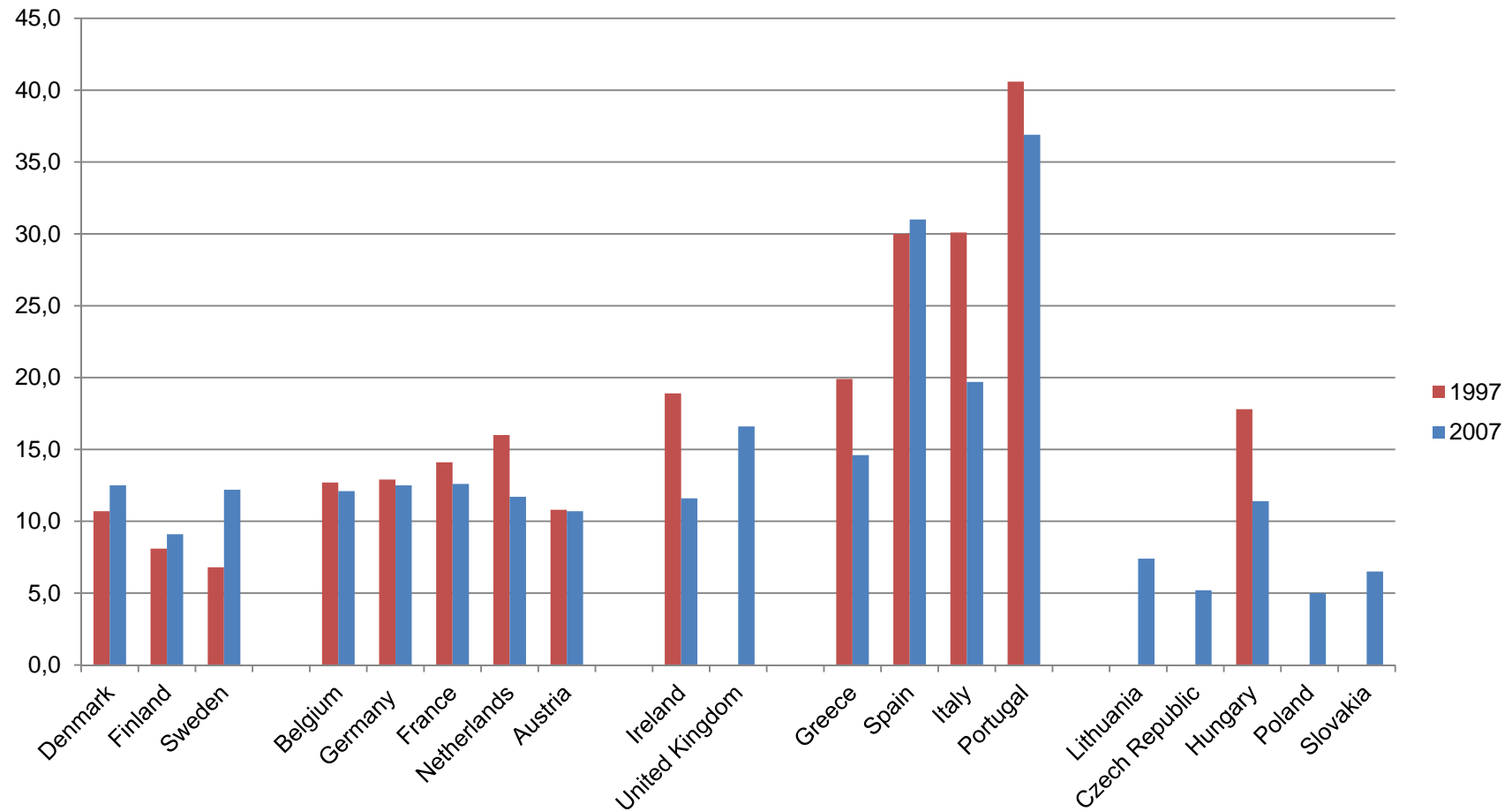
EMPLOYMENT, LIFE LONG LEARNING AND EXIT AGE



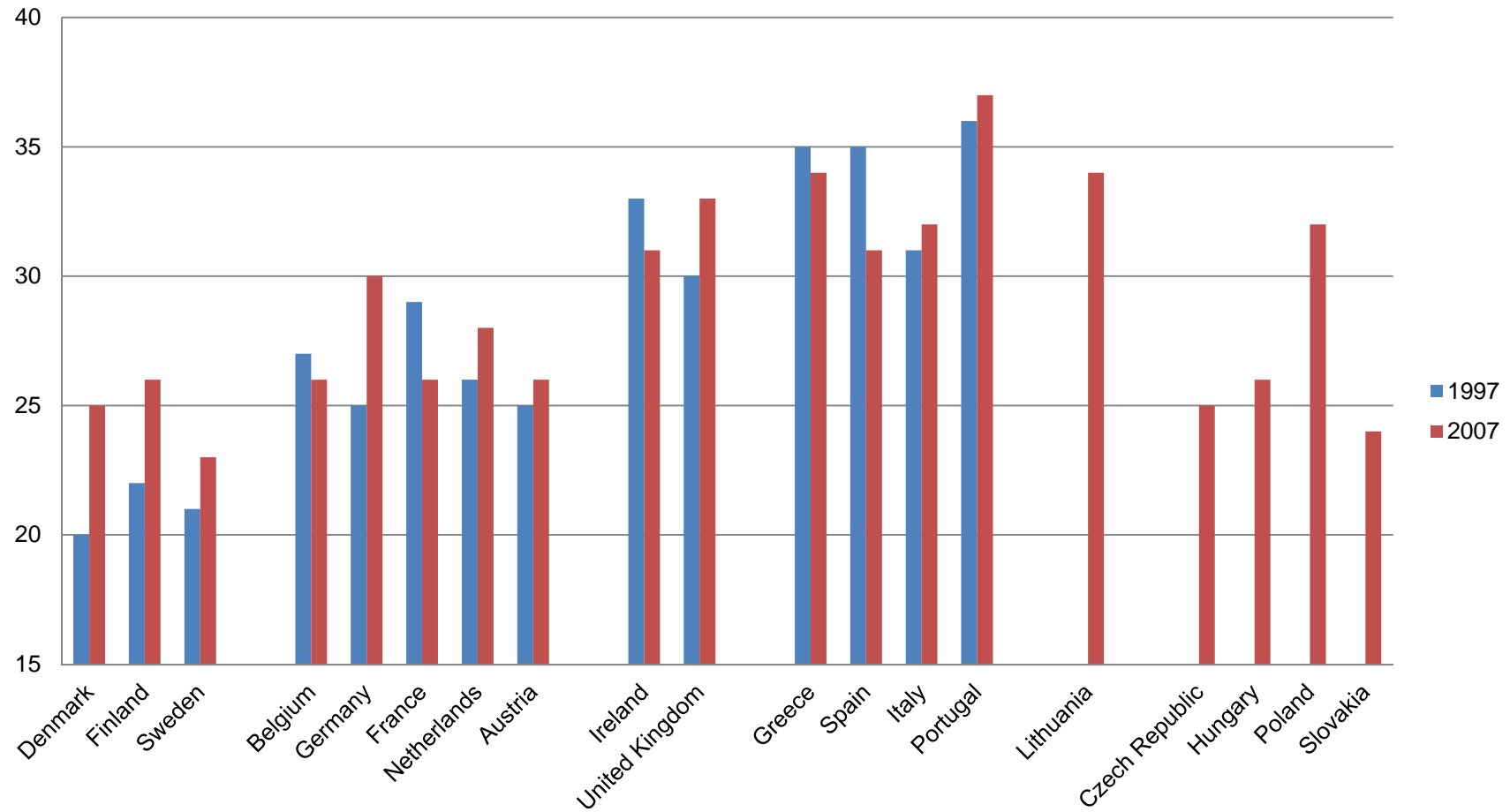
EMPLOYMENT BY LEVEL OF EDUCATION (2007)



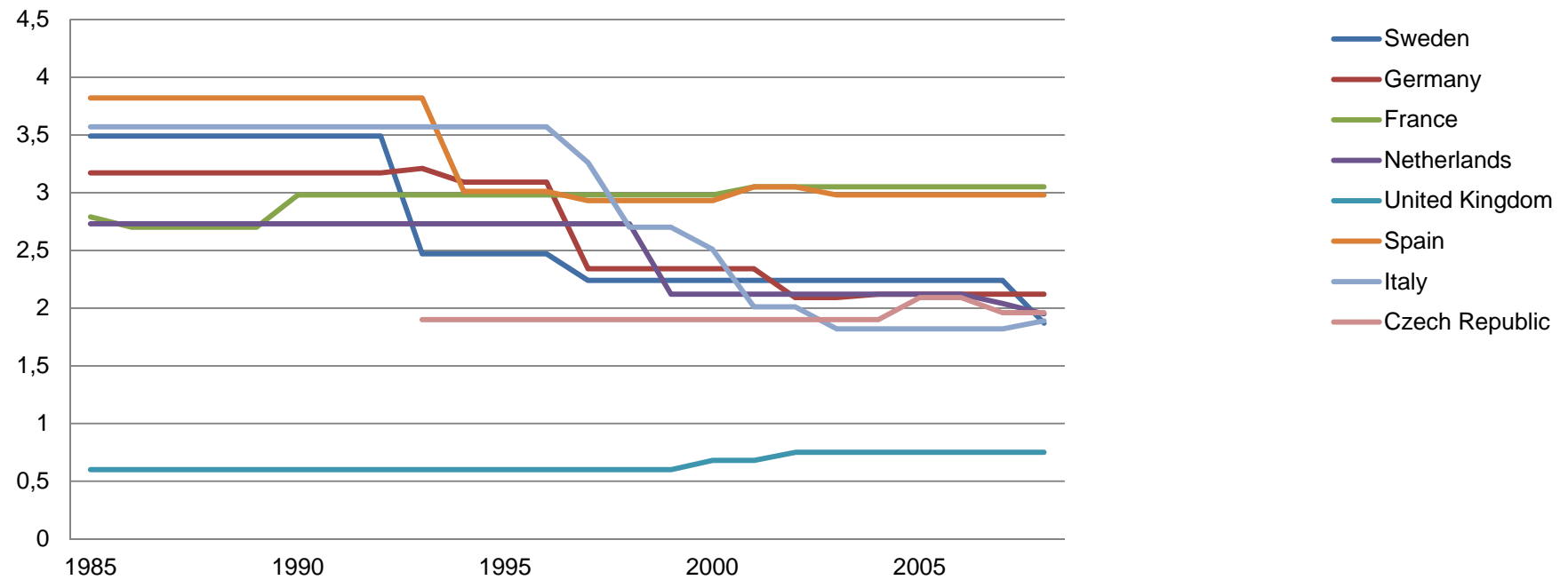
EARLY SCHOOL LEAVERS



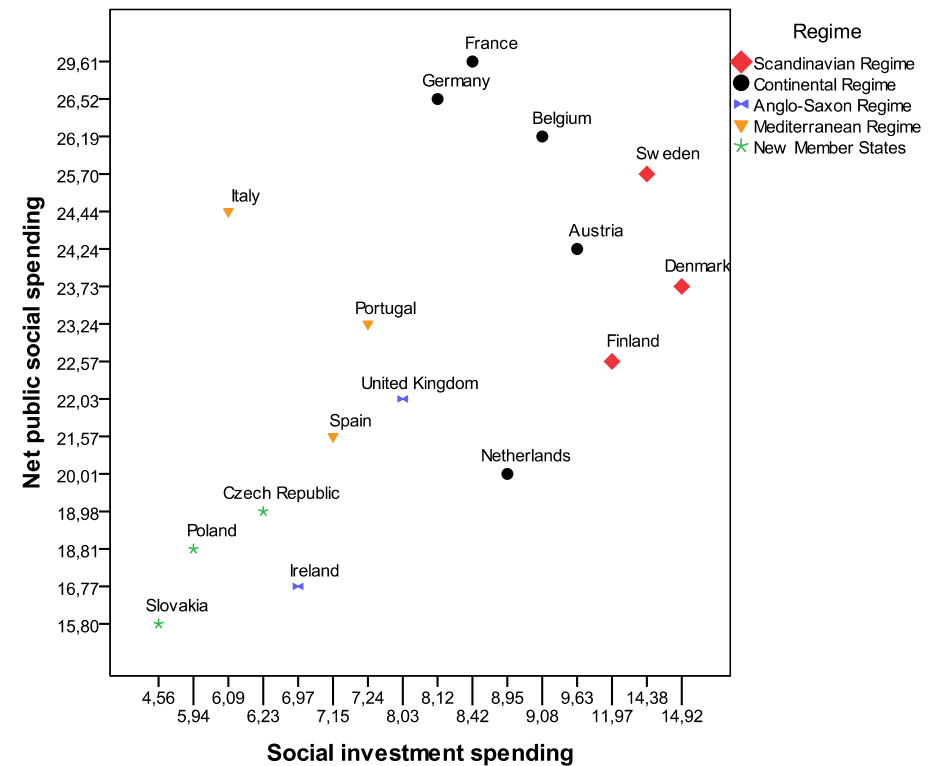
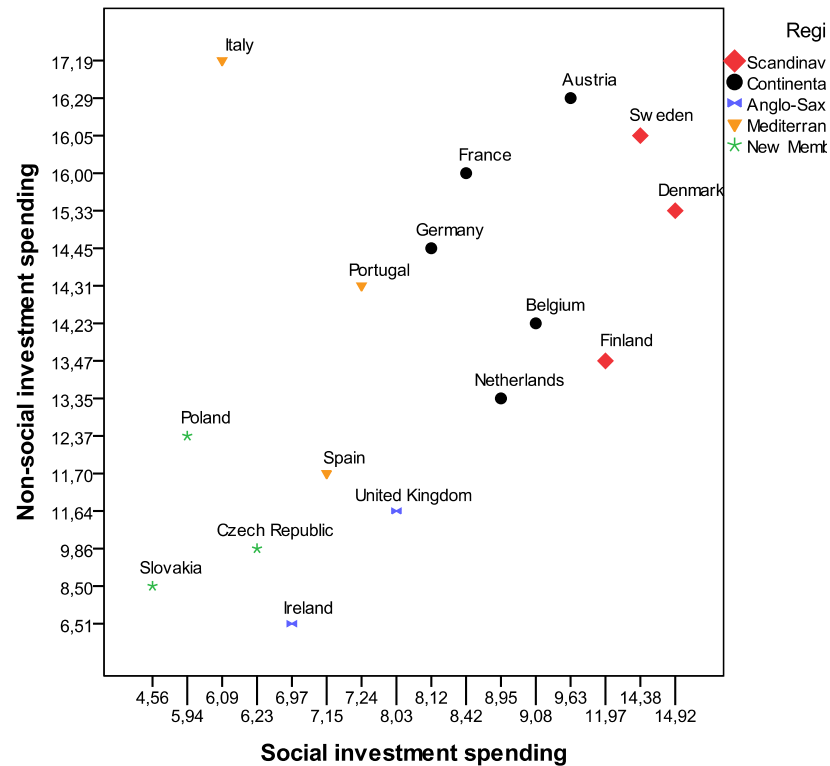
GINI COEFFICIENT



EMPLOYMENT PROTECTION STRICTNESS (OECD)



COMPENSATING AND CAPACITATING SOCIAL SPENDING



KEY TRENDS PRECEDING CRISIS

- Upward employment convergence
- At-risk-of-poverty standstill – erosion redistributive capacity of the welfare state?
- Polarization work-rich – work-poor households
- Shift towards **social promotion** (ALMP, child-benefits, childcare services, parental leave and life long learning) does **not** “crowd out” **social protection**. Social services can be equally redistributive as transfers
- Questioning trade-off equity/efficiency, jobs and equality, Baumol cost disease

Employment centered (Lisbon) social reform a success, but growing inadequacy of (passive) social protection for adults and children living in low work-intensity households

LESSONS IN WELFARE RECALIBRATION

Not every defense of traditional arrangements is solidarity-preserving (Germany/France): **dualization**

Not every move toward liberalization is solidarity-compromising. Scandinavian active and unsegmented/family friendly welfare regimes outperform others. Also true also for NL and Third Way (Britain): **embedded flexibilization** (Thelen)

Worrying social policy legacies in South exposed (pension bias/labor market segmentation/familialism) reinforced by design mistakes in E(M)U governance architecture

5. *DOUBLE BIND* OF EURO CRISIS



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CRISIS WAKE-UP CALL FOR EU ECONOMIC GOVERNANCE AND NATIONAL WELFARE PROVISION

- ... dramatic (youth) unemployment/rising poverty
- ... continuing fragile global economic and financial situation
- ... asymmetric competitiveness and social divergencies threatening macro-economic viability EMU
- ... front-loading austerity undermines fiscal consolidation in times of public contraction and private deleveraging
- ... spectre of “lost decade” for Europe (long depression in the face of high cost ageing – EU in question)

Four fault lines (unintended consequences)

- **Functional:** Deep(ening) economic and social imbalances (because faulty design EMU)
- **Institutional:** Fixing (17 member) EMU as core priority against primacy (28 member) Single Market (treaty constraints and ambiguities)
- **Political:** rise of economic and welfare nationalism undermining legitimacy European solutions
- **Temporal:** Leadership procrastination deepening imbalances and political economic nationalism, further narrowing the scope for supranational crisis management

THREE STAGES OF CRISIS MANAGEMENT

2008 Firebrigade Keynesianism (with flanking social investment measures) to shore up the financial system

2010 Turn to intrusive austerity (Greek sovereign debt crisis) provoking euro crisis; 2011 Six-Pack/Two Pack

- PERIOD OF TRANSITION –

2012 austerity reaching economic, social and political **limits**. Hyperactive ECB/recognition of trade imbalances and design faults in EMU. New European Semester governance architecture (wider array of real economy indicators: private debt, current account balance, etc.)

Socializing EMU and European Semester: SIP, more social objectives in AGS/NRP/CSR, social scoreboard and auxiliary indicators. Enhanced status/role EPM/SPPM

	Social retrenchment <i>Axiomatic-deductive</i>	Social investment <i>Empirical-inductive</i>
Policy problem	One-size-fits-all cost containment	Tailormade revenue raising
Core policy imperative	Engineer “risk shift” to the private spheres / deregulation	Maximize employment in open economy
Policy theory	Trade-off ‘equity and efficiency’ “crowding out” private economic initiative (capital market efficient) because welfare moral hazard	“crowding in” social investment economic synergies (participation/skill across life course, inequality can damage growth (devil in detail)
Policy instruments	Targeted minimum poverty provision <i>ex post</i> (inequality inevitable and fair in new global economy). No concern for finance moral hazard	Mitigate life cycle contingencies <i>ex ante</i> (gender/family/children) Optimize life chances (through ‘stock’, ‘flow’ and over the life course) with strong safety net ‘buffers’
Macro policy	Fiscal (procyclical) consolidation SGP, inflation targeting EMU, Six Pack, Two Pack, Fiscal Compact, Troika, MoU.	Macroeconomic stabilization more than fighting inflation (sailing - anti-cyclically - against wind) focus on long term (inclusive and sustainable) growth
Institutional capacities Positive/negative State theory	Take out market barriers through NPM (contracting out) while disciplining low-trust, rent-seeking ‘distributive coalitions’ (especially trade unions) Baumol disease	Institutions as both <i>constraints</i> and <i>resources</i> (high-trust public regarding social partnerships), ‘productive coalitions’ and key quality public service professionals
Political discourse	TINA (“European social model is dead” – Mario Draghi 2012)	Caring and capacitating solidarity (Social Investment Package 2013)

6. IN DEFENSE OF AFFORDABLE SOCIAL INVESTMENT



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BEYOND THE MAGINOT LINE

Policy drift under austerity **not only option** on menu :

- not much evidence insider-biased pension status quo: fundamental inter-generational contract change
- real new social risk policy innovation: significant spending increases on active labor market, family and child policy (despite seemingly absent coherent coalitions)

Why does welfare recalibration take place under austerity?

- Comparative welfare state analysis class-biased in origin
- Changing – converging – family aspirations (**politics of new welfare**) founded in deep social contract legacy:
- decent work for everyone and ‘dual earner’ capacitating care provision in reciprocity!

LABOR PRODUCTIVITY (“STOCK”) AND (“BUFFER”) DURABLE EMPLOYMENT (“FLOW”) LIFE COURSE

Without a magic growth driver, sustainable employment best guarantee for growth and social cohesion in ageing European societies: social investments »**crowd in**« (high family-sensitive [flexicure] human capital utilization) as opposed to »**crowding out**« private economic initiative

Institutional complementarities:

- > Human capital investment push
- > Active Labour Market Policies and Activation
- > Child-centered investment strategy
- > Reconciling work and family life
- > Later and flexible retirement (with permanent adult education)
- > Migration (circular) and integration through education and participation
- > Minimum income support ‘buffers’ aligned to *capacitating* social service provision
- > Health care: saving lives and costs (quality monitoring)

‘New’ social risk recalibration anathema to anti-EU ‘old’
risk national **welfare chauvinism** and **EMU theory**

RECONCEIVING SOCIAL (INVESTMENT) DIMENSION EMU

EU democracies **are** welfare states (like all OECD countries)

Without real (social) convergence EMU unsustainable: existential interest to *address social asymmetries* to forge economic stabilization
Social investment (because of positive macroeconomic effects) must be prioritized and *anchored* in *EU macroeconomic and budgetary governance* and financial regulation to support durable and balanced growth in the real economy, thereby achieving long-term symmetry

Fiscal discipline must serve to deliver on social investment, i.e. by collective action and supranational instruments (Eurobonds and Project Funds) – in “*conditional reciprocity*” over realistic social (investment) reforms with wider fiscal monitoring (education equal to pensions)

Because of ageing, *human capital cannot be allowed to go to waste* through semi-permanent inactivity (as was the case in the 80s and 90s)

Social investment **can** be politically embedded in an attractive normative conception of a more “**caring**” *Europe2020 Strategy*

Welfare recalibration time consuming (no “quick fixes”!) but a reality

Default policy unlearning most difficult part of social learning!

SOCIAL INVESTMENT PACT FOR EUROZONE

- Centralized fiscal capacity to reduce pressure for exploiting social policy as adjustment variable against asymmetric shocks (Eurobonds/Eurozone unemployment insurance) – stabilization against “bad equilibria”
- Mobility enhancement, mobility and labour market “flow” improvements based on social investment policy synergies – allocation
- Conditional social investment reform reciprocity (project bonds) to improve adjustment in socially friendly way (strong focus on young cohorts) – investment
- Much improved ‘soft’ policy coordination to reconceive upward convergence (social dimension central semester)
- EU social market minimum standards

NO *POLICY CHANGE* WITHOUT *POLITICAL CHANGE* (IMPORTANCE OF THE 2014 EUROPEAN ELECTIONS)

- Mainstream parties challenged by xenophobic right and radical left
- Easy temptation ‘sovereignty paradox’ (politically risky)
- Social change making it harder to support traditional redistributive welfare provision (weakened class basis)
- Rampant neoliberalism equally unpopular (to stay)
- Differentiated social investment lacking in coherent social support basis? Nonetheless: massive convergence in aspirations in family life and decent jobs!
- Making an ***inclusive caring and capacitating family oriented welfare promise*** (with considerable economic returns) an attractive ticket for European political center!

THANK YOU



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SOCIAL INVESTMENT TENSIONS AND SYNERGIES

