WHAT WELFARE STATE DEVELOPMENT CAN BE EXPECTED IN THE FUTURE?

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Abstract

Since the past century, the European countries have gone through major social reforms. From the end of the 19th century, Europe has been one of the most dynamically developing continents in terms of social risk protection. The objective of the welfare state and the reason for its establishment was to protect families and individuals against social risks. Traditionally, this was an adequate income to cover basic needs in times of sickness, old age, disability etc. However, new risks started being discussed at the end of the 70s last century. The most significant problems appeared to be changes in the labour market and lack of funds to cover all risks including the unemployment. The aim of the submitted paper is to evaluate the welfare state development in the EU Member States in the light of the labour market changes.

Key words: welfare state, social expenditure, unemployment, digitisation of production

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Introduction

Over more than a hundred years, the welfare state has gone through several stages, starting with the first systems of insurance companies through the "golden era" of the 1960s to the current welfare state crisis. The development of the welfare state in individual European countries varied with different levels of insurance coverage for potential risks. The first compulsory insurance concerned occupational accidents and was introduced in several European countries before the end of the 19th century. On the contrary, unemployment insurance was often voluntary and in most cases became compulsory after Word War I.

The period of welfare state expansion (1962 – 1973), sometimes also called "the welfare state golden era", is characterised by growing labour productivity and related rising living standard of all social classes. In some Western European countries, high employment rate reached up to almost full employment rate. Thanks to sufficient funds, the number of social benefits increased along with their amounts and along with the increase of share of social expenditures of the GDP (Vaughan -Whitehead, 2015).

During the 70s last century (hereafter: "the 70s"), the welfare state started gradually stagnating. The main reason was progressive implementation of labour - saving technologies, information and communication technologies (hereafter: "ICT") which have changed economic activity, the structure of production and afterwards the character and forms of work. The accompanying phenomenon of these changes on the labour market was growing uncertainty and unemployment (Spieker, 1996). The economic growth in mid-70's slumped to lower figures, whereas some countries had reached up to 5 % annual GDP increase in the previous decades. The European countries came up against great pressures of rising social expenditure related mainly to the rising unemployment and other benefits, such as benefits in need. Given the setup of the social systems in the past and the very limited possibilities of restricting some of the social expenditure, i.e. in health system, education, social services, the increasing public expenditure share was accompanied by public debt. As a result of these as well as other factors such as the population aging, the welfare states started struggling with the crisis which principally persists to the date (Vaughan -Whitehead, 2015).

Furthermore, next changes on labour market are expected in the concept "Industry 4.0". The term means the vision of increasing digitisation of production based on the Internet of Things, Data and Services (Plattform Industrie 4.0, 2016). The concept outlines the vision of the complete networking of all production processes and the increased use of robots, which control themselves. The robots are coming and if the forecasts are correct, it can mean the extinction for millions of jobs (Frey, 2013).

The original welfare state was built on a well - functioning labour market with sufficient jobs creation, but new social risks emerged in last decades. It is clear that given labour market changes and population aging have been gradually changing the view of the welfare state in Europe. We agree, that the European countries will have to make a crucial decision, whether the European social model, which has played a key role in maintaining social contract in the past, is sustainable even in the future.

1 Data and Methods Used

The objective of this paper is to evaluate the EU Member States social expenditure dynamics as well as to identify their current fiscal trend, which requires an analysis of social expenditure in a time series of the European countries. Therefore, the paper is based on the ESSPROS database on social protection (EUROSTAT, 2019).

However, we also need to identify the main directions affecting the fiscal pressures in European social policies. From that reason the paper is centred around the opinions of leading European experts on labour market and welfare state trends and around EU strategic documents.

2 What affects the changing requirements for the welfare state?

It is necessary to identify main reasons affecting welfare state requirements. We have taken into our consideration primarily labour market risks, such as the unemployment and specially the long term unemployment. Since the 70´s labour market risks have begun to rise due to changes in dependence between economic growth on one hand and the volume of workforce on the other hand.

Industrial era dominated in Europe since the second half of the 19th century. However, at the beginning of the 70´s the structure of production, character and forms of work being changing with introduction of labour-saving technologies. Relations between economic growth and jobs creation has weakened. A side effect of increasing labour productivity has become unemployment which has been a commonly discussed problem in the EU Member States.

Labour-saving technologies weakened jobs creation. Owing to that, the world of work changed dramatically, free workforce started to pass from the industry to the service sector. Gradually the whole structure of the economy has changed, services are becoming dominant namely both in the share in GDP and in employment. With the time production of material property stopped being crucial for the economic growth, but production of knowledge and algorithms and their application has became the most important. This caused a change in the relation between the capital and labour.

If there had been a relation of mutual dependence between economic growth and volume and quality of workforce since the beginning of industrial era, in the last decades this interconnection ceases to be significant. The relation between economic growth and labour was separated which can be proved with the fact that the economic growth in the last decades of the 20th century started being reached even when the number of vacancies stagnated or increased very slowly (Baumann, 1998). Already in the year 1969, the economic theory accepted a concept of natural unemployment rate where unemployment was considered being a natural phenomenon. The concept supposed the existence of the lowest sustainable unemployment rate in long-term corresponding with a potential product. Milton Friedman by the criticism of Philips curve coming from mutual dependence of unemployment and inflation based on the premise that unemployment can be reduced versus higher inflation, stated that the dependence is true only for a short-term period. In the long term, the Philips curve is stabilised at a level of natural unemployment corresponding with a potential product. Efforts to reduce the natural unemployment rate by means of demand oriented economic policy of the government or the Central Bank will lead to the rise in inflation only (Friedman, 1998). In the course of time it seems that the natural rate of unemployment keeps increasing.

Currently, labour market future is discussed. The trigger of this discourse was the German concept Industry 4.0 (Plattform Industrie 4.0, 2016), which was first introduced in 2011 by the German Industry-Science Research Alliance and followed by the concept Work 4.0 (Green Paper Work 4.0, 2016). In 2012 the German Working Group on Industry 4.0 presented a set of recommendations to the German federal government (Bullinger, 2014).

Industry 4.0 is the vision of increasing digitisation of production. The concept describes how the Internet of Things, Data and Services will change production, logistics and work processes in the future. The changes brought about by networking based on the Internet of Things, Data and Services have a greater impact than for industrial production alone because they affect not only economies, but also the world of work and social life as a whole. The concept Industry 4.0 is now shaping the digital discourse in Europe because further changes are expected with the implementation of new innovations and technologies (Wan at all, 2015).

The robots are coming and if the forecasts are correct, it can mean the extinction for millions of jobs. Innovations may seem grandiose, but they can also be destructive, rendering entire professions obsolete even as they boost productivity and convenience. If widespread predictions are correct, automation in the workplace is set to increase at an unprecedented rate (Herman, 2014). Many areas of manual work are being affected. Robots in factories and warehouses are becoming more mobile, versatile and affordable. It's not just manual labour that's ripe for automation: white-collar jobs are also at risk as software becomes more sophisticated. Data analysis work in areas such as advertising and finance is being outsourced to computers.

Raising labour market uncertainty and unemployment alongside with population aging are significant reasons of changing opinions on the role of the state in the field of social policies. However, it can be shown that the importance of the welfare state remains stable: trend in the social protection expenditure over time showed their growth till the end of the first decade of that century. Social protection expenditure started stagnating in the second decade of that century, but their share in GDP is high.

3 Social protection expenditure in the EU Member States

According to the latest data from EUROSTAT, the Statistical office of the European Union, the social protection expenditure reached 28,1 % of the GDP in the European Union in the year

2016. Since 2006, these expenditure in the European Union has increased, from 25,6% of GDP in 2006 to 28.1 % in 2016. For more details see table No. 1.

Table 1: Total social expenditure as a percentage of GDP in the time period 1995 – 2016

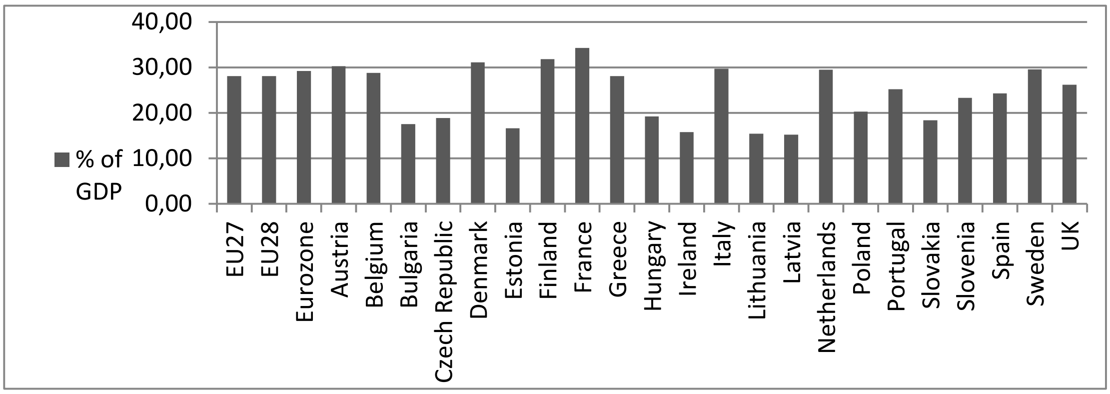
Country	1995	2006	2008	2010	2012	2014	2016
EU 27	.	.	25,6	28,6	28,7	28,7	28,1
EU 28	.	25,7	25,9	28,6	28,7	28,7	28,1
Eurozone	.	26,2	26,5	29,2	29,4	29,7	29,2
Included:							
Belgium	27,3	26,6	27,7	29,4	29,6	30,2	29,8
Bulgaria		13,9	14,7	17,0	16,6	18,5	17,5
Czech Republic	16,7	17,6	17,9	20,1	20,4	19,7	18,9
Denmark	31,9	28,4	28,9	32,4	32,0	32,8	31,6
Estonia		12,0	14,7	17,6	15,0	14,9	16,4
Finland	31,4	25,4	25,1	29,3	30,1	31,9	31,8
France	30,3	30,7	30,8	33,2	33,8	34,5	34.3
Ireland	18,6	17,1	20,2	24,8	23,6	20,6	15,8
Italy	24,3	25,6	26,7	28,9	29,3	29,9	29,7
Lithuania	.	13,3	15,9	19,1	16,3	15,3	15,4
Latvia	.	11,9	12,1	18,3	14,4	14,4	15,2
Hungary	.	21,9	22,3	22,5	21,3	19,8	29,2
Germany	28,3	27,8	27,2	29,9	28,8	29,0	29,4
Netherlands	30,6	26,3	26,1	29,3	30,6	30,6	39,5
Poland	.	19,7	19,3	19,7	18,9	19,1	20,3
Portugal	20,4	23,7	23,4	25,8	26,4	26,9	25,2
Austria	28,8	27,5	27,6	29,6	29,2	29,8	30,3
Greece	22,3	20,6	22,8	25,9	28,1	26,4	26,6
Slovakia	18,5	16,0	15,7	18,2	18,0	18,5	18,4
Slovenia		22,3	21,0	24,4	24,9	23,9	23,3
United Kingdom	27,1	24,8	25,7	28,8	28,9	27,5	26,2
Spain	21,6	20,0	21,4	24,6	25,5	25,4	24,3
Sweden	33,5	28,6	27,9	28,8	29,5	29,5	29,6

. not available

Source: EUROSTAT- ESSPROS (2019)

The EU averages mask major disparities between Member States. While the EU social expenditure reached 28,1 % of the GDP in 2016, Eurozone´s social expenditure exceeded 29 % of the GDP in the same year. Traditionally, Europe is led by France with nearly 34,3 % of social expenditure of the GDP in the year 2016 and ranked the top. Furthermore, Finland, Belgium, Denmark, Netherland, Italy, Austria, Sweden, Germany, Great Britain and Greece currently spend over one fourth of their GDP on social expenditure. In contrast, social expenditure stood below 20% of GDP in Romania, Latvia, Lithuania Estonia, Ireland, Malta, Bulgaria and Slovakia, as well as in the Czech Republic. For more details see figure No. 1.

Fig. 1. : Social Expenditure as % of GDP in EU Member States, year 2016



Source: EUROSTAT- ESSPROS (2019)

Although there are welfare state common features in the individual countries, for example the increasing role of the state in social policy till the year 2010 and its stagnation in the following years, there are also many differences among them. The scope of social services differs in individual countries because of traditions, values, historic development and economic situation.

Social expenditure per capita varies substantially across Member States. In 2016, social protection expenditure per capita in Purchasing Power Standards (hierandafter_ “PPS”), which eliminates price level differences between countries, showed large differences between EU Member States. After Luxembourg, the highest expenditure per capita were recorded in Denmark and Austria. In contrast, the lowest expenditure per capita were registered in Romania, Bulgaria and Latvia. These disparities reflect differences in living standards, but are also indicative for the diversity of national social protection systems, labour market changes and population ageing specific to each Member State.

Labour market uncertainty, unemployment and especially long-term unemployment alongside with population aging are significant reasons of changing opinions on the role of the state in the field of social policies. However, it can be shown that the importance of the welfare state remains stable: trend in the social protection expenditure over time showed their growth till the end of the first decade of that century.

Conclusions

The original welfare state was built on a well-functioning labour market, but new social risks emerged in last decades. It can be said that the industrial era dominated in Europe since the second half of the 19th century ends today. The character of economic activity was changed and afterword character and forms of work were changed as well. These changes were accompanied by growing labour market uncertainty and unemployment.

If there had been a relation of mutual dependence between economic growth and volume and quality of workforce typical for the industrial era, nowadays the interconnection does not go anymore (Baumann, 1998). The relation between economic growth and labour was separated which can be proved with the fact that the economic growth during the last decades of the 20th century started to be reached even when the number of vacancies stagnated or increased very slowly (European Commission, 1994). Similarly the International Organisation of Labour states that 1% economic growth encourages increase in new workplaces by 0.3% while the relation keeps weakening (ILO, 2016).

Furthermore, next changes on labour market are expected in the concept "Industry 4.0". The concept outlines the vision of the complete networking of all production processes and the increased use of robots, which control themselves. The robots are coming and if the forecasts are correct, it can mean the extinction for millions of jobs. People threatened by the unemployment become dependant on social benefits and do not adequately contribute to the social system used to finance the benefits.

The current social expenditure in the European countries have been kept at a high level for a long time. In most European countries, in particular the western ones, the expenditure exceeds 25% of the GDP, i.e. more than one-fourth of their GDP. However, EU Member States are heterogeneous in terms of social aspects. One of the reasons for the increased EU heterogeneity was the EU expansion to the east. An example can be shown: the rate of social expenditure in France is 34% of GDP, while in Latvia only 15%. Europe diverges in social aspects not only because of the economic development of the individual countries but also as a result of various approaches to the social matters. The EU Member States tend to be divided into groups based on the recognition and practicing of a different social expenditure philosophy and this is one of the reasons why the EU fails to achieve a single direction.

As emphasised by ILO expert, Daniel Vaughan-Whitehead (Vaughan-Whitehead, 2015), the European social model played a key role in shaping up the European society after the war by encouraging inclusive economic growth, high standard of living and decent working conditions. In some of the European countries the key elements of the European social model have been transformed in response to the crisis that began in 2008. As a result of the crisis it has turned out that the current form of the European social model is not sustainable. The European Commission as well as ILO have come to realize that certain elements of the European social model need to be transformed in light of challenges such as high unemployment and population aging in Europe.

Therefore, it is presently necessary for the European countries to make a crucial decision, whether the European social model, which has played a key role in maintaining social contract in the past, is sustainable even in the future. We agree, that the European countries will have to make a crucial decision, whether the European social model, which has played a key role in maintaining social contract in the past, is sustainable even in the future.

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