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Some Notes on the Future of Social Solidarity

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Introduction

Ever since the end of what the French call *les trentes glorieuses*, wave after wave of commentators has assured us that the future of social solidarity, in particular as expressed in the welfare state that was largely constructed during that period, is bleak. First the 'fiscal crisis' resulting from the era of 'stagflation' was forecast to lead to an inevitable dismantling of the welfare state (see, e.g., O'Connor 1973), then globalization was to force competing nations into a 'race to the bottom' (Mishra 1999), then the introduction of the Euro was seen as a more or less deliberate strategy to undermine Europe's welfare states (Hay 2000; Martin and Ross 1999), and now we are told that the Greek debt crisis is just the beginning of an inevitable wave of cutbacks to get our collective fiscal houses in order again. It is "payback time" at last, according to a recent article in the *New York Times*, as "The deficit crisis that threatens the euro has also undermined the sustainability of the European standard of social welfare, built by left-leaning governments since the end of World War II" (Erlanger 2010).

Yet these successive waves of dire predictions have been consistently found to be greatly exaggerated. While there certainly has been a considerable amount of deregulation and privatization during the period of supposed neoliberal hegemony that followed *les trentes glorieuses*, there has been significant re-regulation as well (Sarfati and Bonoli 2002) and overall government social expenditures as a proportion of GDP has barely budged in most OECD countries (Adema and Ladaique 2009; Castles 2005; Navarro, Schmitt and Astudillo 2004).There is room for debate about whether or not this means that there has been a significant retreat from an erstwhile social contract (see Clasen and Siegel 2007; Korpi 2003). As well, there is no question that many of the programs implemented during the postwar period have undergone significant reforms in many countries over the past couple of decades, mostly in an 'activating' direction (see, e.g., Palier 2010). But overall, the welfare state appears to be considerably more robust than the pessimists have feared and than its detractors had hoped. What accounts for this remarkable robustness?

In these short reflections I want to consider two main sets of reasons for this surprising durability. Together, I think, they provide grounds for a rather more optimistic perspective on the future fate of the welfare state, although, of course, at this point no one can predict with any degree of confidence what the outcome of the present debt crisis is going to be. I will mainly consider the classical social protection policies, such as unemployment benefits, pensions, sickness benefits and social assistance. I will leave other major programs that are sometimes viewed as part of the state's social expenditures, in particular publicly provided or insured healthcare and education, largely aside. My main reason for this is that these latter programs are much less controversial than the former ones, at least with respect to the issues I wish to discuss in this paper.

Social Protection and Public Opinion: A Surprisingly Enduring Consensus

Since WWII we have allegedly witnessed two massive swings of the political pendulum: the rise of the welfare state/'Keynesian'/Fordist state-market accommodation from the 1950s until the late 1970s, followed by the neoliberal reaction against its supposed excesses. Much of that neoliberal reaction - such as it was - consisted of the claim that the welfare state as it had been constructed in most Western countries in the postwar period had become economically unsustainable and needed, therefore, to be drastically cut back. Yet for all the rhetorical bluster by the various representatives of this supposedly newly 'hegemonic' neoliberal creed (see, e.g., Peck 2001), the remarkable thing is that it appears to have had little or no effect on public opinion. In spite of 30-odd years of supposed neoliberal retrenchment, an almost 'social-democratic' consensus about the desirability of the range of social protection programs as a way to guarantee a minimum standard of living for all appears to have endured across the advanced democracies. The remarkable resilience of this cross-national consensus has been documented time and again in the growing body of literature on public opinion with respect to various forms of publicly provided social protection since the 1970s. While there are some important and systematic differences between countries as well as programs, virtually everywhere where such survey research has been conducted most standard social protection policies meet with majority or even overwhelming majority support among the general public.

Today, 'activation' is all the rage across the range of different welfare state regimes

Slightly oversimplified, the general patterns are as follows. Across the board, overwhelming majorities favor governmental responsibility for health care for the sick and a decent standard of living for the old. In most countries the proportions of the population supporting these notions run between 80 to over 90%. But even in the United States, for all its welfare state exceptionalism, around three quarters of the population support statements along these lines. State provision of 'a decent standard of living for the unemployed' and income redistribution and social assistance ('welfare' in the US) receive more variable support across countries, with solid majorities in favor of both on the European continent but roughly between 30 and 50% support in the Anglo-Saxon countries (Bean and Papadakis 1998; Svallfors 2003; Svallfors 1997; Svallfors 2004).

Even more striking, however, is the *stability over time* of these generally favorable attitudes towards welfare state programs across the industrialized world, or at least the 'older' industrialized countries of Europe, North America and the Antipodes. While the occasional dip and peak is recorded in the literature, generally in connection with changes in government and public discourse, overall and over the entire period from the earliest surveys in the 1980s until the latest available figures, majority public support for the range of policies associated with the welfare state has remained stable and solid (Bean and Papadakis 1998; Brooks and Manza 2007; Edlund and Svallfors 2009; Svallfors 2003). This robustness of public support for welfare programs is all the more remarkable since it largely holds even for the US, the supposed anti-welfare outlier, and it appears to have withstood the aforementioned swing of the pendulum towards a new neoliberal 'hegemony' quite unscathed.

To be sure, there has been plenty of debate at the margins about the means (private vs. public provision) and the levels and conditions of various forms of social protection in each of the countries concerned. Moreover, there is room for debate about whether public opinion follows or determines policy in these matters (Brooks and Manza 2006; Brooks and Manza 2007). Yet the sheer solidity of public opinion in this regard suggests to me that it would be quite difficult indeed for any government to advocate anything other than marginal tinkering with the classic welfare state programs, even in the face of dire financial circumstances. Or could the current debt crisis be so severe that, public support or no, we simply can't *afford* the luxury of the current welfare state?

Social Protection and the Economy: It's Not *All* Deadweight

Note that all pessimistic forecasts about the future fate of the welfare state have one thing in common: they all assume that social welfare programs are inherently a *net burden* on the economy, i.e., that public expenditures on such programs are, economically speaking, a deadweight loss. Oddly enough, it is an assumption that both advocates and foes of the welfare state tend to take for granted. And there is a well-rehearsed set of arguments to back it up as well: such expenditures 'crowd out' more economically productive investments and expenditures, they produce perverse incentives to shirk in various ways, they cause labor market rigidity, they discourage innovation, etc. Yet for all the apparent self-evidence of the assumption and supporting arguments, the relationship between social expenditures and economic growth is far from clear. There is by now a vast literature trying to link social expenditures and individual social protection policies to economic growth, productivity and employment and the results show no clear relationship, whether positive or negative. This is a very technical business with much debate about the specification of variables, theoretical and methodological assumptions and so forth, but the general upshot is simply that, so far, no clear negative relationship has been demonstrated (see, e.g., Agell, Lindh and Ohlsson 1997; Mares 2007). As Mares sums it up:

> *The strong predictions of a negative relationship between higher levels of social protection and growth and employment have not been borne out in the data. While some studies find support for these propositions, empirical results are very fragile and not robust in regard to changes in sample size or statistical specification" (Mares 2007: 67)*

In view of such findings a number of authors have come to the conclusion that the welfare state is essentially neutral with respect to economic performance, that is, it does not necessarily *hurt* economic growth (e.g., Bassanini and Venn 2008; Honeck 2006; Kenworthy 2004; Korpi 1985; Lindert 2004; Mares 2007; Scruggs and Allan 2006). But what if the welfare state, or at least some variants or aspects of it, are actually *supportive* of economic efficiency, productivity and growth? There are a number of suggestions, scattered over more or less unconnected literatures, as to how, why and when this might in fact be the case. Here I can only briefly refer to a few which seem to me to be worthy of much more systematic attention than they have received so far.

Roughly speaking, one can distinguish between four types of arguments in favor of economically beneficial effects of social protection policies: economic, political, social-psychological and macro-sociological arguments. The economic arguments range from those about the benefits of 'Keynesian stabilizers,' which have been revived forcefully in the wake of the present financial crisis (see, for instance, the lively debates about Clarke 2009 ; Skidelsky 2009), to the argument that generous income support for the unemployed may actually improve the eventual 'matching' of job seekers and jobs (Bassanini and Venn 2008; Marimon and Zilibotti 1999). While both of these arguments have some *prima facie* plausibility—though the Keynesian argument deals with stabilization rather than growth—the highly technical literature on the latter and the highly politically charged debate on the former remain, for now, rather inconclusive.

By 'political' arguments I mean a variety of 'neocorporatist' claims to the effect that under certain institutional conditions—including, at a minimum, strong unions and employers' organizations and centralized bargaining—a well-developed welfare state can serve to underwrite relatively cooperative industrial relations, which, in turn, can produce the prudent, well-balanced wage and employment bargains that support competitiveness and growth in the economy as a whole. It is an idea that has been around for some time (Lehmbruch and Schmitter 1982; Schmitter 1974; Schmitter and Lehmbruch 1979) and that has spawned a vast and contentious literature. While the general argument continues to attract attention (Mares 2007: 76), attempts to test it empirically have been fraught with specification, overdetermination, and comparability problems (Smith 1992: Ch. 6).

Then there is a variety of 'social-psychological' arguments based on the notion that workers who feel less insecure will act in ways that promote rather than undermine productivity and growth. Probably the best-known version of this argument originates from the literature on internal labor markets, but it has also been presented in favor of job protection legislation. The argument is that. if workers feel safe and secure in their current jobs or with their current employers, then they will be more willing to invest in their own human capital, in particular so-called 'specific' human capital (i.e., not transferable between employers and/or occupations), as well as more willing to share their skills and knowledge with fellow workers than would otherwise be the case (Bassanini, Nunziata and Venn 2009; Osterman 1988).

But while internal labor markets appear to be on the wane, and job protection legislation of the kind practiced in the Mediterranean countries is definitely out of favor, there is a slightly different variant of this argument with a particular Scandinavian flavor. Here the argument is that *security of earnings and employability* provided by generous unemployment insurance benefits and training and job-searching support will render workers more willing to invest in their own specific *and* general human capital, to share their knowledge with fellow workers, and to accept technological change and to take on jobs that are relatively risky in terms of their long-term employment prospects. This argument has been made in particular on behalf of the Danish and Swedish versions of what is now called 'flexicurity': the combination of generous unemployment insurance benefits and a strong emphasis on activation through skill upgrading increases the willingness of workers to take risks and move between jobs and employers (Acemoglu and Shimer 2000; Bassanini and Venn 2008; Mares 2007; van den Berg 2009). It has been applied to independent entrepreneurs as well: social security, including the assurance of an adequate pension, encourages greater risk-taking on the part of (presumably relatively small) entrepreneurs as well (Sinn 1996). Plausible as these ideas may appear at first sight, they have proven to be extraordinarily difficult to test empirically (as my colleagues and I found out the hard way: van den Berg, Furåker and Johansson 1997; van den Berg et al. 2000).

But the original framers of the so-called 'Swedish Model' were under no illusion that the security provided by generous 'passive' benefits would automatically turn Swedish workers into enthusiastic risk-takers and job-hoppers. In addition, they recommended a stringent regime of 'active labor market policies,' the aim of which was not only to counteract any possible negative incentive effects of those benefits, but also to enhance the smooth functioning of the labor market in the face of accelerated structural change and help reconcile the unions to that accelerated change (van den Berg, Furåker and Johansson 1997: 86-90). Today, 'activation' is all the rage *across* the range of different welfare state regimes (Bonoli 2010; van den Berg 2008), although there are enormous differences in its mode of implementation (Pascual and Magnusson 2007). Current policy makers are no doubt in part motivated by a desire to get the (long-term) unemployed off the benefit rolls. The evidence that these policies actually succeed in doing this, particularly in times of high unemployment, is decidedly mixed (for a quite critical review of the evaluation literature on Sweden's long-standing policies, see Calmfors, Forslund and Hemström 2002; see also Martin and Grubb 2001). Even so, the many current experiments with a wide range of programs encouraging, coaxing or even forcing benefit recipients to find employment, acquire skills that enhance their employability, etc. (OECD 2003: p. 174) may well have long-term beneficial effects for the economy as a whole, even if they do *not* necessarily succeed in putting the unemployed back to work in the short term. This was, in effect, what Gösta Rehn, one of the architects of the original Swedish approach, thought would be one of the main payoffs of active labor policies: even if during periods of relative job scarcity some of the unemployed are effectively simply 'parked' in some 'active' program or other, this may still have the considerable economic benefit of preventing human capital atrophy and enlarging the pool of labor wellprepared to go back to work at the end of the downturn. This, too, strikes me as at least *prima facie* a plausible claim, but not one that has, to my knowledge, been seriously tested empirically. Finally, under the rubric of macro-sociological beneficial effects, I would consider a whole range of desiderata, from lower crime rates to better popular health, that may well result from generous social protection programs. There is now a burgeoning literature on such more diffuse social benefits (see, e.g., Wilkinson and Pickett 2010). There is no doubt that the potential economic benefits from such effects are quite considerable, but we are still very far from being able to make any reasonable estimates as to the net size of such benefits.

In short, there are a number of ways in which at least some welfare state programs may well generate quite sizeable benefits for the economy. But we still know painfully little about whether and when this is in fact the case and how large the net benefits are likely to be. There is a vast potential research agenda here for social scientists who are willing and able to conduct research that may or may not end up confirming their political biases and preferences. Meanwhile, policy makers would be well-advised to tread carefully when contemplating drastic changes in welfare state programs in their attempts to deal with the current budget crisis, lest they throw out the economic baby with the social bath water.

Conclusion

It is, of course, seriously misleading to talk about the welfare state as though it was a single set of institutions to be found in all countries concerned. In fact, as a growing literature has made clear, even talking about any limited number—whether three, four, or five—of distinct 'welfare regimes' constitutes a gross oversimplification. Each country has its own complicated web of inter-articulated institutions and programs which may look quite similar but produce radically different effects, or look quite different and produce surprisingly similar ones. When it comes to the economic effects of *the* welfare state, or the implications of the current debt crisis for *the* welfare state, such simplification borders on the disingenuous. Any such complex set of policies, programs and institutions is bound to have all kinds of possibly contradictory economic effects and, as a result, the debt crisis has *no* general implications for *the* welfare state.

In fact, the euro crisis does not appear to have undermined the welfare state *as such*, but rather certain quite specific welfare states, namely the more or less clientelistic ones around the Mediterranean rim. The Nordic countries, with their far more elaborate and expensive welfare states, seem to have weathered the current crisis much better--with the exception of Iceland, that is. These Nordic countries are also the ones that have most consciously and explicitly designed their welfare programs to be compatible with, and supportive of, a successful, heavily export-dependent private sector. In the process they may learned to put some of the beneficent potential of certain (combinations of) welfare state programs to their advantage. It is high time that we researchers start catching up.

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