

# Social Policy in an Age of Austerity: Reflections from Europe

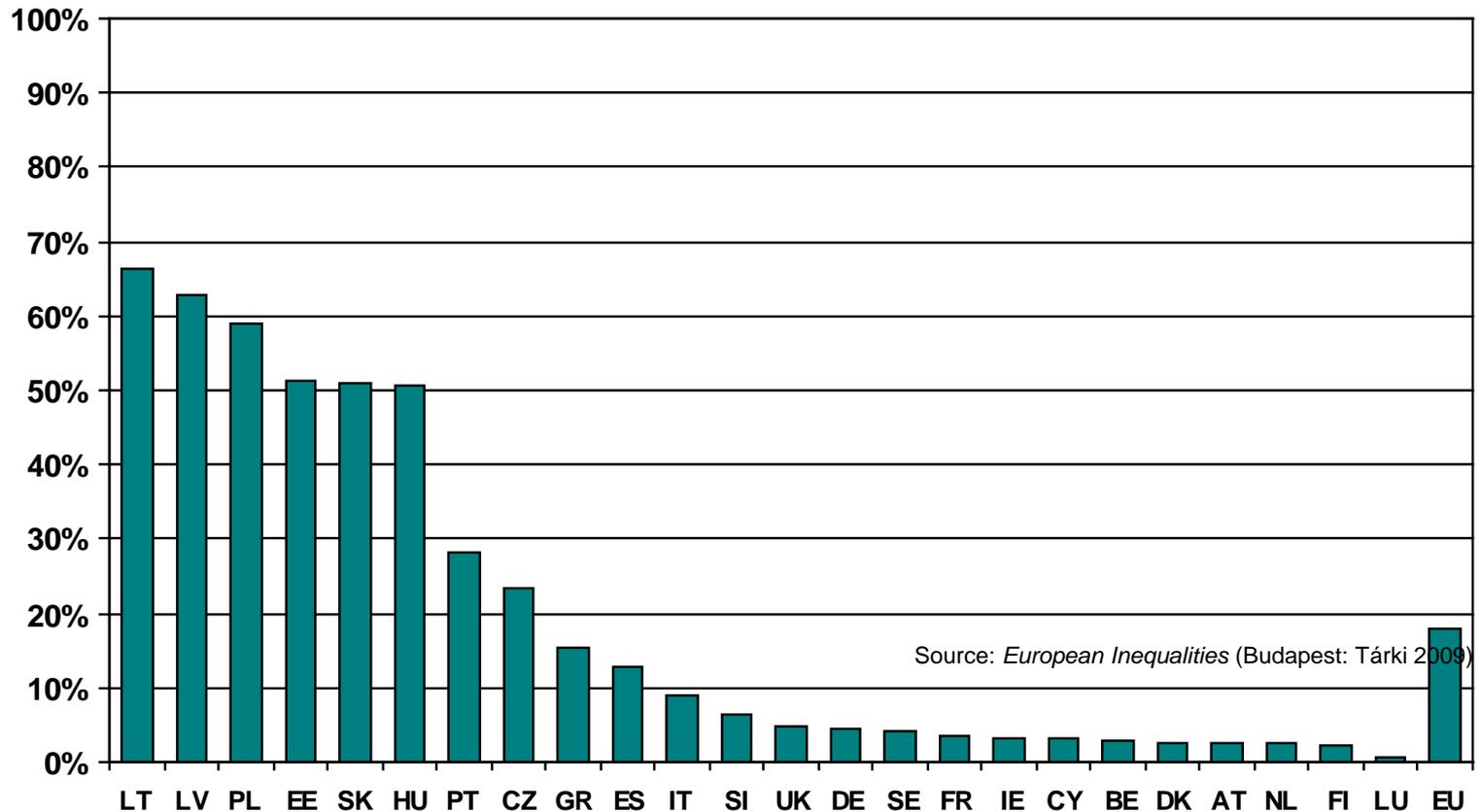
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To early to tell...

# The ageing crisis and GFC in its shadow

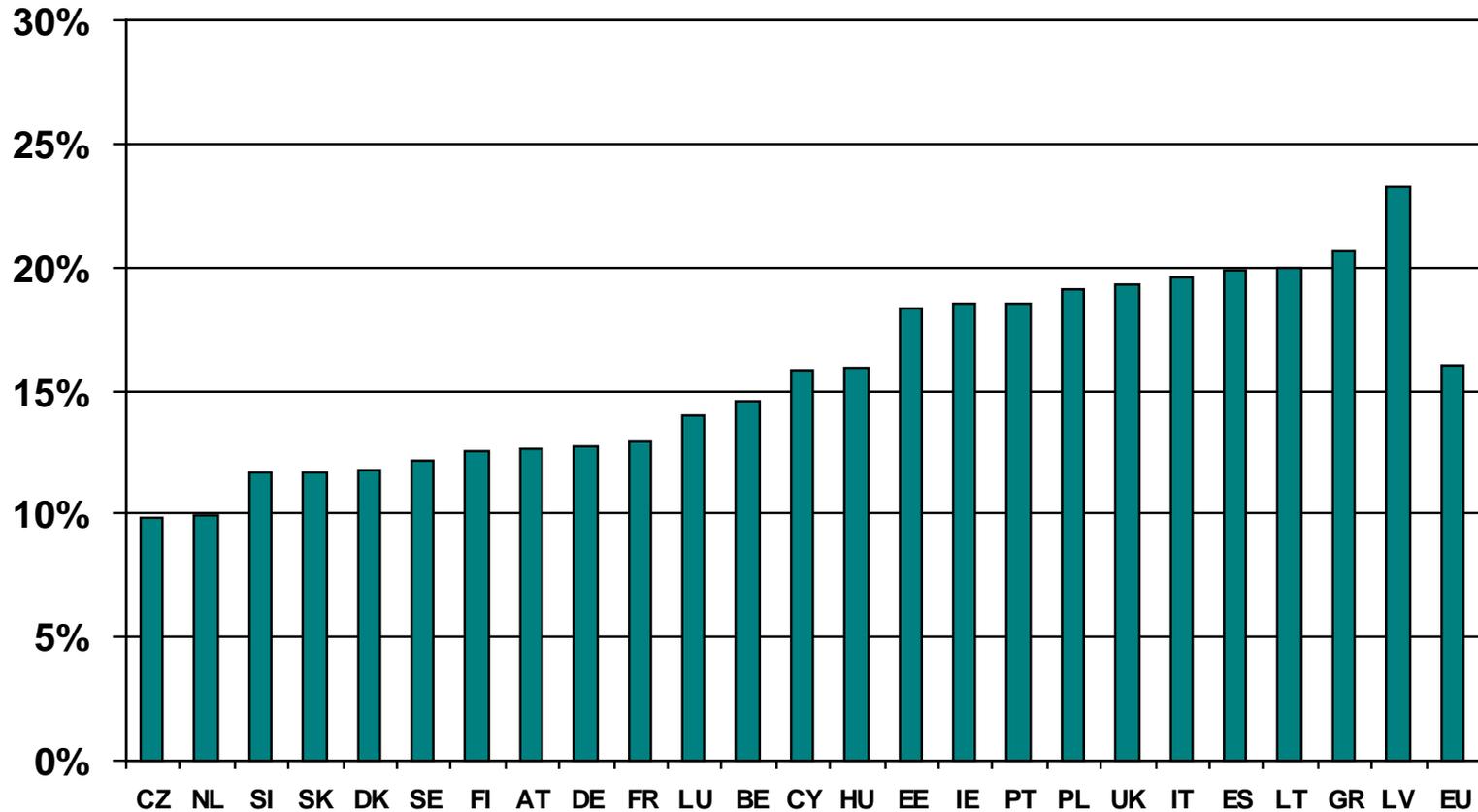
# European Realities I

Figure 1: Percentage of population with income <50% of EU median income



# European realities II

Figure 2: At-risk-of-poverty rates (<60% of median income) across European countries



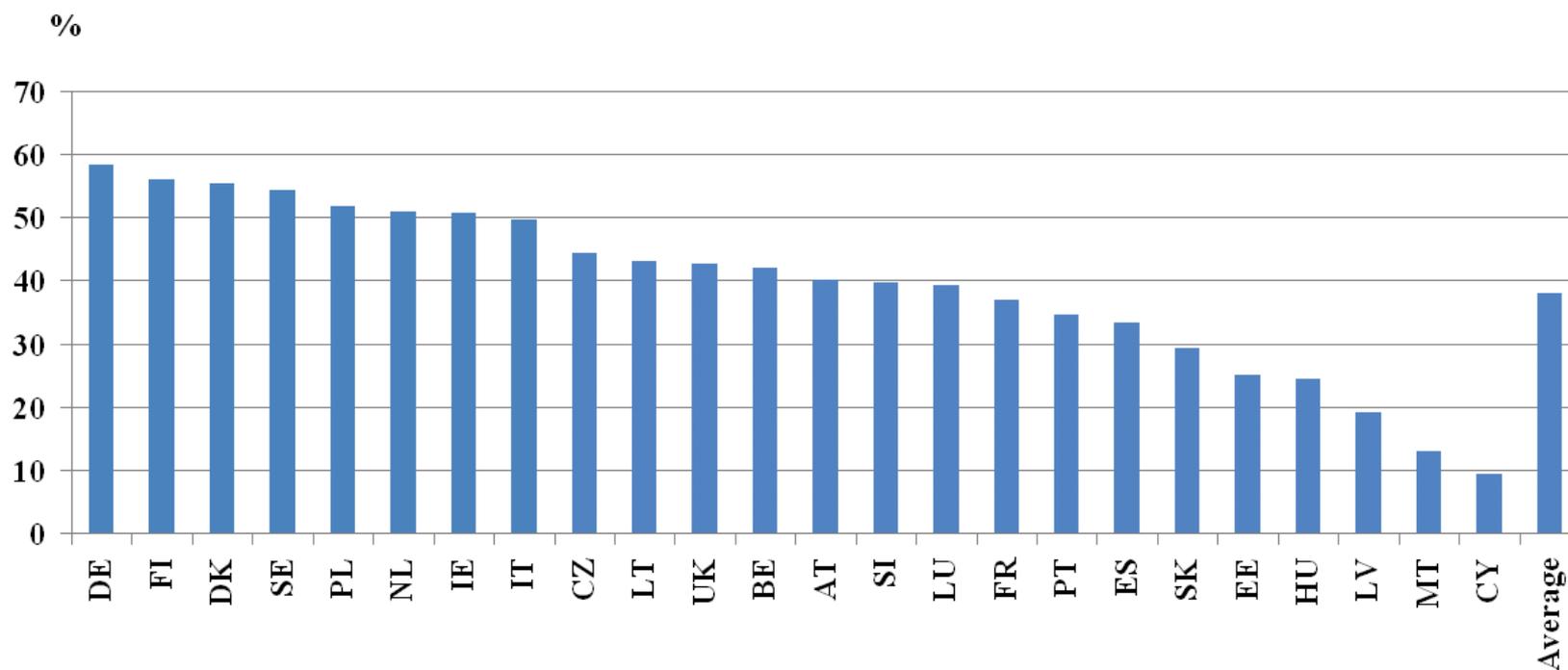
Source: *European Inequalities* (Budapest: Társki 2009)

# European realities III

## Relative Income Position of Social Assistance Packages in 27 EU Member States 2005

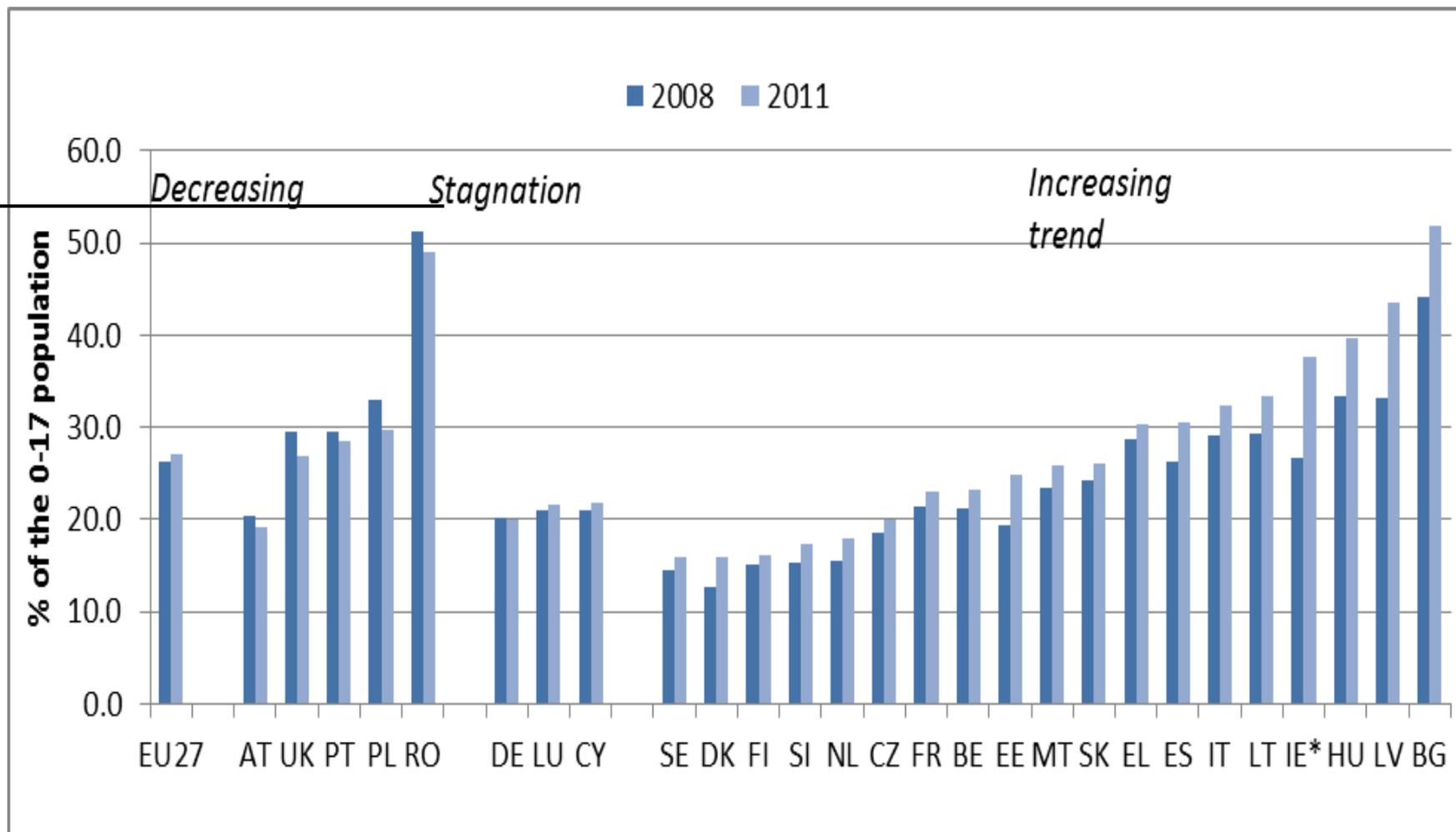
Averages for Three Household Types: Single Person, Lone Parent, Two-Parent Family.

Social Assistance as Percentage of Net Median Income.

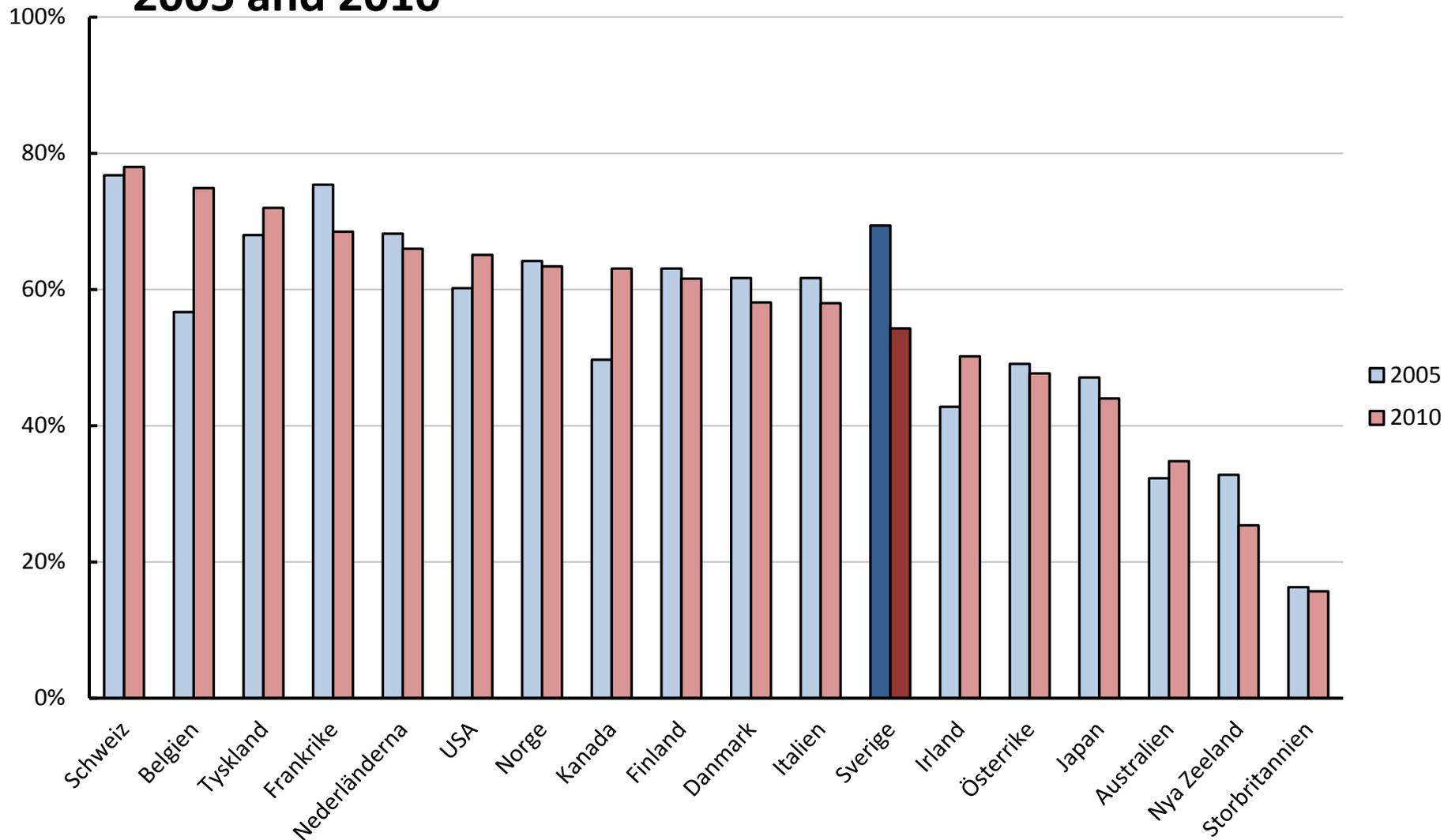


Source: SaMip.

# At-risk-of-poverty or social exclusion rate in the EU (%), children (0-17), EU-27, 2008 and 2011 [\[1\]](#)



# Unemployment insurance Replacement rates in 18 OECD countries 2005 and 2010



# 'Old' vs. 'New' Politics

Korpi/Palme APSR 2003

# Results:

## Riskfactors for retrenchments 1975-1995

- Unemployment key role; as an outcome of distributive conflict and as a 'risk factor' for retrenchments
- The risk for major cuts significantly lower with left party representation in cabinets
- Policy feedbacks from welfare state institutions reflect interactions between institutions and the socio-economic distribution of risks and resources among citizens
- Welfare state institutions structure interests of risk-averse citizens, and institutional typology can help us to explain structural differences among countries

# Sustainable policies in ageing societies

Report to the European Commission,  
Edited by Lindh and Palme

# Rethinking social policy in ageing societies

- Social security is strongly redistributive over the life cycle: the ageing of societies puts tough fiscal pressures on public spending
- The debate on ageing issues has been overly focussed on pension reforms and savings
- How social policy interact with fertility, education and labour supply is of vital concern: ***secure the future tax base!***



# Education and Growth: Macro model

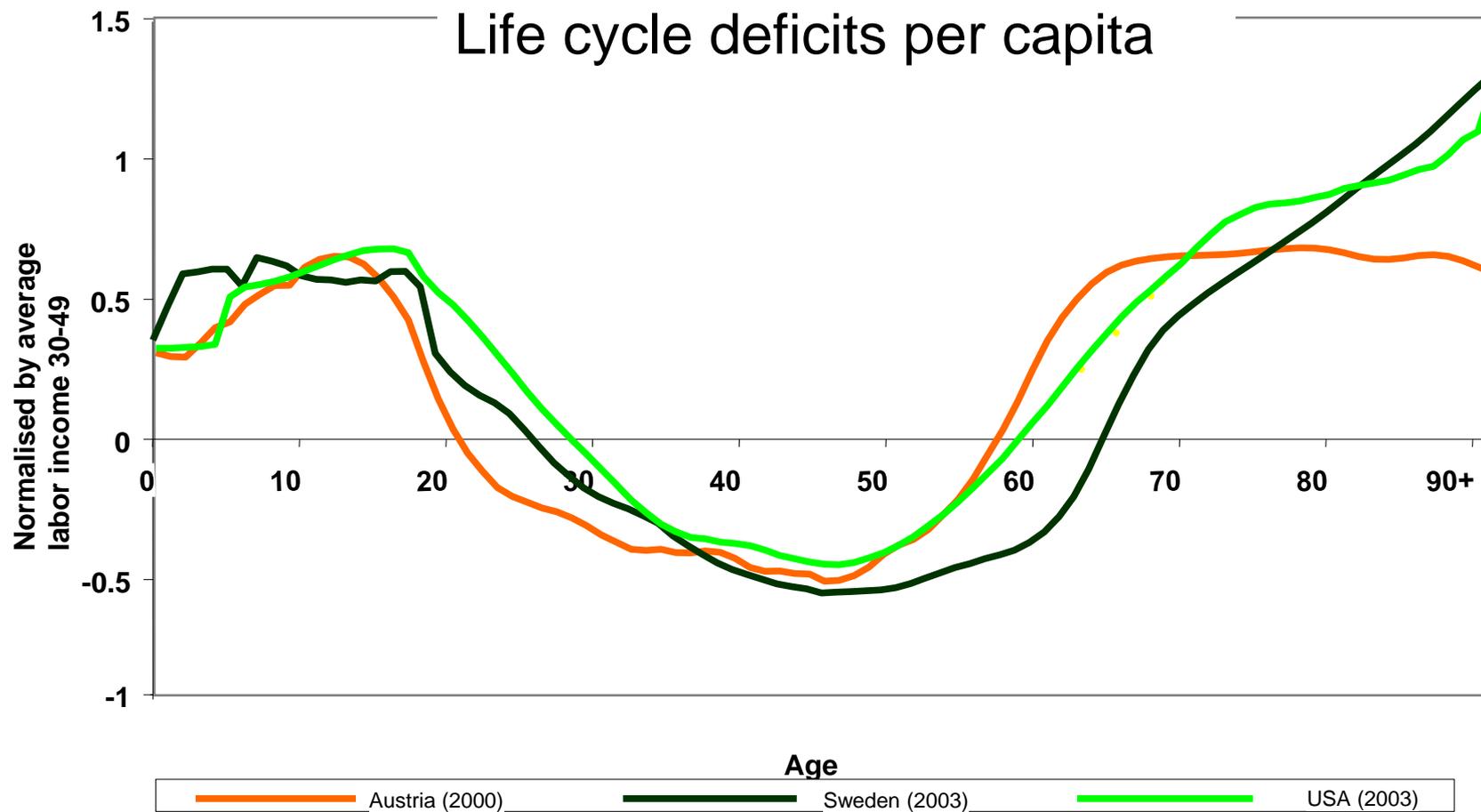
## Statistically significant relations

- Education expenses have a positive impact on GDP/capita
- GDP/capita has a positive impact on average years of education but a negative impact on the GDP share of education expenses

# The Economic Life-Cycle and a future for Social Investment?



# Institutional variation behind life cycle variation in the intergenerational transfer system



# European future beyond the Lisbon Agenda

# Social investments

Are about investing in  
an equal distribution of human capital  
in order to promote  
a good economic life-cycle for all  
and reduce the pre-redistribution  
inequality

# Agenda for a social investment approach

- Go beyond immediate responses to the current crisis not to reproduce the failures of the recent past.
- Global crisis in the financial system may change our views on what is possible.
- Human capital investments have been getting less attention in the debate.
- How can we rethink the future with the time horizon being prolonged by the issue of climate change?

# Capability formation: A life course perspective

Publicly funded child-care  
invests in cognitive and  
social skills essential for life  
chances of children

Quality of compulsory  
education – PISA studies of  
*core competencies*: reading,  
mathematics, science

Skill needs in advanced  
industrial societies have  
changed –polarization  
among youth is a reality and  
a threat

The “learning economy”  
requires a constant  
renewing of capabilities in  
firms and competences of  
workers

# Nelson and Stephens 2011:

## Policies

- Cumulative Educational Spending
- Educational Spending 1995
- Skill Acquisition Index
- Cumulative ALMP Spending in 1995
- ECEC (cumulative daycare spending)
- Short Term Unemployment Replacement

## Outcomes

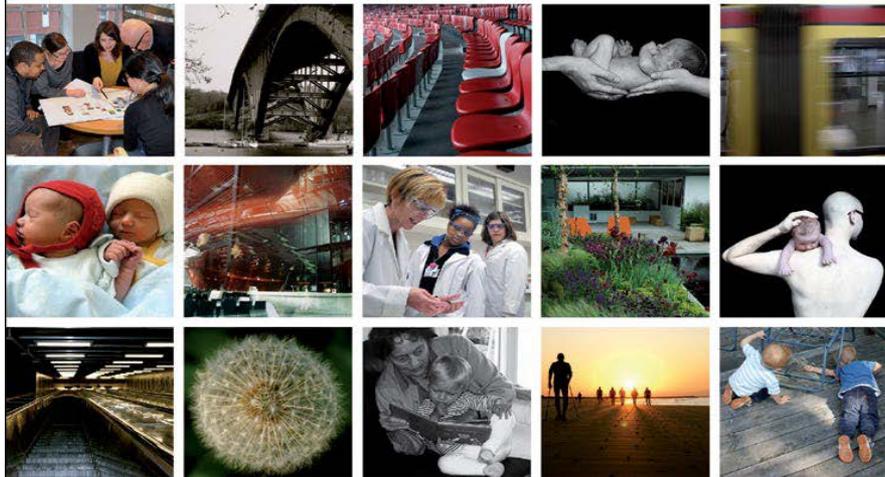
- Bottom 5th Percentile Literacy
- Average Literacy
- Employment Levels in 1995
- Discretionary Learning Employment



# TOWARDS A SOCIAL INVESTMENT WELFARE STATE?

IDEAS, POLICIES AND CHALLENGES

Edited by Nathalie Morel, Bruno Palier and Joakim Palme



EU2020

# The strategy EU2020 puts forward three *priorities*:

- **Smart growth**: developing an economy based on knowledge and innovation.
- **Sustainable growth**: promoting a more resource efficient, greener and more competitive economy.
- **Inclusive growth**: fostering a high-employment economy delivering social and territorial cohesion.

Flaw of the EU 2020 Agenda:

How can the sole focus on expenditure cuts,  
generate the necessary revenue for a social  
investment approach?

Five *headline targets* are defined:

Two of them critical for SI

- Raise the **employment rate** of the population aged 20-64 from the current 69% to at least 75%.
- **Reduce the share of early school leavers to 10%** from the current 15% and increase the share of the population aged 30-34 having completed tertiary education from 31% to at least 40%.

# Two of *seven flagship initiatives* to realise the targets

- **"An agenda for new skills and jobs"** to modernise labour markets and empower people by developing their skills throughout the lifecycle with a view to increase labour participation and better match labour supply and demand, including through labour mobility.
- **"European platform against poverty"** to ensure social and territorial cohesion such that the benefits of growth and jobs are widely shared and people experiencing poverty and social exclusion are enabled to live in dignity and take an active part in society.

# The Social Investment Pact

The New Agenda from the EU  
Commission  
(Commissioner Lazlo Andor)

# Social Investment Pact

- Social protection, investment, stabilization
- Recommendation on early child-hood educ.
- Youth Package
- Employment Package
- Elderly care
- Stabilization via EU Unemployment insurance
- European Social Fund (ESF)

What advice can welfare research offer for ways out of the crisis?

# Lessons from the 1930s

- The Great Crash and the Depression
  - Keynesianism emerging (A treatise on money, 1930; Stockholm School; General theory, 1936)
- Crisis of the Population Question
  - social policy of reproduction, quality of population (The Myrdal Legacy)

*Research and ways out the crisis?*

# The welfare state in crisis (OECD, 1980)

- Growth to limits
- The unemployment problem
- "The need to see economic and social policies together"
- Is it possible to return to non-inflationary growth?
- Research: diagnosis vs. Prescription
- Beyond redistribution, new priorities, full employment without growth, welfare society

# The Swedish crisis of the 1990s I

Lindbeck commission; 113 reform proposals for  
'Turning Sweden around':

- Stricter budget process
  - Independent central bank
  - Quantitative inflation target
  - Competition in/for the public sector
  - Etc, etc
- 
- Research and ways out the crisis: prescription

# The Swedish crisis of the 1990s II

- Welfare commission, Balance sheet, results:
- The macro economy and the vulnerable
- Prolonged employment crisis
- Monetary and fiscal policies too tight (Ministry of Finance)
- Social deficits

# Social policy context of social investment

## *Key concepts in EU*

- Social cohesion
- Social inclusion
- Social capital
- Social investment *and protection*
- Social citizenship

# European unemployment insurance

- Growing variation between EU Member States' economic and social situation, which has been reinforced by the economic recession and subsequent fiscal consolidation measures.
- Economic and social responses to the crisis will require strengthened solidarity between Member States, in the first place within the Eurozone but also beyond.
- It can be argued that continued successful European integration needs an elaborate risk-sharing system where various forms of automatic fiscal transfer mechanisms may have a key role, particularly in Eurozone countries.
- One strategy is to set up EU- or Eurozone wide unemployment provisions where resources are transferred to areas particularly hit by asymmetric shocks.

- Automatic stabilisers as an *insurance mechanism* that help smoothening of fluctuations in real GDP caused by asymmetric shocks in parts of Europe.
- Potentially they may also involve a *stabilisation mechanism* when symmetric shocks affect all countries.
- Unemployment benefits are an obvious candidate for becoming a European automatic stabiliser.
- Unemployment benefits may not only have macroeconomic impacts but are likely to also have positive effects on citizens' living conditions, potentially improving European social integration in the wider sense.
- The effects of unemployment benefits on EU economic and social integration may vary greatly depending on the institutional design of unemployment benefits, which currently differ significantly across the Member States.

# Discussion I

- Variation among the Eurozone countries is slightly lower as compared to the entire EU, cross-national differences are evident enough to warrant further reflections.
- We interpret the underlying ambition to promote a European stabilisation/insurance mechanism, is about making the provision of unemployment compensation more generous.

- Identify countries that deviate markedly from broader European patterns, indicating where special adjustments are most immediate in Europe.
- Another strategy is to identify common denominators for key aspects of the systems.

Figure 2.

# Unemployment insurance gross replacement rates in 27 EU Member States, 2010.

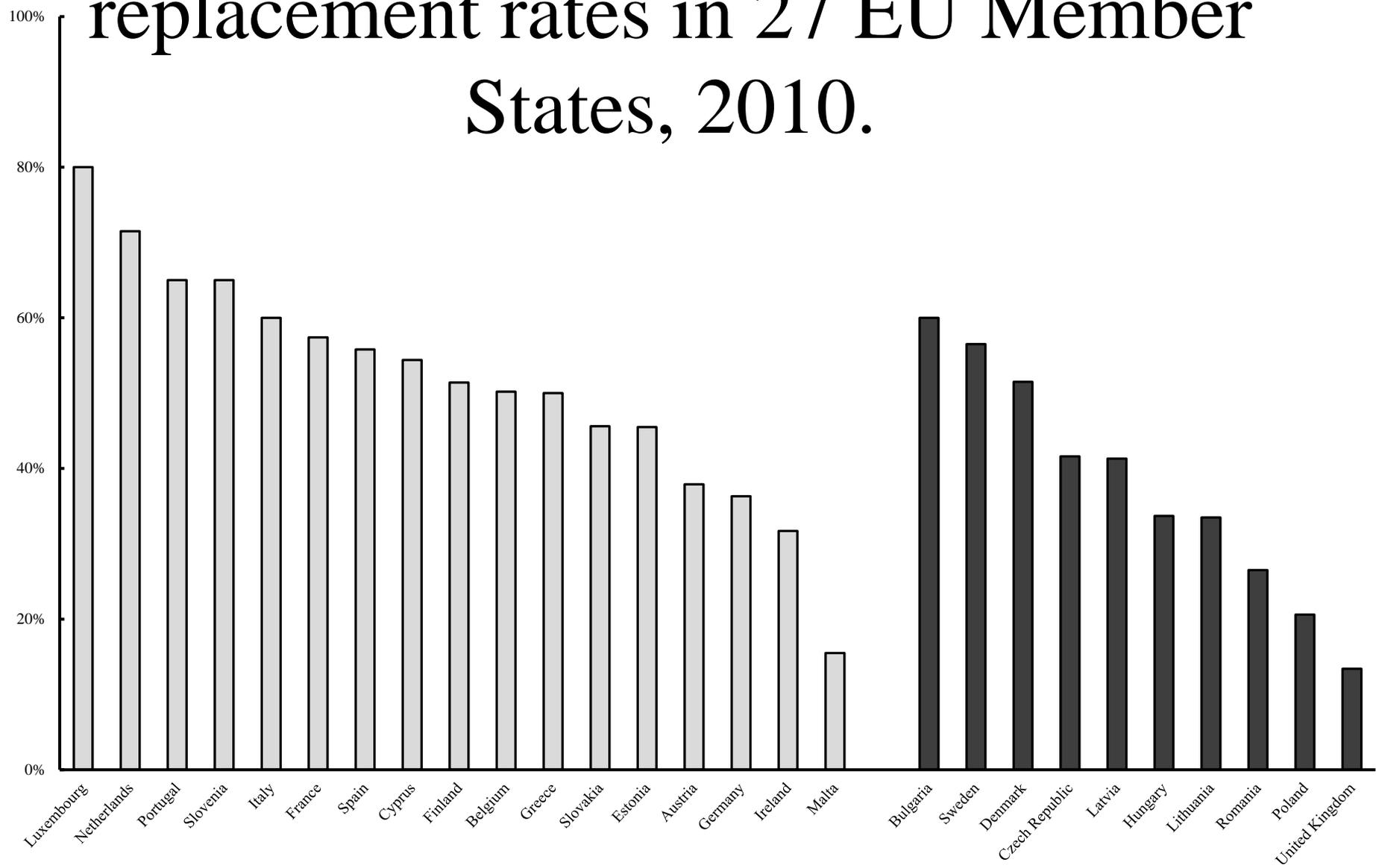
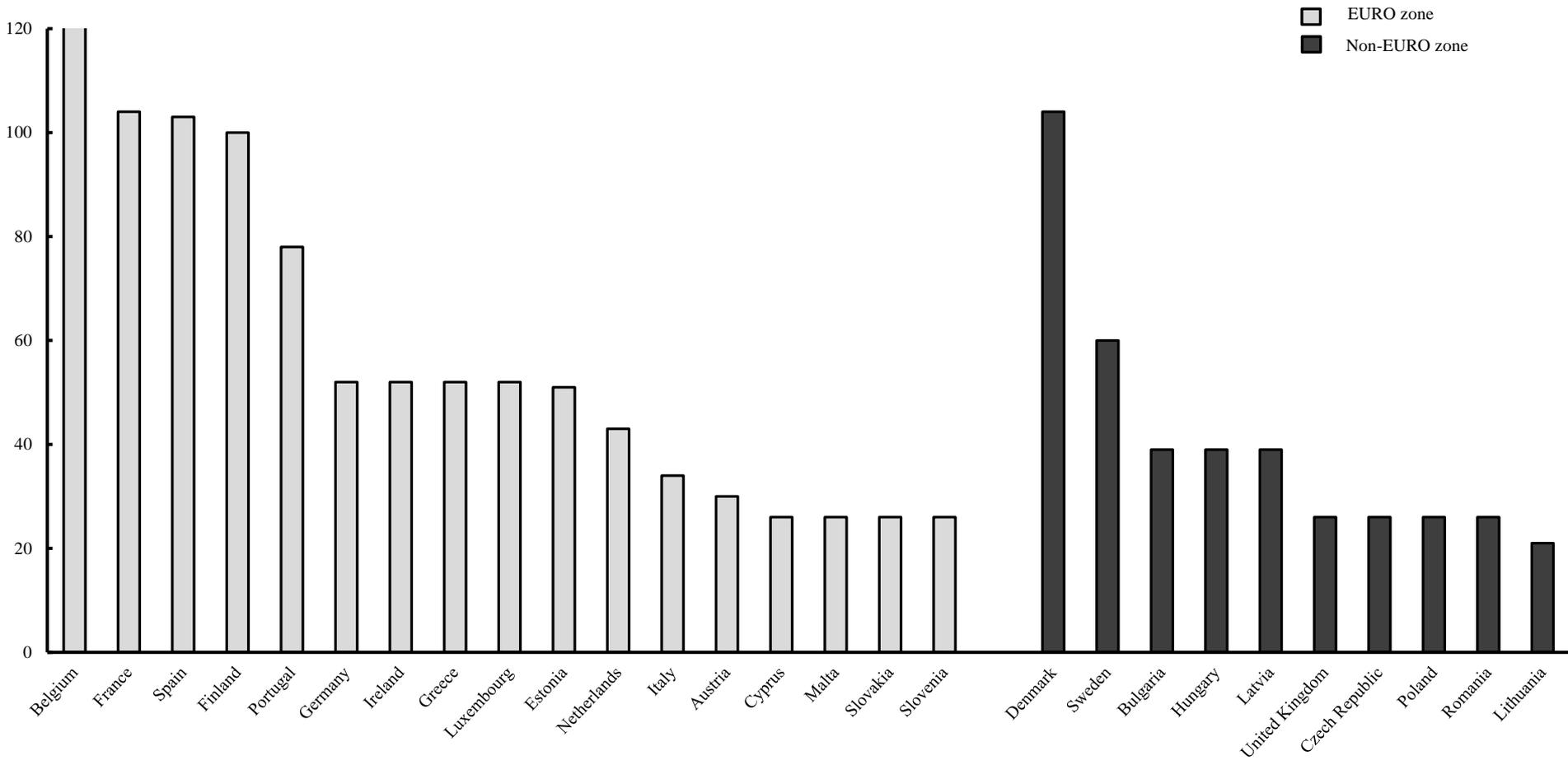


Figure 4.

# Unemployment duration in 27 EU Member States, 2010.



# Discussion II

- Harmonize:
  - Contribution period of 26 weeks.
  - Benefit duration period by extending it to 52 weeks.
  - EU should not subsidize benefit periods beyond one year.
  - Replacement rate of unemployment benefits between 60 and 80 per cent.

# Discussion III

- One option would be to ignore cross-national institutional differences and more directly provide EU participation in the funding of unemployment insurance benefits.
- To achieve a common mechanism, countries would have to agree on some kind of *symmetric participation* of the state and the EU (Eurozone) in funding an unemployment insurance element, designed to share common European standards.