Social Protection Programmes Crisis – Solutions Between Pragmatism and Paradigm Changes

~ *Prof. Ph.D.* **Răzvan Papuc** *(University of Bucharest)*

***Abstract*:** *The aim of this paper is to examine the redefining of the support policies related to the contemporary 'welfare' state from the context of the public policy proposals coordinated by the World Bank, the European Union and 'The Third Way' of the British economist Anthony Giddens. The new strategies of support and inclusion on the labour force market are outlined through the design of educational policies, and furthermore, emphasis is given to the transition from a generous state based on inalienable civil rights towards one within which citizenship is being replaced as grounds for access to some natural rights with the micro and macro social intervention management based on 'testing the means' and on the 'management of social risks', - while the sustainability of the proposed systems relies on the actual possibilities of concurrence between the national and regional directives, within the context of certain social risks – both national and global.*

The paper also examines the reforms of the 'welfare' state through the filter of their effectiveness and feasibility as basic requirements in the balanced implementation of the current social policies.

Key-words: effectiveness, social inclusion, social policies, reform.

Introduction

The political and social goals of the national authorities, as well as the worldwide economic, demographic and technological evolutions on the onset of the 21st century, bring back into the analysis focus of economists, sociologists or philosophers the concept of 'welfare' state and its sustainability. The society's evolution towards contexts rather regional and global than national brings along new needs: the role of the state is being defined through new economic and social polices deemed appropriate to identify the needs of the contemporary society and to meet them effectively.

The role of the traditional 'welfare' state, designed to meet those needs of its nationals which are basic, homogenous and universally valued, is to be redefined within this new global context, that is, there is a need to reform its core institutions as their institutional deadlocks and inefficient policies weigh heavily upon public budgets which support the systems of social protection which are increasingly failing to fund some wide and generous social rights based on the status of citizen (national).

Thus, the redefining of the 'welfare' state both in terms of the conceptual-philosophical view and from the more pragmatic standpoint of the public polices has been shaped into three points of view of large notoriety in the peer community and at large; they stem from the core of several referential bodies in the economic and social life of the 20th and 21st century, and, added to them is the view promoted by a number of public figures of exceptional status in the international community, namely Anthony Giddens – sociologist and economist-, the Labour politician Tony Blair or the Democrat Bill Clinton.

As a result, three types of reforms are highlighted:

1) The right-wing philosophy (doctrine) of the 'welfare' state endorsed by the World Bank;
2) The center-wing philosophy (doctrine) endorsed by the European Union
3) The philosophy (doctrine) of the 'third way'.

We will here forward commit to briefly touch upon these threw views, with a particular focus on the third.

1.The right-wing doctrine of welfare

Stemming from patterns of thinking which stress upon the negative impact on economy of the 'welfare state' systems, namely unemployment insurance has caused a rise in 'natural' rate of unemployment, payment of disability benefits has caused the people to leave the labour force early, or event PAYGO state pensions have lowered the rate of capital accumulation, - a type of neo-liberal economic policies was designed with an aim to produce a top-down reform of the 'welfare state' benefits.

At institutional level, the key supporter of this view is the World Bank – in team with the IMF. Their approach with regards to the issues of the 'welfare state' institutions is in concurrence with the principles of the 'Washington consensus', namely to downsize the role of the government, to cut down the public expenses and to re-gear them towards primary services for the poor population, including here the expenses for social protection and the introduction of some neo-liberal governance principles based on policies related to monetary and fiscal austerity, to stabilization, privatization and liberalization[1]

"Stabilize, privatize, and liberalize, became the mantra of a generation of technocrats who cut their teeth in the developing world and of the political leaders they counselled." **(Dani Rodrik)**

Stiglitz calls these neo-liberal policies 'one size fits all' to thus outline the lack of regard by the designer of those policies for an approach based on national and regional differences.

[1] **Rodrik Dani** – *Goodbye Washington Consensus, Hello Washington Confusion?*, Harvard University, January 2006

From the start, it must be noted that this view did not manifest only in theory or concept, and that redesigns of the 'welfare' institutions have already been identified assumed, in general, by developing states – not only in their social concept but also in their fiscal or monetary policy. At least with regards to the pension systems, almost all OECD countries have proceeded to amending their pension systems along the lines of the afore-mentioned trends.

A major focus of this institution is the transition from the 'universality' of the aids to granting them on the basis of 'testing the means', the 'eligibility' for publicly funded assistance being determined rather by the lack of means and not on the basis of citizen status in relation to which support is a natural right (i.e., child benefits will no longer be a right available to all children, but only to those whose parents' income is below a certain level).

The World Bank is one of the key and fervent supporters of the pension reform systems based on privatization, complete financing and 'multi-pillar' approach. In the 1994 "Averting the Old Age Crisis", the World Bank is calling for rethinking the role of pension. For countries that inherited unsustainable PAYG systems, the best way to proceed in the World Bank view is to first scale down the generosity of the system (by indexing benefits to price level rather than wages) and increase contribution. In addition, a fully funded system should be introduced, transforming the part paid through general taxation into individual accounts. At the same time, governments should promote a third pillar of voluntary private savings. Reform programmes of pension systems in OECD countries imply: pension indexation is now linked to consumer prices and no on average earnings, for most of the OECD countries, with a closer tie between contributions and benefits, tax concessions for richer pensioners, a three pillar pension system[2].

These approaches stem from the idea of a 'social risk management'[3], ex-ante and ex-post, which develops a unitary action model with regards to the management of social risks in acceptance of the heterogeneity of the national features and with regard for the differentiated management of these risks at national level.

This concept dwells in a basic observation: in response to natural and human produced risks, the communities, ménages and individuals have developed complex 'self-protection' mechanics in a wide range, from strictly individual ones (generating income through savings, diversifying one's income sources) to socialized systems, first within the community and, further, at national level. According to the World Bank, this approach was operated too often without an appropriate coordination and without a clearly defined strategy – and this eventually led to an inefficient use of costly resources. As a result, the concept of 'social risk management' insists upon the use of techniques which dwell in the 'firm management' aiming at optimizing social measures.

The approach by the World Bank targets primarily the developing countries which are in the process of creating social protection

[2] OECD, Pensions at a Glance: Public Policies across OECD countries 2007, p. 2

[3] **Holzmann R., Sherburne-Bnz, L., Tesliuc E.**, *Social Risk Management The World Bank approach to social protection in a globalizing world*, Washington D.C., 2003

systems and concerns less those countries with solid systems already in place. The World Bank guidelines which also refer to the developing countries focus on the growth in the labour market flexibility, reduced average minimal income, the link between benefits and contributions, 'multi-pillar' pension systems, the minimal pension, and the 'testing of means' in awarding social assistance – seen as key factors in the sustainability of the social protection systems.

A proof that the view of the World Bank is deemed pertinent is reflected in the increase of the retirement age and the growing focus on active policies on the labour market in order to increase the employability rate. The 'multi-pillar' approach for the pension systems in the developing countries enjoys less interest – while the opposite is true for the underdeveloped countries where these systems are emerging realities. In the reform of the pension systems, the World Bank is using a systemic approach, while the European Union deploys a parametric approach.

2.The 'welfare' doctrine of the European Union

The document at the core of the new social protection at European level is 'A Concerted Strategy for Modernising Social Protection' and it originates in a conclusion reached by means of public perception of the welfare institutions, namely that the European citizen 'clearly expresses the wish to preserve high social protection benefits to the disadvantage of certain principles of public efficiency or budgetary discipline'. The objectives stipulated in the aforementioned document are:

- that work be paid
- that the pension be guaranteed and the pension systems be sustainable
- to promote social inclusion
- to ensure high standards of quality and sustainability for the health system.[4]

A strong social protection system is an essential component of the European Social Model. In the view of the European Commission – at least as a principle – 'social protection stands for a productivity factor', with input in the economic performance. The European Commission find that the aforementioned objectives can be attained through social polices and via access to appropriate benefits, through polices meant to allocate income for the ever increasing number of individuals who are being compelled to face increasingly extended and recurrent 'in between jobs' periods or with polices designed to reconcile family life and career. The support polices designed to maintain decent levels for pensions will be geared towards a balance between the PAYG systems and the systems based on private schemes.

Other measures are meant to discourage the trend of early retirement, to encourage flexible retirement or active measures for pensioners' employability.

The health systems must provide for a reduction in the inequities in health coverage and the universal access to health coverage in the context of an improved health system. To ensure coordination of policies, the European Commission launched the 'open method of coordination' (O.M.C.) process

[4] A Concerted Strategy for Modernising Social Protection, p. 3, 1999

which implies ongoing reporting by the E.U. countries whose input is assessed against the Commission's guidelines.

The O.M.C. involves 'a dissemination of the best practice models and the achievement of a better compliance with the E.U. objectives.'

This method is designed to support Member States to develop their own policies and it involves the following: fixing guidelines and timetables for achieving short, medium and long-term goals, defining quantity and quality markers and benchmarks; transposition of the guidelines by the Member-States in the form of national and regional policies, targeting specific goals which are tailored to the national and regional specific, periodic monitoring and review.

One of the achievements of this approach is the creation of a set of benchmarks related to the social inclusion policies and designed to measure the national progress in this field. To date, the E.U. has not established fix guidelines and it has allowed Member States to set up the targets by encouraging their implementation. Common objectives have also been established for the pensions, yet, to this date no specific sets of benchmarks have been defined.

Unfortunately, despite the extent of these coordination policies at the E.U. level – as far as coordination is concerned – no significant output is foreseen on short and medium term. If we are to consider the precedent of the European Strategy on Employment (1997-1998) – according to an analysis by Schlude (2003), there is not clear evidence that the police of learning from best practice models has actually led to policy coordination with regards to employment.

The E.U. aims at implementing a consolidated system of social insurances in the Member States, involving the cooperation amongst states in order to identify the strategies best suited to meet the goals established at European level.

The harmonization of the European social insurance system is instrumental also in the context of discrepancies amongst the Member States in terms of the GDP percentage based funding, which outrank the per capita GDP differences amongst the Member States. For instance, the ratio between the state with the lowest expenses in terms of GDP percentage (Romania) and the state with the highest level (Sweden) is 8 to 1, while the GDP ratio of Sweden versus Romania is only 3 to 1.[5]

3. The 'third-way' doctrine: A 'must to' list

"The third way" is a rather vague concept which many social-democrat parties have embraced in the context of an ideology deadlock between traditional politics: right-wing (actually the new right-wing) and left-wing (actually the former social democracy). Its origin is rather clear, as the Blair-Schroeder manifesto speaks for itself – and added to it is the theoretical input of the ideologist *du jour*, Anthony Giddens, sociologist with the London School of Economics.

On the other side of the Ocean, the 'Reinventing Government' Agenda by President Clinton represents the political framework at the core of a reorientation in the 'welfare state' governance from the

[5] Commission of the European Communities, Monitoring progress towards the objectives of the European Strategy for Social Protection and Social Inclusion, 2008, p. 54, Brussels.

concept of 'passive welfare' to 'active welfare' or 'workforce'.

The launch of the manifesto triggered a debate as to what extent this was only a political slogan or it carried the seed for a new official policy of a government or of a financial institution. Coherence is the first challenge with regards to the objectives and the way to reach them, since the general goal is 'to abide by the social-democrat traditions of equity, social justice, freedom, equal opportunities, solidarity and responsibility, but also modernization of the programs in order to meet these traditional goals.'

The economic polices of the third way must seriously consider the issue of globalization. First, the key-element in this approach is **the design of an uniform transnational or at least regional framework, meant to defend the rights of all nationals (citizens) and to transform them into 'gladiators', to provide for better conditions in terms of wage-based or post-wage-based income.** This is feasible through the implementation of a **multilateral control over speculative flows**, in order to improve their impact on the exchange rates and the interest rates. Also, exercising pressure on the I.M.F. to also include in the structural adjustment strategy both committed social programs and programs which target the creation of new jobs – this stands for another type of public policy action specific to the third way.

The financial crisis of the recent years has compelled governments to give consideration to the issues generated by financial speculations and by the weak regulatory system governing these markets. At the recently concluded G20 Summit in London, Gordon Brown said that 'the epoch of the Washington consensus has ended'.

The meritocratic neoliberal views deem that the solution to the rapport between freedom and equality based on the term of 'equal opportunities' does not materialize in the current format of income distribution – as it actually generates even deeper inequities. As for the labour market, this type of meritocratic society will lead in relation to an optimal paretian system to the issue of descending mobility – for some to climb, others must descend. At a macroeconomic scale this will lead to a lack of social cohesion and to a growing class of the 'excluded'. A meritocratic society is a 'contradiction in terms'. The contemporary society is heading towards such a meritocratic model since we are noticing two manifest forms of exclusion: according to Giddens, exclusion at the top end and exclusion at the bottom end. Both exclusions detach individuals from the social integration group, leading to effects previously unforeseen by the social institutions, - which affect both the state and the private business as well. For instance, the lack of real equal opportunities in education generates in the long term both challenges for the 'welfare' state and for the firms which endorse the decrease in egalitarian policies – an acute deficit of qualified individuals in certain domains is thus paired with elevated national unemployment rates in certain developed countries.

We are experiencing a boomerang effect. Inequity as a means of exclusion should not be accepted as a fatality and, most of all, in similar fashion, it should not be accepted that the current distribution of income is a fatality and a necessity so that most individuals can live better than 20-30 years ago. The issue in focus – the dissolution of the social through financial egocentrism – should come as no surprise. The ever more frequent revolts in the large European and American metropolis, revolts of the excluded at the bottom end, are the outcome of such neglect. Not even the social bewilderment of some that the aim of the revolts is uncertain (see the riots in the Paris suburbs) should distance us from the real cause behind such extreme attitude.

The 'third way' advocates the creation of a new social contract meant to redefine risk and security in the contemporary society, by prompting active measures in social polices rather than passive ones – which have led to a decreasing awareness of the individual in relation to the community. **There are no rights without responsibilities** – insists the new social policy. Rights no longer stand for unconditional demands. The unemployment benefit, for instance, should in its new formula emphasize the principle of **do ut es** – I give so that you give – the proactive employment search being a requisite in receiving it – and not the mere context of job loss.

Awareness should be generalized, including both those excluded at the top end and those at the bottom end. The new welfare state must persuade companies that in the absence of larger budgets for social insurances they must deploy other mechanisms to support inclusion. Distributing shares to employees stands for a very effective measure of genuine economic inclusion.

Endorsing a public-private partnership for public education, for the health system represents the way to acknowledge interdependency between the welfare of those at the bottom end versus those at the top end. Otherwise, the exclusion effects are self-reproductive. As stated in the REPORT OF THE SOCIAL JUSTICE COMMISSION (1994) any strategy which removes the 'pauperization' cycles should be reapplied: 'It is absolutely essential to help the adults which lack key skills or qualifications to acquire them, to help individuals with outdated skills to update them and to restore confidence for all those whose moral is undermined by lengthy unemployment. Individuals lacking skills are 5 times more likely to become unemployed that those with a higher level of education; ultimately, jobs go to those capable to get hired.'

If we are to look in retrospect at the 70's and the format of the expenditure budgets of the welfare states, we will notice several significant aspects. First, the highly marketed continuous growth of these budgets in real terms is not quite accurate. International statistics point rather to a stagnation of these expenditures as share in the GDP. Second, it must be noted that numerous expenditures deemed as social in nature have decreased by comparison to the previous years; namely, the expenditures for education or building of social housing. Third, the social insurance expenses have actually increased in excess of 100% by ratio to the referential period. The factors behind this growth are unemployment, growth in the number of poor (pauper) workers, changes in the demographic patterns, in the family structure, etc. – in a nutshell, those elements which have grown acutely manifest due to globalization.

The neoliberal theory defines this as a liability of the social-democrat welfare states. The critics which they voice against the protectionist state are first of all tied to the moral dilemmas generated by protection. A moral dilemma becomes apparent when individuals use the protection they receive to change their behaviour and thus to redefine the risk for which they are being insured.

For instance, the unemployment benefits can generate unemployment per se, if they are deployed as active measures of defence against the labour market risks. For instance, their increased level and their unconditional distribution over an extended span of time can lead to a diminished appetite for work.

These moral dilemmas ensure the increase in public expenditures for social insurances. As a result, emphasis should move from **negative welfare to positive welfare**, and it should be instrumental in generating revenue with input from the individuals themselves. Emphasis should move from **direct economic funding to indirect funding of the human capital**, such as it was implied by Schultz, Dennison and Beeker. As Giddens used to say, the welfare state should be replaced by the *welfare society* in which allocation of aid from the top to the bottom end should be replaced by a more localized system in which the civil society would play an increasingly instrumental role.

Social expenditures should become social investments. For instance, with regards to the pensioners: one of the most challenging proposals of the new social theory refers to abolishing the fix retirement age – a measure included in the other two reform models focusing on the welfare states. The pensioner, as a social category, would cease to exist as this is a category separable from the retirement funds in the sense that it is pointless to freeze retirement funds for those who have reached the retirement age. These individuals can use such funds as choose to: pensions, funding of profit-generating activities, and partial coverage for expenditures if they continue to work part-time, etc. The pensioner becomes both a holder of rights and a carrier of obligations; or, in the context of creating new jobs and reducing unemployment, the initiatives in social investments can come in different forms such as (Moss Kanter, 1998): entrepreneurial initiatives, continuous learning to access transitional jobs, compliance of the education practices with the standard requirements to be met by employees of large international corporations, or the redistribution of the work hours while maintaining salary levels and increasing productivity, etc.

Providing for decent public services, fighting poverty by means of policies focused on family and children and a reduction in the labour related fiscality and the social contributions from low-wage jobs – all these are goals of the third way, Green-Pedersen (2001), as it is considered that these elements could generate the core statements of a coherent view in terms of ideas and macroeconomic policy.

Conclusions

Society's evolutions require new approaches for the socio-economic issued, and thus the views stated in this paper are subject to amendments every year, as the strategic trends of the international institutions add new references and they modify and reform systems. The strategy-mix proposed by various international bodies is contained in each of the current societies and they are being implemented with no regard to the actual situation in a national context. The standing benchmark cannot prove its effectiveness due to its misperception by the reformers: the essence of a policy is extracted where it does not apply, or, all the more concerning, a system is being copied with no prior assessment of its results.

Performance, efficiency – such

worldwide promoted terms – translate into the national social systems of the developed countries through the implementation of measures which alas succeed for a while, in certain contexts and in certain states, in the absence of a prior internal feasibility study.

The final conclusion is that we find that no 'welfare state' reform can achieve effective and lasting results unless it is paired with a philosophical validation of the governance's role. Otherwise, such a beautiful idea would end under the burden of its own weight.

REFERENCES:

1. Global Employement Trends Brief, International Labour Office, 2008
2. **Angelescu, Coralia; Stanescu Ileana,** *Politici economice*, Editura Economica, Bucuresti, 2001
3. A**ngelescu, Coralia; Bratu, Anca**, *Diminuarea saraciei prin educatie*, Editura ASE, Bucuresti, 2004
4. **Angelescu, Coralia** (coordonator), *Economia României si UE*, VOL I, II, Editura ASE, Bucuresti, 2005
5. **Anghelache, Constantin**, *România 2001. Dupa unsprezece ani de tranzitie*, Editura Economica, Bucuresti, 2001
6. **Artis, Manuel; Ramos, Raul; Surinach, Jordi,** *Job Losses, Outsourcing And Relocation: Empirical Evidence Using Microdata*, Centre de referencia en economia aplicada, 2006
7. **Bacanu, Maria,** *Egalitate/inegalitati social-economice în lume*, Editura International University Press, Bucuresti, 2007
8. **Blau, Joel**. *Illusions of Prosperity: American Working Families in an Age of Economic Insecurity*, New York: Oxford University Press, 1999.
9. **Bowles, Paul**, *Globalization and the welfare state: Four hypotheses and some empirical evidence*, University of Northern British, Columbia, 1997
10. **Brady, David; Backfield, Jason; Seeleib-Kaiser, Martin**, *Economic Globalization and the Welfare State in Affluent Democracies*, Zentrum fűr Sozialpolitica, Bremen, 2004
11. **Braun, Joachim; Grote, Ulrik**e, *Does Descentralization Serve the Poor?*, International Monetary Fund, Washington, 2000
12. **Brusoni, Stefano**, *Innovation in the Knowledge Economy: A summary of research issues*, Science and Technology Policy Research, Paris, 2002
13. **Cousins, Mel**, *European Welfare States. Comparative Perspectives*, Sage Publications, London, 2005
14. **Friedman, Rose, Friedman, Milton**, *Liber sa alegi*, Editura All, Bucuresti, 1998
15. **Giddens, Anthony**, *A treia cale şi criticii ei*, Editura Polirom, Bucureşti, 2001
16. **Gray, John**, *Dincolo de conservatorism şi liberalism*, Editura ALL, Bucureşti, 1998
17. Rapport sur l'investissement dans le monde 2007, "Societes transnationales, industries extractives et developpement", Nations Unites, New York and Geneve, 2007
18. **Salmon, Pierre**, *Descentralization and Supranationality: The Case of the European Union*, 2000
19. **Sen, Amartya**, *Dezvoltarea ca libertate*, Editura Economică, Bucureşti, 2004