European Forum: Welfare States and the Eurozone Crisis

Introduction

R. Daniel Kelemen
Rutgers University

In recent months, the European economy has shown a number of signs of recovery. But even if the member states of the European Union are heading toward a rebound, the crisis has done lasting damage, to individual lives, to communities and, perhaps, the European welfare states themselves. Most European governments have responded to the crisis in part by embracing austerity and structural reform—either of their own volition or under pressure from bond markets and European and international lending institutions. In the wake of these reforms, it is a good time to take stock of the impact that the crisis and the policy responses to it have had on European welfare states. In this Forum, we have asked a group of outstanding scholars of European welfare states—Anton Hemerijck of VU University Amsterdam, Julia Lynch and Isabel Perera of the University of Pennsylvania, Lane Kenworthy of the the University of Arizona, Bruno Palier of Sciences Po, Centre d'études européennes, and Lyle Scruggs of the University of Connecticut—to do just that. Their contributions to the Forum offer a fascinating overview of the range of impacts the crisis has had on various aspects of European welfare states. Collectively, their findings suggest that reforms adopted in response to the crisis will have a lasting impact on European welfare states, with important implications for the study of European political economy for years to come.

Europe's High-Employment Strategy for Reducing Poverty

Lane Kenworthy
University of Arizona

Since 2000, increasing employment has been a key aim in the rich European nations. At its Lisbon Summit that year, the European Council set a target employment rate of 70% for countries to reach by 2010. The 2003 report of an influential task force was titled, emblematically, "Jobs, Jobs, Jobs."[1] A growing number of these countries have adopted one or another version of the "social investment state" approach to social policy, with activation playing a significant role.[2]

There are good reasons for this emphasis on employment. Population aging means a rising share of public social expenditures will go to the elderly in coming decades, leaving less for the working-aged and children. In principle, tax rates could be increased to make up the difference, but that is more difficult in today's world of capital mobility than it was in the 1960s and 1970s, the heyday of welfare state expansion. High employment can help, both by boosting tax revenues and by reducing the need for government spending on unemployment insurance, social assistance, and related programs. Employment also has intrinsic benefits; it's a locus of social interaction, and for some it's a key source of self-esteem.

Another goal underlying the high-employment strategy is poverty reduction. Workless and low-work households are among the most likely to be poor, so boosting employment is seen as attrac-

[1] Wim Kok et al, "Jobs, Jobs, Jobs: Creating More Employment in Europe," Report of the Employment Task Force, 2003.

[2] Gøsta Esping-Andersen et al, *Why We Need a New Welfare State*, Oxford University Press, 2002; Nathalie Morel, Bruno Palier, and Joakim Palme, eds., *Towards a Social Investment Welfare State?*, The Policy Press, 2012; Anton Hemerijck, *Changing Welfare States*, Oxford University Press, 2013.

tive approach to raising incomes.[3]

What have been the results of Europe's high-employment strategy for reducing poverty? At the moment, they look quite disappointing. And this isn't just a function of the Great Recession. There were worrisome signs even before 2008. If we use the official EU poverty measure—the share of people in households with an income below 60 percent of each country's median income—in most of Western Europe poverty declined very little, if at all, even during the healthy economic years prior to 2008.[4]

Part of the problem is inherent to a relative measure of poverty: if employment rises as much among those in the middle of the income distribution as at the bottom, relative poverty is unlikely to decrease. But even if our concern is absolute improvement in incomes, a higher employment rate is no guarantee of progress for those at the bottom. This is true for a variety of reasons.

First, a number of people at the low end have cognitive or behavioral limitations or family constraints that make them unlikely to hold a job for very long. Employment is not a route out of poverty for this group.

Second, if a country has a high wage floor, there may be limited employer demand for people with the least skills. In Belgium and France, for instance, the employment rate for persons with less than a secondary education barely budged between 2000 and 2007.[5]

Third, in a country with significant employment protection regulations, a good bit of new employment may be in fixed-term positions that don't end up boosting household incomes by much. Italy's employment rate jumped by five percentage points from 2000 to 2007, but most of the added jobs were short-tenure ones.[6]

Fourth, in a labor market with a lower wage floor and limited regulations, more of those at the low end may find regular full-time employment but end up as "working poor."[7]

Fifth, what we want is long-term progress in poverty reduction, but employment gains sometimes turn out to be fleeting. In the United States, for instance, employment increases for low-income households during growth phases of the business cycle have, since the 1970s, consistently been offset by employment losses during recessions.[8]

Finally, for Ireland, Spain, Portugal, and Greece, the Great Recession has proved a stark reminder that a bad macroeconomy can wipe out years of employment gain.

So what does this mean for policy going forward? I hope policy makers in Western Europe won't give up on pursuit of high employment, nor on activation and the social investment state as policy tools. But there needs to be a clear realization that rising employment by itself is unlikely to yield substantial poverty reduction.[9] Efforts to boost employment must be coupled with generous and

[3] Bea Cantillon and Frank Vandenbroucke, eds., Reconciling Work and Poverty Reduction, Oxford University Press, forthcoming.

[4] Ibid; Lane Kenworthy, "Reducing Relative Poverty," *Consider the Evidence*, June 5, 2011.

[5] OECD, *Employment Outlook*, various years.

[6] Ibid.

[7] Hans-Jürgen Andreß and Henning Lohmann, eds., The Working Poor in Europe, Edward Elgar, 2008.

[8] Lane Kenworthy, *Progress for the Poor*, Oxford University Press, 2011.

[9] Ibid.

rising public transfers to those not in work and, depending on the context, with subsidies to those in low-end jobs. To genuinely succeed, the high-employment approach can't be done on the cheap.

A Social Investment Europe is a Growing Europe!

Anton Hemerijck
VU University Amsterdam

EUROPE finds itself at a crossroads amidst the turmoil of the Euro crisis in the aftermath of the global financial crash of 2008. The EU is in dire need of a growth strategy that is—all at once—economically viable, politically legitimate and socially fair. Without a magic growth driver, sustainable employment is best guarantee for economic prosperity and social cohesion in ageing European societies. Without a long-term strategic focus on job opportunities, easing labour transitions for working families, and improving human capital, the EU risks becoming entrapped in a permanent economic depression. This is perhaps the central message of my *Changing Welfare States* monograph, published with Oxford University Press in 2013. The social investment perspective calls for policies that 'prepare' individuals and families to respond to new social risks of the competitive knowledge society, by investing in human capital stock from their early childhood on, rather than to simply 'repair' damage after economic misfortune strikes. Because of adverse demography in the face sluggish growth, social investments in productive potential and capacitating social servicing are more relevant than ever before.

Over the past two decades, European welfare states have, with varying success, pushed through reform. In a fair number of countries trajectories of welfare reform have been more proactive and reconstructive than defensive or destructive. With their tradition of high quality child care and high employment rates for older workers, the Nordic countries display the strongest social investment profile, but we also observe change in countries like the Netherlands (social activation), Germany (support for dual earner families), France (minimum income protection for labour market outsiders), the United Kingdom (fighting child poverty), Ireland (much improved education) and Spain (negotiated pension recalibration) in the period leading up to the financial crisis. Alongside retrenchments there have been deliberate attempts—often given impetus by intensified European (economic) integration—to rebuild social programs and institutions, thereby accommodating policy repertoires within the new economic and social realities of the 21st century.

The empirical turn towards social investment contains some important lessons. First and foremost is that social investment should indeed be understood in terms of 'packages' of interdependent policy initiatives across various areas. Positive returns in terms of economic growth, employment opportunities, and (child) poverty mitigation depend on complementary sets of provisions, including quality childcare, parental leave arrangements, training, education and activation services, alongside adequate (universal) minimum income protection. These positive returns rely on strong elements of 'goodness of fit' between social protection, labour regulation and key social services. By explicitly taking on a 'life course perspective', furthermore, the evidence points out how under-provision of social investment services today, such as early childhood education and care, compound social disadvantage later on, implying an expensive waste of human capital and productive employment. Dual earner families are the best safeguards against child poverty. There is 'double dividend' at work here. Quality childcare services, alongside effective parental leave arrangements, supported by appropriate tax and benefit incentives and active labour market policies (ALMP), enable more parents to engage in gainful employment, creating additional