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DEVELOPMENT OF WELFARE STATE THEORY: A REVIEW OF THE LITERATURE¹

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The already existing challenges of the welfare state, the new social risks and aging population are coupled with the new phenomena of financial crisis, Euro-crisis, debt crisis and the lack of economic growth that has followed in recent years since leads to converging and diverging welfare outcomes as well. Welfare state retrenchment dominates politics today, strict austerity policies have been widely adopted in Europe since 2008. For a better understanding of the current pressures on the welfare states the paper reviews the historical development and the theoretical arguments against and in favour of the concept.

KEYWORDS:

welfare state, welfare state recalibration, a review of the literature, new social risks

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1. INTRODUCTION

The financial and economic crisis has led to “an ongoing legacy of turbulence in the Euro zone”.² The severe indebtedness problem in some parts of the European Union and the lack of economic growth that has followed in the years since, combined with the already existing challenges of aging population, has the inevitable consequence or assumption that the universalist and generous welfare states are no longer sustainable. In light of these processes the paper reviews the evolution of the welfare state in theory for a better understanding of its current challenges.

“Once societies attain certain thresholds of economic development, all begin to pass social security, health and other forms of welfare legislation, and over time they devote an increasing share of the public purse to these programs.”³ Castles described this problem as how modern welfare states cope with the self-contradiction that while providing welfare services they are also generating increased demand for them. Welfare retrenchment or recalibration is an inevitable process.⁴

The structure of the article is as follows. The next section reviews the different definitions of the welfare state. There follows the historical overview of the evolution of the welfare state and the assessments of critical arguments. The main findings are summarized in the conclusion part.

2. DEFINING THE WELFARE STATE

The concept of welfare state is highly debated and discussed in economic literature, moreover, there is no universally accepted definition, nor is there one that suits all purposes (including the measurement issues and the compilation of statistics). Nicholas Barr emphasized that the concept of welfare state can be understood as a mosaic: “with diversity both in its source and in the manner of its delivery”.⁵ The use of the expression welfare has always been inexact, that is why a clear description is necessary regarding the object of the paper.

² OBSTFELD, M.: *Finance at Center Stage: Some Lessons of the Euro Crisis*, European Commission, Directorate-General for Economic and Financial Affairs, Economic Papers 493, Brussels, 2013, 1.

³ COX, R. H.: *The Development of the Dutch Welfare State*. In: *Workers' Insurance to Universal Entitlement*, University of Pittsburgh Press, Pittsburgh, 1993, 9.

⁴ CASTLES, F. G.: *The Future of the Welfare State: Crisis Myths and Crisis Realities*, Oxford University Press, Oxford, 2004.

⁵ BARR, N.: *The Economics of the Welfare State*, Weidenfeld and Nicholson, London, 1987, 5.

As for welfare⁶ itself, there is no generally accepted definition of the welfare state. This theoretical debate can be concluded with Richard Titmuss' words: "I am no more enamoured of the indefinable abstraction of the 'Welfare State' than I was some twenty years ago [...]. Generalized slogans rarely induce concentration of thought: more often they prevent us from asking significant questions about reality".⁷

The Oxford Dictionary can be used as an ideal starting point to define the welfare state: "a system whereby the state undertakes to protect the health and well-being of its citizens, especially those in financial or social need, by means of grants, pensions, and other benefits".⁸

The concept of "The Welfare State", which appeared in the 1940's, is generally accepted as a wider definition of the role of the State in the field of social and economic policy. Most scholars of the subject, whether on the right or left politically, take it to mean a more positive and purposeful commitment by the government.⁹

Myrdal concluded that, "in the last half-century, the State, in all the rich countries in the Western world, has become a democratic "Welfare State", with fairly explicit commitments to the broad goals of economic development, full employment, equality of opportunity for the young, social security, and protected minimum standards as regards not only income, but nutrition, housing, health and education, for people of all regions and social groups".¹⁰

Briggs provided an early and famous definition of the welfare state: i.e. a state in which "power is deliberately used (through politics and administration) in an effort to modify the play of market forces in at least three directions –first, by guaranteeing individuals and families a minimum income irrespective of the market value of their work or their property; second, by narrowing the extent of insecurity by enabling individuals and families to meet certain 'social contingencies' (for example: sickness, old age and unemployment) which lead otherwise to individual and family crises; and third, by ensuring that all citizens without distinction of status or class are offered the best standards available in relation to a certain agreed range of social services".¹¹

⁶ The definition problem of welfare can be well represented with the fact that it is outside the scope of *The Welfare State Reader* or *The Oxford Handbook of The Welfare State*. The introductory part of the Handbook starts with welfare state as a key element to modern democracy and its emergence and evolution (WHITE, 2010, 19) as well as in the *Welfare State Reader*. Welfare is described only in connection with other expressions, such as welfare regimes, welfare capitalism or welfare state; there is no discussion of the concept itself (GREVE, 2008). The problem of defining welfare arises from the fact that it is used in several disciplines as well. For example looking at welfare merely in a biological point of view, divorced from social circumstances means how many calories, vitamins or how much water is needed for survival (SPICKER, 1995, 19), or it is totally different understanding welfare "from a sociological or social policy perspective" (GREVE, 2008, 54) or from economic angles.

⁷ TITMUSS, R. M.: *Welfare State and Welfare Society*. In: ed. ABEL-SMITH, B. and TITMUSS, K.: *The Philosophy of Welfare: Selected Writings of Richard Titmuss*, Allen and Unwin, London, 1987, 141.

⁸ Oxford Dictionary: Welfare state, 2017. Available at en.oxforddictionaries.com/definition/welfare_state accessed on 20-02-2017.

⁹ TITMUSS, R. M.: *Essays on the Welfare State*, Allen and Unwin, London, 1958.

¹⁰ MYRDAL, G.: *Beyond the Welfare State: Economic Planning and Its International Implications*, Yale University Press, New Haven, 1960, 45.

¹¹ BRIGGS, A.: The Welfare State in Historical Perspective, *European Journal of Sociology*, 2(1961)/2, 228.

The first two conditions are concerned with minimum standards, and can be met by a “social service state”, but the third goes beyond this approach bringing the idea of optimum rather than minimum.

Titmuss gave a functionalist definition for the welfare state: “all collectively provided resources are deliberately designed to meet certain socially recognized ‘needs’; they are manifestations, first, of society’s will to survive as an organic whole, and secondly, of the expressed wish of all the people to assist the survival of some”.¹²

One of the most well-known scholars of the welfare state is Esping-Andersen, whose definition entails that social citizenship constitutes the core idea of the welfare state.¹³ Esping-Andersen gave a simple definition: welfare state “involves state responsibility for securing some basic modicum for welfare for its citizens”.¹⁴

The definition carried out by Goodin distinguishes the welfare state from other sorts of state: “the welfare state is a system of compulsory, collective, and largely nondiscretionary welfare provision”¹⁵ which “intervenes (a) in a market economy (b) to meet certain of people’s basic needs (c) through relatively direct means”.¹⁶

Welfare state can therefore be understood “as a shorthand for the state’s role in education, health, housing, poor relief, social insurance and other social services”¹⁷ in developed capitalist states. Several different combinations of programmes and policies constitute the welfare state. “In broad terms the modern welfare state comprises cash benefits and benefits in kind. The latter embraces a wide range of activities that can include education, medical care, and more general forms of care for the infirm, the mentally or physically handicapped, and children in need of protection.”¹⁸

There is a wide range of definitions of the welfare state, Veit-Wilson concluded that “theoreticians of the welfare state have failed to develop a dynamically discriminating criterion of a welfare state”,¹⁹ consequently each author dealing with the given subject has to stick himself or herself to a favourable definition which fits the purpose of the research.

Throughout the paper, welfare state refers to the social welfare provision through the agency of the state.²⁰ Broadly, the welfare state is considered to be “a particular form of state, a distinctive form of polity or a specific type of society”.²¹

¹² TITMUSS, R. M.: *Essays on the Welfare State*, Allen and Unwin, London, 1958, 39.

¹³ MARSHALL, T. H.: *Citizenship and Social Class*, Cambridge University Press, Cambridge, 1950.

¹⁴ ESPING-ANDERSEN, G.: *The Three Worlds of Welfare Capitalism*, Princeton University Press, Princeton, NJ., 1990, 18–19.

¹⁵ GOODIN, R. E.: *Reasons for Welfare: The Political Theory of the Welfare State*, Princeton University Press, Princeton, New Jersey, 1988, 12.

¹⁶ *Ibid.*, 11.

¹⁷ GINSBURG, N.: *Class, Capital and Social Policy*, Macmillan, London, 1979, 3.

¹⁸ BARR, N.: *The Economics of the Welfare State*, Oxford University Press 5th Edition, Oxford, 2012, 8.

¹⁹ VEIT-WILSON, J.: States of Welfare: A Conceptual Challenge, *Social Policy & Administration*, 34(2000)/1, 22.

²⁰ PIERSON, C.: *Beyond the Welfare State? The New Political Economy of Welfare*, Polity Press, Cambridge, 1991, 6–7.

²¹ PIERSON, C.: Theory in British Social Policy. In: eds. PIERSON, C. – ELLISON, N.: *Developments in British Social Policy*, Macmillan, London, 1998, 7.

3. THE WELFARE STATE IN HISTORICAL PERSPECTIVE

Welfare theory has roots that extend far into history, so the historical overview of the evolution of the welfare state is essential to be part of the review of the literature.²²

The development of social insurance was a gradual process and a significant administrative and political innovation.²³ The origins of the welfare state date back to the end of the nineteenth century and are linked to the significant societal, economic and political changes caused by the Great Transformation of that time. Industrialisation, urbanisation, population growth and even the rise of capitalism indicated changes that “undercut the traditional forms of welfare provision offered by family networks, charity organizations, feudal ties, guilds, municipalities, as well as churches”.²⁴ These societal changes were coupled with increased level of productivity which made it possible to provide the necessary resources for these new social needs.

The first example for welfare entitlements is the introduction of social insurance in the 1880s in Imperial Germany by Otto von Bismarck, Chancellor of the Reich based on the Prussian idea of social insurance from the 1840s onwards.²⁵ The German social insurance scheme was imitated by other nations; it was a salient example, and less than two decades thereafter, social insurance laws had appeared in most countries of Western Europe, and after the First World War it also appeared outside Europe, in Australia, Canada, the United States and Japan as well.²⁶ In Western countries, these early laws meant the expansion of welfare states and the development of social citizenship,²⁷ leading to the 20th century transformation of citizens’ life conditions.

The introduction of social protection meant a breakthrough in the history of the nation states which was added to their existing functions of protecting their populations and modernization (investment in infrastructure and communications to promote economic development). Social insurance was a core element of this new state role, but governments began to be involved in other social issues as well, such as public education and health, worker protection, factory inspection and protection against child-labour, the length of working hours and relations between employers and workers.²⁸

The Great Depression triggered new forms of government-intervention in social and economic life, especially in Sweden and the US,²⁹ defining “New Deal as social democratic as the contemporary Scandinavian social democracy”.³⁰ During the interwar period, social

²² FITZPATRICK, T.: *Welfare Theory: An Introduction*, Palgrave, New York, 2001, 196.

²³ PIERSON, C.: *Beyond the Welfare State? The New Political Economy of Welfare*, Polity Press, Cambridge, 1991.

²⁴ CASTLES, F. G. – LEIBFRIED, S. – LEWIS, J. – OBINGER, H. – PIERSON, C.: Introduction. In: eds. CASTLES et al.: *The Oxford Handbook of the Welfare State*, Oxford University Press, Oxford, Chapter 1, 2010, 1–15.

²⁵ KUHNLE, S. – SANDER, A.: The Emergence of the Western Welfare State. In: eds. CASTLES, F. C. – LEIBFRIED, S. – LEWIS, J. – PIERSON, C.: *The Oxford Handbook of the Welfare State*, Oxford University Press, Chapter 5, Oxford, 2010, 61–80.

²⁶ BRIGGS, A.: The Welfare State in Historical Perspective, *European Journal of Sociology*, 2(1961)/2, 221–258.

²⁷ MARSHALL, T. H.: *Citizenship and Social Class*, Cambridge University Press, Cambridge, 1950.

²⁸ KUHNLE, S. – SANDER, A.: *The Emergence of the Western Welfare State*, 2010.

²⁹ PIERSON, C.: *Beyond the Welfare State? The New Political Economy of Welfare*, Polity Press, Cambridge, 1991, 117–118.

³⁰ ESPING-ANDERSEN, G.: *The Three Worlds of Welfare Capitalism*, Princeton University Press, Princeton, NJ, 1990, 28.

insurance and protection provided by the state were extended in three ways: in terms of the scope of risks, the coverage of the population and through an increased compulsory provision.³¹

The modern welfare state was shaped by the Great Depression and the preparations and the outbreak of the World War II. The period of 1918–1940 can be defined as “consolidation and development” and in which the obstacles to the welfare state expansion after 1945 were removed.³² The wartime experiences can be understood as basis for national solidarity and increased social policy efforts, except in the United States. From the 1940s onwards, the concept of the welfare state became common.³³ During this time period the famous British Beveridge Report of 1942 described the welfare state “as the new idea of citizenship in a democratic society, which combines political and social rights”.³⁴

The post-war period can be divided into an expansion phase from 1945 to the first oil crisis in 1973 and a retrenchment phase afterwards.³⁵ The whole period between 1945 and 1975 can be characterised as the thirty years “Golden Age” of the welfare state, with the phase of major growth and expansion of social expenditures from 1960 onwards.³⁶ Typically, the mid-1970s and early 1980s can be identified as turning points in the history of the welfare states. Due to the economic and labour market impacts of the increasing oil prices, governments switched from expansion towards cutbacks.³⁷ The oil crises resulted in significant cuts and social expenditures restructuring.

Huber and Stephens defined three sub-periods of the retrenchment phase of 1973 and onwards: 1973–1979, 1980–1990 and 1990–2000. The first sub-period is characterised with new emerging challenges as a consequence of the two oil crises. The second phase’ trait is the need for structural measure beside cyclical ones was recognized by policymakers. The 1990s as a phase is marked by the demise of state socialism and EU integration.³⁸

What factors lie behind the growing need for retrenchment, what challenges have the welfare state been facing since 1973. There are three retrenchment hypotheses which explain these factors. (1) The hypothesis of an early onset of the retrenchment phase which describes the pressure on the welfare state with the oil crisis of 1973/74, the shifts in international trade relations and the demise of the Bretton Woods system of fixed exchange rates. (2) According to

³¹ KUHNLE, S. – SANDER, A.: The Emergence of the Western Welfare State. In: eds. CASTLES, F. C. – LEIBFRIED, S. – LEWIS, J. – PIERSON, C. (eds.): *The Oxford Handbook of the Welfare State*, Oxford University Press, Chapter 5, Oxford, 2010, 61–80.

³² PIERSON, C.: *Beyond the Welfare State? The New Political Economy of Welfare*, Polity Press, Cambridge, 1991, 116.

³³ KUHNLE, S. – SANDER, A.: *The Emergence of the Western Welfare State*, 2010.

³⁴ INGLOT, T.: *Welfare States in East Central Europe, 1919–2004*, Cambridge University Press, Cambridge, MA, 2008, 22.

³⁵ NULLMEIER, F. – KAUFMANN, F.-X.: Post-War Welfare State Development. In: eds. CASTLES, F. C. – LEIBFRIED, S. – LEWIS, J. – K. C.: *The Oxford Handbook of the Welfare State*, Oxford University Press, Chapter 6, Oxford, 2010, 81–101.

³⁶ PIERSON, C.: *Beyond the Welfare State? The New Political Economy of Welfare*, Polity Press, Cambridge, 1991, 125–140.

³⁷ CLASEN, J.: *Reforming European Welfare States. Germany and the United Kingdom Compared*, Oxford University Press, Oxford, 2005.

³⁸ HUBER, E. – STEPHENS, J. D.: *Development and Crisis of the Welfare State: Parties and Policies in Global Markets*, University of Chicago Press, Chicago, 2001.

the globalisation hypothesis the initial phase of economic globalisation enforced retrenchment. Welfare state expansion is no longer possible. (3) As the post-industrialism hypothesis argues, technological changes, the rise of the service economy and the knowledge society as well as the social developments shaped by the restructuring of labour markets are more important than the globalisation itself. These changes create new social risks which require the transition from the “industrial welfare state” to the “post-industrial welfare state”.³⁹

Although welfare state is under pressure, cutting back social spending is difficult, retrenchment follows different patterns than expansion and the welfare state cannot be isolated from broad social development, consequently it has undergone changes like other institutions.⁴⁰

To sum up, it can be concluded that there is a general trend of decreasing public revenues; however, as a consequence of the unfavourable recent economic processes there is an increasing demand for welfare services. As disproving the retrenchment hypothesis the terminology has been changed from retrenchment to restructuring which is a major shift in welfare state literature.⁴¹

Unequivocally the global financial crisis of 2008/2009 has had a significant impact on welfare state development, on the one hand consolidation of public finances might enforce public expenditure cuts, on the other hand as a consequence of worsening economic and employment situations there is an increasing demand for social protection schemes. There are different paths how welfare states cope with the new challenges.

4. CRITIQUE AND PRESSURES ON THE WELFARE STATES

Welfare state and the idea of social justice are inseparable. Changes in the nineteenth century brought capitalism. To understand the welfare state itself, it is essential to look at welfare state theory in the context of capitalism. “The welfare state is set in the context of a market economy”,⁴² with the specific function of modifying “the play of the market forces”.⁴³ It is really important to note that the welfare state “did not reject the capitalist market economy”.⁴⁴ In the following, the first critics of the welfare state will be briefly summarized.

The main idea behind libertarian views is that institutions of free markets and private property maximize welfare. Libertarian theorists argue against state intervention not on moral grounds, but on its negative impact on welfare.⁴⁵

³⁹ NULLMEIER, F. – KAUFMANN, F.-X.: *Post-War Welfare State Development*, 2010, 23.

⁴⁰ PIERSON, P.: *The New Politics of the Welfare State*, Oxford University Press, Oxford, 2001a.

⁴¹ PIERSON, P.: Coping with Permanent Austerity: Welfare State Restructuring in Affluent Democracies. In: ed. PIERSON P.: *The New Politics of Welfare State*, Oxford University Press, Oxford, 2001b, 410–456.

⁴² GOODIN, R. E.: *Reasons for Welfare: The Political Theory of the Welfare State*, Princeton University Press, Princeton, New Jersey, 1988, 7.

⁴³ BRIGGS, A.: The Welfare State in Historical Perspective, *European Journal of Sociology*, 2(1961)/2, 228.

⁴⁴ MARSHALL, T. H.: *Class, Citizenship and Social Development*, University of Chicago Press, Chicago, 1964, 298.

⁴⁵ BARR, N.: *The Economics of the Welfare State*, Oxford University Press 5th Edition, Oxford, 2012.

The first well-known opponent of the welfare state is Hayek. At the core of his criticism lies the idea how wealth redistribution is used in order to achieve social justice. Distributive justice “cannot be derived from general rules”, it requires resources to be centrally allocated according to “particular aims and knowledge of the planning authority” leading to the “command economy”.⁴⁶ Hayek’s general critique of the welfare state touched the topics of social security and taxation and redistribution. He argued that the welfare state’s social security and taxation policies are coercive, however it should be the state’s main role to secure freedom while avoiding coercing citizens and preventing them from coercing each other.⁴⁷ Hayek’s argument was not simply against the welfare state, because its conception “has no precise meaning”, rather against its “contradictory elements” which cost much more than “people imagine or would be willing to bear”.⁴⁸ Individual freedom constructs the core element of libertarian theories; the desire for “greater equality” will reduce or destroy liberty.⁴⁹

For Friedman individual freedom has a primary value, and he argued against the coercive power of the government as well. According to his views, the major functions of the governments “must be to protect our freedom both from the enemies outside our gates and from our fellow-citizens: to preserve law and order, to enforce private contracts, to foster competitive markets”⁵⁰. In Friedman’s and Hayek’s views the state has no distributional role, only in case of certain public goods and for strictly limited measures to ease poverty.⁵¹

This idea re-emerged with the New Right, written by one of the most prominent scholars of this area; Murray argued that despite increasing social expenditures, poverty was aggravated in the US after 1965.⁵² This led to the shift in thinking that individuals are responsible for their own well-being. Goodin contradicted to New Rightists’ arguments on a normative basis, providing an ethical defence of the welfare state’s basic institutions. Goodin repudiated the three main critical themes (economic, moralistic and social-psychological) of the New Rightists, such as (1) “social welfare measures undermine economic efficiency”⁵³ and welfare state “is being indirectly self-defeating, undermining its own goals”;⁵⁴ (2) welfare state is “moralistic, drawing on ethical notions of moral deserts, of freedom or of self-reliance”⁵⁵ and “welfare state transfers [...] are collective, coerced, one-way”;⁵⁶ and (3) “welfare programs have done more to create

⁴⁶ HAYEK, F. A. von: *The Constitution of Liberty*, University of Chicago Press, Chicago, IL., 1960, 232.

⁴⁷ MILLER, E. F.: *Hayek’s The Constitution of Liberty. An Account of its Argument*, The Institute of Economic Affairs, London, 2010.

⁴⁸ HAYEK, F. A. von: The Meaning of the Welfare State. In: eds. PIERSON, C. – CASTLES, F. G.: *The Welfare State Reader*, 2000, 90–92.

⁴⁹ HAYEK, F. A. von: *The Road to Serfdom*, Routledge, London, 1944, 82.

⁵⁰ FRIEDMAN, M.: *Capitalism and Freedom*, Chicago University Press, Chicago, 1962, 2.

⁵¹ BARR, N.: *The Economics of the Welfare State*, Oxford University Press 5th Edition, Oxford, 2012.

⁵² MURRAY, C. A.: *Losing Ground: American Social Policy, 1985–1980*, Basic Books, New York, 1984.

⁵³ GOODIN, R. E.: *Reasons for Welfare: The Political Theory of the Welfare State*, Princeton University Press, Princeton, New Jersey, 1988, 229.

⁵⁴ Ibid., 257.

⁵⁵ Ibid., 278.

⁵⁶ Ibid., 306.

dependency than to cure it”.⁵⁷ Goodin offered an argument in favour of policies aiming at “minimum protection” rather than “equal protection” of what might be regarded as “minimal welfare state”.⁵⁸

A vast part of welfare state literature deals with globalisation and welfare state linkages. In line with a major part of this literature, increased capital mobility reduces governments’ room to maintain generous social policies. There are economic and political channels through which globalisation influences domestic welfare policies.⁵⁹ The first linkage rests on the economic logic that capital seeks the most profitable rate of return on investment, so capital mobility influences policymakers’ scope of social policies through markets. The political logic of globalisation argues that capital mobility (as consequence of globalisation) may contribute to welfare state retrenchment through democratic politics. The main argument of mobile businesses and their interest associations is that welfare state negatively affects profit, investments and jobs, putting pressure on governments to cut social expenditures.⁶⁰ This wave of the literature is called the *globalist school*. Its main argument is that internalisation of the economy threatens welfare state.

The globalist school was extremely popular, but in the mid-nineties globalisation sceptics gained attention. Their views are mainly built on Cameron’s argument⁶¹ that increased trade is associated with the expansion of public economy.⁶² After World War II a multilateral international regime of “embedded liberalism” emerged in which trade liberalisation was coupled with salient government interventionism and social insurance.⁶³ Globalisation and internalisation have not generated significant cuts in social spending;⁶⁴ governments maintain social insurance against the new risks.⁶⁵ Rodrik demonstrated that both in developed and developing countries, high level of trade is associated with generous social policies.⁶⁶

The two confronting lines of the theory raise the question why the welfare state has been under constant pressure, if not because of globalisation. The *revisionist school* has offered a distinct answer: troubles of the welfare state are largely self-inflicted. Social programs introduced during the last decades have come to full maturation. These extended government

⁵⁷ Ibid., 332.

⁵⁸ Ibid., 16.

⁵⁹ SWANK, D.: *Global Capital, Political Institutions, and Policy Change in Developed Welfare States*, Cambridge University Press, Cambridge, 2002.

⁶⁰ SWANK, D.: Withering welfare? Globalisation, Political Economic Institutions and Contemporary Welfare States. In: ed. WEISS, L.: *States in the Global Economy: Bringing Domestic Institutions Back In*, Cambridge University Press, Chapter 3, Cambridge, 2003, 58–82.

⁶¹ CAMERON, D.: The Expansion of the Public Economy: A Comparative Analysis, *American Political Science Review*, 72(1978)/4, 1243–1261.

⁶² See also KATZENSTEIN, P.: *Small States in World Markets*, Cornell University Press, Ithaca, 1985.

⁶³ RUGGIE, J. G.: International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic System, *International Organization*, 36(1982)/2, 379–415.

⁶⁴ GARRETT, G.: *Partisan Politics in the Global Economy*, Cambridge University Press, New York, 1998a.

⁶⁵ GARRETT, G.: Global Markets and National Policies: Collision Course or Virtuous Circle, *International Organization*, 52(1998)/4, 787–824.

⁶⁶ RODRIK, D.: Why Do More Open Economies Have Bigger Governments? *Journal of Political Economy*, 106(1998)/5, 997–1032.

commitments produce persistent budgetary pressures and a marked loss of policy flexibility, making any welfare state reform inherently difficult.⁶⁷

The debate on the linkages and impacts between globalisation and the welfare state has turned to a full circle with the revisionist position. Genschel argued that globalisation is far from causing these troubles, but it also is part of their solution. “The disciplinary power of international markets helps governments check the vicious dynamics of welfare policy and thus contributes to saving the welfare state from itself”.⁶⁸

Other scholars argue that many pressures on the welfare state are wrongly attributed to globalisation. For example, “post-industrialisation”, transition into a service-based economy is a more crucial impetus of the recent changes than globalization.⁶⁹

At the end of the 20th century the welfare state was challenged by three interlinking factors,⁷⁰ namely globalization, demographic changes, and new social risks.⁷¹ Individuals and the society face a new set of risks which is the result of changes in external and internal conditions, encompassing technological shifts, international competition, demographic aging, migration and the break-up of traditional family structures.⁷² Global economy of the twenty-first century is characterised by rapid changes putting the European welfare states under constant pressure to adapt.⁷³ The reform of the social policy and labour market is inevitable.⁷⁴ Beside the above mentioned socio-economic risks and challenges, the welfare state has to cope with fiscal austerity. The difficulties of the welfare state are not unprecedented, the decline of economic growth during the nineties posed challenges to the welfare state.⁷⁵ In the forthcoming, the major challenges will be listed which give rise to reforms of the welfare state.

First reason for an impasse of public finances is described by the Wagner’s “law”. Adolph Wagner formulated a “Law of expanding state expenditures”, highlighting the growing importance of government activity and expenditures as an inevitable feature of a “progressive” state.⁷⁶ A modern formulation of Wagner’s “law” was proposed by Bird: as per capital income

⁶⁷ FERRERA, M. – RHODES, M.: Building a Sustainable Welfare State, *West European Politics*, 23(2000)/2, 257–282.

⁶⁸ GENSCHEL, P.: Globalization and the Welfare State: A Retrospective. *Journal of European Public Policy*, 11(2004)/4, 616.

⁶⁹ IVERSON, T.: The Dynamics of Welfare State Expansion: Trade Openness, De-Industrialization and Partisan Politics. In: ed. PIERSON, P.: *The New Politics of Welfare State*, Oxford University Press, Chapter 2, Oxford, 2001, 45–79.

⁷⁰ PIERSON, C.: *Beyond the Welfare State? The New Political Economy of Welfare*, Polity Press, Cambridge, 2007.

⁷¹ For detailed analysis on the topic see: Armingeon and Bonoli (2006).

⁷² The detailed analysis of these factors lies outside the scope of the dissertation.

⁷³ AIGIGNER, K.: New Challenges for the European Model and How to Cope with It. In: eds. BIENKOWSKI, W. – Brada, J. C. – RADLO, M.-J.: *Growth Versus Security: Old and New Members’ Quest for a New Economic and Social Model*, Palgrave Macmillan, Basingstoke, New York, 2007, 159–177.

⁷⁴ SAPIR, A.: Globalization and the Reform of European Social Models. *Journal of Common Market Studies*, 44(2006)/2, 369–390.

⁷⁵ PIERSON, P.: Irresistible Forces, Immovable Objects: Post-Industrial Welfare States Confront Permanent Austerity, *Journal of European Public Policy*, 5(1998)/4, 539–560.

⁷⁶ WAGNER, A.: *Finanzwissenschaft*, C. F. Winter, Leipzig, 1883.

rises in industrialized nations, their public sectors will grow in relative importance.⁷⁷ Summing up, demand for welfare services tends to increase faster than income.

Second source of pressure on welfare states is referred to as Baumol's "law". Baumol and Bowen argued that productivity in the production of welfare services tends to increase at a lower rate, if at all, than in the production of goods or other services.⁷⁸ It means that the labour-intensive welfare services would become increasingly more expensive, imposing high levels of fiscal stress.⁷⁹

The two phenomena taken together imply a tendency for higher expenditure growth on welfare services than GDP growth over time. As long as the production of these services remains in the public domain, or as long as they are tax-financed, the tax burden must also exhibit a tendency to rise continuously with GDP. This is a continuous problem of the welfare state that we have been living with for decades now.⁸⁰

Crisis and economic recession affect the operation of the welfare states. The main task of the welfare state is to help those who suffer job loss or income loss. Social policy is about protecting individuals from their vulnerabilities to risks of all kinds.⁸¹ As a result, well-functioning systems of social protection increase spending in times of recession, and scale it back as the economy recovers.⁸² In successful welfare states social policy tools might operate as an effective "automatic stabiliser".⁸³

5. CONCLUDING REMARKS

The concept of welfare state is highly debated and discussed in economic literature, moreover, there is no universally accepted definition, nor is there one that suits all purposes. The paper has collected the major definitions and the difficulties of constructing a widely accepted definition of the welfare state. For a better understanding of the current pressures on the welfare states it is crucial to review the theoretical arguments against and in favour of the concept. Welfare theory has roots that extend far into history, so the historical overview of the evolution of the welfare state has been an essential part of the paper.

⁷⁷ BIRD, R. M.: Wagner's Law of Expanding State Activity, *Public Finance*, 26(1971)/1, 1–26.

⁷⁸ BAUMOL, W. J. – BOWEN, W. G.: On the Performing Arts: The Anatomy of Their Economic Problems, *The American Economic Review*, 55(1965)/1/2, 495–502.

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Since the end of the 20th century welfare states in general, and in the European Union in particular, have been constantly challenged by globalization, demographic changes, and new social risks. Moreover, individuals and the society face a new set of risks which is the result of changes in external and internal conditions, encompassing technological shifts, international competition, demographic aging, migration and the break-up of traditional family structures. Global economy of the twenty-first century is characterised by rapid changes putting the European welfare states under constant pressure to adapt.

These challenges are accompanied by the harmful effects of the current financial and economic crisis. The challenges the welfare states have to face are the same; however, the welfare states react differently. Crisis in general enforces welfare state retrenchment in those countries in which economic recession has been dramatic and recovery has been slow and unsteady. In general, there is need for recalibration of the welfare state towards new social risks and in favour of less protected groups.

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