



# Crisis and the European Welfare State

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# Introduction

- Since its emergence, the welfare state was profoundly connected to the protection of people from labor market risks. In the words of Peter Baldwin, “(s)ocial insurance provided the tools with which to reapportion and moderate the effects of natural and manmade misfortune” (1990: 3).
- Should we assume that the welfare state today remains a powerful buffer between unemployment and inequality?
  - The generosity welfare state has been transformed (workfare, conditionality).
  - The consequences of the present economic crisis?
- These remarks are a summary of: Rueda, David. “The State of the Welfare State: Unemployment, Labor Market Policy and Inequality in the Age of Workfare,” *Comparative Politics*. Forthcoming.

# Argument

- Two outcomes of interest:
  - Market income inequality (all market sources of income: earnings as well as self-employment and capital income).
  - Disposable income inequality (including taxes and transfers).
- 1. Unemployment —> market income inequality (unskilled, low-paid workers more adversely affected).
- 2. Unemployment —> disposable income inequality (benefits lower than wages).
  - WS generosity mitigates (1) by decreasing the incentives to accept low-pay work (PLMP) and promoting training for those with low skills (ALMP).
  - WS generosity minimizes the wage loss and mitigates (2).
  - [WS and unemployment?]

- Two historical states of welfare:
  - decommodifying (or traditional) welfare state
  - workfare state.
- Workfare or social investment?
  - activation is meant to push people into employment (although often this may turn out to be low-pay employment) by reducing the attractiveness of social benefits
  - and attempts are made to develop or strengthen traditional active labor market policies.

## Some data

- Measuring generosity is not straightforward (spending/need):
  - ratio of labor market policy to GDP over the ratio of the unemployed to the labor force.

Table 1

	Demanding Workfare (unemployment benefits as % of GDP over harmonized unemployment rate as % of labor force)					Enabling Workfare (active labor market policy as % of GDP over harmonized unemployment rate as % of labor force)				
	1985-1989	1990-1994	1995-1999	2000-2005	2005-2009	1985-1989	1990-1994	1995-1999	2000-2005	2005-2009
Australia	0.13	0.15	0.14	0.12	0.10	0.03	0.05	0.06	0.06	0.07
Austria		0.41	0.35	0.31	0.30		0.09	0.11	0.14	0.16
Belgium	0.32	0.37	0.28	0.30	0.28	0.13	0.15	0.13	0.14	0.16
Canada	0.19	0.19	0.12	0.10	0.10	0.06	0.06	0.05	0.05	0.05
Denmark	0.70	0.60	0.60	0.51	0.40	0.19	0.17	0.31	0.38	0.34
Finland	0.29	0.31	0.24	0.22	0.22	0.17	0.15	0.10	0.10	0.12
France	0.16	0.17	0.14	0.18	0.15	0.08	0.10	0.11	0.13	0.10
Germany		0.33	0.26	0.24	0.17		0.20	0.14	0.14	0.10
Greece	0.05	0.05	0.04	0.04	0.05	0.03	0.03	0.04		
Ireland	0.19	0.19	0.20	0.19	0.20	0.07	0.08	0.13	0.18	0.12
Italy		0.11	0.07	0.07	0.12				0.08	0.07
Japan	0.11	0.14	0.12	0.09	0.08		0.14	0.08	0.05	0.06
Luxembourg	0.31	0.26	0.24	0.18	0.13	0.14	0.07	0.06	0.10	0.10
Netherlands	0.46	0.50	0.52	0.54	0.41	0.20	0.25	0.28	0.43	0.30
New Zealand	0.21	0.18	0.19	0.18	0.08	0.18	0.09	0.09	0.08	0.10
Norway	0.18	0.21	0.18	0.18	0.15	0.17	0.17	0.23	0.19	0.19
Portugal	0.04	0.12	0.13	0.17	0.13	0.04	0.11	0.09	0.11	0.07
Spain	0.04	0.12	0.13	0.17	0.13	0.04	0.04	0.03	0.07	0.08
Sweden	0.36	0.42	0.23	0.19	0.11	0.86	0.59	0.27	0.24	0.17
Switzerland	0.29	0.32	0.33	0.24	0.20	0.30	0.18	0.20	0.21	0.17
United Kingdom	0.11	0.11	0.07	0.05	0.04	0.05	0.04	0.04	0.07	0.06
United States	0.07	0.07	0.05	0.07	0.08	0.04	0.03	0.04	0.03	0.03

- A simpler way to illustrate the general pattern:
  - two simple regression models in which the generosity of unemployment benefits (or of active labor market policy) is determined by just two factors: a time trend and country fixed effects.
  - Intuitively, these models will produce an average for the different within-country slopes capturing the effects of time.

Table 2

Effects of Time (1985-2009)		
	Demanding Workfare	Enabling Workfare
Intercept	0.254*** (0.005)	0.151*** (0.008)
Time Trend	-0.004*** (0.000)	-0.001** (0.001)
N	529	489

**Notes:** OLS results with country fixed effects. Numbers are estimated coefficients; numbers in parentheses are standard errors. \* if significant at 90% level; \*\* if significant at 95% level; \*\*\* if significant at 99% level. Country dummy estimates not reported, available from the author.



- Unemployment, the Welfare State and Inequality?
- To make these data compatible with the inequality measures to be used in subsequent sections, all variables in the analysis are averages.
  - The decommodifying welfare state period contains three time-period averages: mid-80s (from 1985 to 1986), 90 (from 1989 to 1991), and mid-90s (from 1994 to 1996).
  - The workfare state period also contains three time-period averages: 00 (from 1999 to 2001), mid-00s (from 2004 to 2006), and late-00s (from 2007 to 2009).
  - 12 countries: Canada, Denmark, Finland, Germany, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Sweden, UK and USA.

- Simple regression models with country fixed effects.
  - Intuitively, this model will produce an average for the different within-country slopes capturing the effects of the IVs.

Table 3

	Determinants of Unemployment					
	Decommodifying Welfare State (1985-1996)			Workfare State (1999-2009)		
	(1)	(2)	(3)	(4)	(5)	(6)
Intercept	11.000*** (1.268)	11.829*** (2.385)	9.129*** (0.732)	7.262*** (0.846)	6.589*** (0.880)	7.818*** (0.672)
LMP Generosity	-10.213*** (2.819)			-3.906 (2.413)		
Passive LMP Generosity		-19.916** (8.925)			-3.982 (4.448)	
Active LMP Generosity			-15.059*** (3.840)			-12.642*** (4.349)
N	35	35	35	35	36	35

**Notes:** OLS results with country fixed effects. Numbers are estimated coefficients; numbers in parentheses are standard errors. . \* if significant at 90% level; \*\* if significant at 95% level; \*\*\* if significant at 99% level. Country dummy estimates not reported, available from the author.

Table 4

Determinants of Market Income Inequality						
	Decommodifying Welfare State (1985-1996)			Workfare State (1999-2009)		
	(1)	(2)	(3)	(4)	(5)	(6)
Intercept	0.422*** (0.018)	0.429*** (0.033)	0.407*** (0.010)	0.421*** (0.011)	0.419*** (0.012)	0.426*** (0.009)
LMP Generosity	-0.080* (0.039)			-0.021 (0.031)		
Passive LMP Generosity		-0.156 (0.120)			-0.035 (0.060)	
Active LMP Generosity			-0.116** (0.053)			-0.085 (0.060)
N	31	31	31	35	36	35

**Notes:** OLS results with country fixed effects. Numbers are estimated coefficients; numbers in parentheses are standard errors. \* if significant at 90% level; \*\* if significant at 95% level; \*\*\* if significant at 99% level. Country dummy estimates not reported, available from the author.

- Redistribution:
  - the reduction in the Gini coefficient from market to disposable income (expressed as a percentage of the Gini for market income).
  - To illustrate, in Sweden in the mid-1990s, the Gini for market income inequality was 0.374 and the Gini for disposable income inequality was 0.216. This implies a 42% decrease in inequality from market to disposable income, which is the value for redistribution for Sweden in the mid-1990s.
- Does redistribution respond to unemployment?

Table 5

Determinants of Redistribution		
	Decommodifying Welfare State (1974-1996)	Workfare State (1999-2009)
	(1)	(2)
Intercept	21.956*** (1.379)	23.254*** (2.121)
Harmonized Unemployment	1.117*** (0.203)	0.874** (0.359)
N	37	36

**Notes:** OLS results with country fixed effects. Numbers are estimated coefficients; numbers in parentheses are standard errors. \* if significant at 90% level; \*\* if significant at 95% level; \*\*\* if significant at 99% level. Country dummy estimates not reported, available from the author.

# Final thoughts

- Inequality is frequently invoked as an explanation for a number of crucial issues in political science. It is often considered a determinant of processes as diverse as the decline of electoral turnout, the increase in the support of extreme-right parties, or the likelihood of political conflict.
- WS/labor market policy generosity has been an effective tool to promote equality.
- Since the 1990s, conditionality had transformed social benefits and labor market policies had become more demanding.
- An emphasis on enabling activation, on the other hand, had not been adopted equally throughout the OECD.
- This transformation has important implications for the ability of the welfare state to promote equality. Particularly in times of crisis...