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The Post-Great Recession Welfare Commitment in the European Union: Rocky Marriage or Impending Divorce?

Koi K. James*

The welfare state as a political entity was quickly seen as the gold standard in the world for statehood in the post-World War II 20th century. The Bretton Woods era of embedded liberalism (Ruggie, 1982) provided a clear social contract for governments in light of the economic liberalization that occurred during the post-war era. This social and political model was held dear by the European states, who viewed their commitment to social spending as a sacred contract to their people. However, the Great Recession of 2008-2009 severely altered the economic and fiscal makeup of states around the globe, but the economic integration, which is unique to the European Union, faced even greater challenges, owing to the various domestic conditions and responses of member states to the financial crisis. This myriad of responses highlights the important ramifications that these governments' responses to financial crises have on their commitment to welfare programs, while also meeting their obligations to regional integration.

The concept of the welfare state is not novel. As there is no set definition of the welfare state, its purpose is to provide cushioning to its people against the dislocations of globalization. This 'cushioning' usually is in the form of universal health care, unemployment benefits, pensions, and wide access to education, amongst others. The disruptive effects of the market have been an economic and political problem from the beginning of the free market. Karl Polanyi, in his seminal work *The Great Transformations (1944)*, warned against the power of the free market, arguing that the market cannot self-regulate, which was one of the great tenets of laissez-faire economics. Polanyi claimed that someone or something had to

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step in to correct the disruptions created by the market. That role was thus filled by national governments, and therein lies the basis for the proliferation of the welfare state after the Second World War.

It is important to reflect upon the historical antecedents that shaped the needs for greater state involvement in providing social benefits to its people. The political landscape of Europe was evolving, even before World War II. The fall of four autocratic empires in Europe after the First World War ushered in democratic practices throughout the region, leading to a new relationship between the state, which had been predominantly non-democratic before, and the people. According to Jeffrey Frieden, “democratization was a direct result of belligerent governments’ attempts to garner support for the war effort, in particular from socialist parties and their working class bases of support” (Frieden, 2012; p. 26). The reward to the people for their support was “political representation, social reform, and labor rights” (Frieden, 2012; p. 26). The provision of these rights in the early 1920’s could be considered as the beginning of the welfare commitment that has become entrenched in the political economy of Western Europe, even though Germany had implemented pensions in the late 18th century.

The Interwar Years (1919 – 1939) were a difficult period, economically, for most of the industrialized world, as protectionism and barriers to trade characterized the economic strategies of most states, mainly the United States. The devastation of the First World War especially hampered the European states’ ability to broaden welfare benefits to their people. The post-1945 international economic order of trade liberalization and monetary stability, also known as the Bretton Woods system, attempted to recreate the economic growth and free trade of the years preceding the First World War. The major difference of this new era was the ‘embedded liberalism’ compromise (Ruggie, 1982). Globalization, defined as the free movement of capital, goods and services in order to facilitate economic activity, had become a phenomenon in its own right, and remained unchecked by states. However, globalization is not benign, often resulting in the economic dislocations of certain societal groups. The embedded liberalism compromise was states’ commitments to provide social protections to citizens from the effects of globalization, particularly from the free trade that exemplified this period.

The Bretton Woods system saw the proliferation of the welfare state, which is not a standard conception. Europe, in particular, has adopted a medley of different welfare policies to meet the various domestic needs of the state. In spite of the general acceptance of welfare policy, there is no economic reasoning for welfare spending, as welfare policies are the result of taxation and redistribution. These policies are not designed to spur growth; rather, they reflect a normative belief that people have the right to have access to certain safety nets, which the government regulates and provides (Gough, 2008; p. 41).

The variance in welfare policy can be explained in what Gough calls "the Five I's: industrialization, interests, institutions, ideas and international suprastate influences" (Gough, 2008; p. 44). These factors affect social policy outcomes, which inevitably influence the welfare policies that states implement. These different welfare regimes have resulted in a variance of policies across Europe, and more specifically, within the European Union. According to Gough, the classifications are "Liberal: Ireland and the United Kingdom; Social democratic: The Nordic countries; Continental: Austria, the Benelux countries, France, and Germany; and Southern: Greece, Italy, Portugal, and Spain." (Gough, 2009; p. 40).

Each state of the European Union has different economic performances: different GDP, tax codes, levels of industrialization, unemployment figures and levels of government spending on social programs. These factors matter, because they reflect the ideological position of states and their ability to maintain the social contract of welfare policies. Before the Great Recession, which began in 2008, the European Union (EU) was able to adhere to their welfare commitments, because their economies were strong. The free movement of goods, capital, services and people throughout the EU was good for economic growth, as people went where the jobs were. This created some degree of distortion in some states, particularly in the south, but the Union, as a whole, was strong, so the deepening of economic integration was seen as a good thing and encouraged.

The difficulty of this depth of integration is monetary policy coordination, as ordained by the European Central Bank (ECB). Considered to be the monetary policy coordinator of the EU, the ECB ensures that the 'convergence criteria' that states had to abide by before acceding to the Eurozone are still adhered to (McCormick, 2015; p. 106). These conditions, along with the Stability and Growth Pact, put strict conditions on states of the Eurozone to maintain certain economic indices and fiscal measures to ensure the strength and stability of the region's common currency and the economies therein (Commission, European).

The years after the Great Recession proved to be problematic, with some experts saying that social democracy in the EU is in trouble. Social democracy marries the concepts of a liberal democracy to a "social and welfare dimension to it and by introducing the concept of economic democracy, which was to transform the unfettered version of capitalism in the interest of the many" (Meyer et al. 2012; p. 25). The Great Recession was certainly a result of the unchecked recklessness of the financial industry, which had dire consequences on the global market. In response to the credit squeeze, states throughout the EU imposed austerity measures as a way to mitigate the economic strain of the recession. This, however, was met with resistance by the European citizens, who viewed their social benefits as sacred and non-negotiable. Social democracy, which was supposed to prevent the negative aspects of capitalism from wreaking havoc, was taking a hit, because people were no longer being ‘cushioned’ from these economic disruptions. The state was attempting to retreat from its social contract, and politicians felt the backlash, as the voters responded resoundingly against any party that threatened to cut social spending.

The European Union teetered along after the subprime crisis. The Greek financial crisis in 2015 really highlighted the fractures within the Eurozone, especially when it came to monetary policy. The bigger states within the Eurozone, like Germany and France, have typically been inflation-averse, preferring to tightly control spending to keep inflation low. This practice is in stark contrast to the southern states of the EU, which tend to have higher public debt (Meyer et al., 2012; p. 69). These are fundamentally different approaches to fiscal and monetary policies to respond to domestic economic issues. Greece, being a member of the Eurozone, could not respond to its debt crisis on its own, and the eventual bailout was more of a reflection of the will of the more economically dominant states, like Germany. The Greek bailout package was a collaborative process, one meant to prevent Greece from free-falling, and also to keep the European Monetary Union alive. The debt repayment and austerity measures, which were conditions of the bailout, put a huge strain on Greece’s ability to provide certain benefits to its people, and the nation has one of the highest rates of unemployment in the region.

The European Union accounts for 50% of the world’s welfare spending, while only making up 25% of global GDP (Beig et al., 2015; p. 4). This raises serious questions, as to whether this kind of spending can be sustained indefinitely, in spite of the moral importance of welfare policies. The Great Recession and the Greek financial crisis also highlight the growing importance of the European Central Bank in mitigating economic matters throughout the EU. The fact that there are four different welfare regimes in the European Union is emblematic of the “varieties of capitalism” (Hall and Soskice, 2001) that exist today. There is no convergence amongst states as to what the correct level of interaction between states and market should be. Social democracy grew as a response against fascism and communism, and time has decisively proven that the economic and political models that those ideologies produced have been less than desirable. Therefore, states and markets are still key elements to capitalism, social equity and economic stability that all states want.

However, this bleak outlook is not that of the entire union. Welfare policies have become an indelible part of the political economy of Europe. The variance in these policies created the underlying tensions that the Great Recession revealed in the countries of the EMU. I posit that social protections will remain a core aspect of state expenditures, but serious reforms are needed if welfare policies continue to be the norm. Modeling the Nordic countries can be one solution, as they proved their economic resilience after 2008. They bounced back quickly, and have maintained their exemplary fiscal and monetary performances of low unemployment, low levels of income inequalities and poverty and relatively low indebtedness (Bartha, 2013; p. 288). They provide the rubric for sustainable welfare policy: fiscal discipline that allows them to finance these programs.

Their counterparts in Southern and Eastern Europe, as seen with the Greek case, are not as diligent in their approach, as their welfare spending is a much larger percent of their GDP. The question then becomes: how do these countries adopt the economic institutions of the Nordic countries to ensure the longevity of these social commitments? This question is even more nuanced, because states of the EMU do not possess the monetary autonomy to meet these challenges, so their only means of control is through taxation and redistribution. It then becomes a monumental task to gain revenues through taxation, when a significant percentage of the population is unemployed. In addition to fiscal policy, being a part of a monetary union has constrained national governments' ability to respond to their respective domestic challenges.

The future of welfare policy in Europe, and more specifically within the states of the monetary union, is a hotly contested topic, as some fear that the indefinite provision of benefits by the state is an unrealistic and unfeasible goal. There is an inherent cost to these policies, which taxpayers shoulder. However, as seen in the elections cycles after the Great Recession, citizens did not believe that their benefits were up for bargaining. It remains to be seen how the current nationalist, anti-globalization sentiment spreading through Europe will affect the long-term ideological underpinnings of European states and their people. The strength of Europe's welfare policy has been predicated on two key factors: economic strength and democracy. The economic travails after 2008 have challenged the breadth of welfare spending, but the democratic processes and the voice of the people have underscored the continued need for these social protections, especially in economically difficult times.

Meyer et al. conclude that "as much market as necessary" and "as much state as necessary", as the imperfections of one can be mitigated by the strengths of the other (Meyer et al, 2012; p. 81). The European Union case is a bit more textured, as these states are shackled to one another through their commitment to their currency union. Sweden is an interesting case, as they were able to cut their marginal and corporate taxes and reduce public debt, all while continuing their impressive welfare policies (Wooldridge). It must be noted that Sweden is not a member of the European Monetary Union, which allows them monetary policy autonomy, which is something Eurozone members do not have. While there are no clear solutions to the nagging issues of the longevity of welfare policy in the European Union, it is obvious that states cannot turn their backs on their people. States are expected to play this 'two-level game' of satisfying their constituents, while also committing themselves to regional economic integration, which often has serious impacts within their borders. The future of European integration depends on the continued economic stability of the individual states, but this integration is being threatened by democracy, as evidenced by Britain's unexpected departure from the EU. Whether this marriage of democracy and economic integration lasts depends on the acknowledgment that political and economic institutions need to be updated to meet the needs of the people, who live and work in this ever-evolving global economy.

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