

## Implications of Welfare States on Human Development

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### Abstract

*In the paper, we compared the classification of welfare states by Gosta Esping-Andersen (liberal, corporatist, social democrat) and country ranking according to the Human Development Index (HDI).*

*The country occupying the first position, according to the level of human capital development, is Norway, belonging to the social-democratic welfare states. We also found a good result for the liberal welfare states: Australia (position 2), Switzerland (3rd position). But in the category of corporatist states we only find Germany (position 5).*

*In the case of Romania, HDI is 0.802, which allows it to be included in the group of "very high human development". Due to the process of developing a state of welfare, we can not fit our country into a single model. Characteristics are taken from each model, especially from the "social-democrat" (poverty prevention through redistribution) and from the "corporatist" (insurance system that maintains differentiations according to status and social class).*

**Key words:** welfare state, HDI, human development

**J.E.L. classification:** H5, I38

### 1. Introduction

The welfare state is considered to have emerged as a result of the industrialization process and of the resulting social changes, that have generated new needs in society. To meet these needs, it was necessary to increase the welfare state's efforts for citizens by increasing public social spending (Conceição, P. and Bandura, R. 2008). On the other hand, the theory of modernization states that, as a result of the process of industrialization and efforts to achieve social rights, the dynamics of democracy allowed the masses to gain access to political power through social-democratic parties, which led to the formation of welfare states. Both this two thesis, of industrialization and modernization, see the evolution towards the state of welfare as irreversible and necessary.

The roots of state involvement in providing social welfare to individuals lie in ancient pre-Christian civilizations. These aids were granted in case of calamity, famine, war. The first forms of state social aid have emerged in Ancient Greece and Imperial Rome, through pensions and scholarships.

Two historical moments marked the beginning of the involvement of the modern state in the provision of individual well-being: The Poor Law 1601 adopted in England and the introduction of the social insurance model during the time of Chancellor Bismarck in Germany in the 1880s.

The expression "welfare state" was used for the first time by the Temple in his book "Citizen and Churchman " (1941), who considered the state to be welfare only when "*it fulfilled its moral and spiritual functions in promoting human welfare*" (Sundermann E., 2015, p 9). But this expression was consecrated in the literature a year later with the publication of the "Beveridge Report".

After the Second World War, Western European countries began to build a new order that would provide economic growth and, at the same time, protect society from the destructive

consequences of capitalism (Stephen Marglin and Juliet Schor, 1991) . After the war, political decision-makers took control of the state in trying to impose social control over the market forces, redefining the legitimate social goals in which the state power wanted to be engaged in the domestic economy (John Gerard Ruggie, 1982). States were no longer limited to ensuring that markets expanded and developed. Thus, after 1945, the state was perceived as the guardian of society, and economic imperatives were forced to be replaced by social imperatives. As Crosland mentioned, after 1945, it was a stand-alone duty and indeed an obligation for a government to take care not only of proletarians but of all categories of society (C.A.R. Crosland, 1967).

A definition of welfare state is given by Harold Wilensky (2002, p 211), who states: "*The essence of welfare state is government-protected minimum standards of income, nutrition, health and safety, education and housing, assured to every citizen as social right, not a charity.*" He considers that the minimum standards of living can be altered only in the case of loss of income, so for those who are unemployed.

## **2. Theoretical reflections**

The most well-known and influential study on the different forms of welfare state belongs to Gosta Esping-Andersen. In 1990 he published "The Three Worlds of Welfare Capitalism", a volume in which he divided the industrialized Western states into three different "worlds". The three worlds, architectures respectively, were named after the architects who influenced the shape of the social state: the dominant political parties and movements.

There is a distinction between a liberal world, a conservative one and a social-democratic one. The three principles of constitution also show a geographic pattern, so that a corresponding name was given. The liberal world is called Anglo-Saxon, the conservative: Christian Democrat / Continental, and the social-democratic world is Scandinavian.

How is the difference made between the three architectures? Esping-Andersen calls on two criteria: the degree of decomodification and stratification. "Decomodification" comes from English and encompasses the notion of "commodity". The commodity referred to, is labor. Decomodification describes the degree to which a person's livelihood is ensured without being dependent on the labor market. If the labor market is the only option that assures a decent living and any work must be accepted, no matter how badly paid, it means that decomodification is very low.

On the other hand, if the state offers a right to life-insurance that is appropriate and when there is no possibility for the person to find a job (eg due to illness or old age) or when no jobs are available (due to economic degradation), decomodification is high.

"Stratification" describes the layers of society. In social sciences, the notion is used to analyze different groups in society.

Depending on what is at the forefront of the analysis, we will talk about blankets (lower, middle and upper layers), classes (working class and capitalists) or media (liberal-protestant, social-democratic, catholic).

Esping-Andersen does not seek to describe and analyze different social strata, being more concerned with the way in which the social state deals with these strata and how it manages to contribute, through its architecture, to a particular stratification of society. So what are the characteristics of the three worlds in terms of decomodification and stratification?

### **2.1. Liberal Welfare State**

In the liberal states (Canada, USA, Australia, New Zealand, UK, Ireland, Switzerland, Iceland), the market has a very special role. Social rights and social benefits are relatively underdeveloped. Frequent checks are also carried out to ascertain the extent to which there is the necessary means for a decent living. This is why beneficiaries of social help often feel stigmatized and are poorly seen in society. So the state provides only one last rescue net, so citizens need a high income from the labor market.

The degree of decomodation is low. Funding of social benefits is done through taxes. Contributions by which individual rights are acquired rarely occur within this type of state.

Because there are no benefits depending on the size of the contribution, the level of social benefits is relatively uniform (single rate).

The state does not make a difference between different professions or different incomes obtained by citizens. As benefits provide only minimal services, and their aim is to avoid poverty, those who can afford, take advantage of private offers (eg private pension insurance, private schools). The state of liberal welfare leads indirectly to stratification between the rich and the poor.

## **2.2. Conservative/Corporate Welfare State**

The conservative state (Germany, France, Italy, Spain, Austria, Belgium, Japan) is called by Esping-Andersen in some places as a corporate state: as corporatism continued the tradition of different guilds, this type of state distinguishes between different professional categories. German legislation on civil servants, with the privileges it contains, is one of the best examples. But this principle continues to be met in other professional areas: for example, tax advisors, lawyers, notaries, veterinarians, pharmacists and auditors have professional social protection systems, including, among others, self-retirement insurance.

Thus, compulsory retirement insurance is also not valid for employees who are part of these occupational categories. In Italy and France there are other specific differentiations for some professions, such as unemployment insurance. Even within compulsory insurance, which does not distinguish between professional categories, the conservative principle can be identified, because state funding is largely made through contributions. Based on the principle of equivalence (benefits must be based on individual contributions), the level of many social benefits reflects past income (eg unemployment insurance, pension). Social benefits "preserve" the previous status. In conservative social states, state social benefits are on average higher than those applied in the liberal states, but they are not uniform for all citizens.

Funding by contributions implies the existence of an accumulation of contributions, of a calculation base (of different size). This limitation is another source of inequitable treatment, because in many cases, the calculation base is also related to the difference between the persons with compulsory insurance and those with private insurance (in Germany this difference is most evident in the health insurance system).

The tax incentives (the spouse's cumulative income tax system), the lack of child care facilities throughout the day and the comparatively low number of part-time jobs have led to a situation where the share of women's employment in conservative states is much lower than in states with a liberal or social-democratic model. Stratification in the conservative state is very intense and manifests itself along several lines of distinction: professional category, income, gender.

## **2.3. Social-Democratic Welfare State**

Financing in the social democratic state (Norway, Sweden, Denmark, Finland, the Netherlands) is largely ensured through general taxes, not through contributions. On the benefits side, however, there are three differences. First, the benefits of the social-democratic states are higher than those in the liberal countries. Secondly, unlike conservative states, the level of benefits is similar for people with very different incomes. This situation arises because many social contributions are taxable (such as, unemployment benefits). Thirdly, there are universal public services, that is, those that are accessible to all and for which no contributions or very little contributions are paid. These services are an important pillar of the social-democratic construct.

Especially in the field of childcare and assistance, the state service network is well developed. The consequences are very broad. Firstly, compatibility between family life and profession, is ensured, especially for women, as there is a well-established high-quality infrastructure in the field of child raising and assistance. High standards of childcare and assistance do not only result in a higher proportion of working women. In addition, in countries with a social-democratic model, there is a tendency for more people to be employed in the public sector.

Thus, the state can exercise its direct influence on the employment situation and on the quality of assistance and care. At the same time, the fact that public services are accessible to everyone also results in significantly lower poverty rates among people who raise up their children alone.

Social services and uniform money transfers generate a high level of decomodification and poorly stratified social stratification.

### 3. High Development Index – HDI

Welfare is undoubtedly a multidimensional concept, as it includes many aspects of human life, not just income or consumption. Such issues are health, education, environmental conditions, etc.

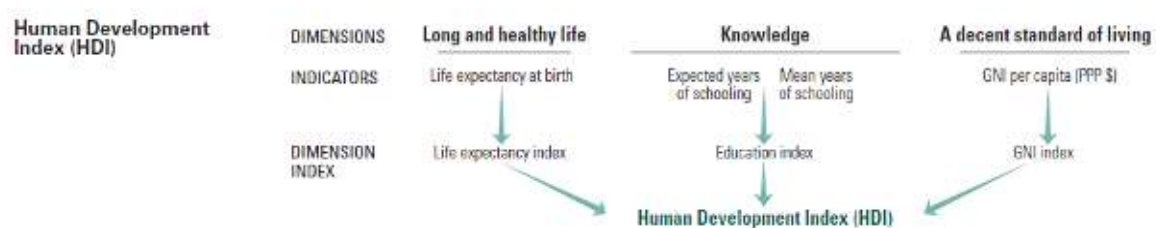
The Human Development Index has been developed since 1990 by the United Nations Development Program (UNDP).

The HDI is structured in a three-dimensional format, focusing on aspects considered significant for human well-being and development:

- health - assessed using the "life expectancy at birth" indicator.
- education - measured by the average of the years of study for adults from 25 years up and the years of studies envisaged for children of school admission age
- living standard - assessed through gross national income per capita.

For each of these dimensions, an annual index is calculated based on the collected statistical data, and the scores corresponding to the three areas are then aggregated into a composite index using a geometric mean.

Figure no. 1: Human Development Index components



Source: United Nations Development Programme (UNDP), *Human Development Index (HDI)*, <http://hdr.undp.org/en/content/human-development-index-hdi>

HDI is used to better assess the overall level of development compared to other indicators such as GDP per capita, which measures only material prosperity without showing the socio-economic side. In addition, economic growth is often at the expense of human well-being, thus we can recall the implications that have a severe impact on everyday life, such as intense and stressful work conditions that can lead to health problems, the burden of bank credit, unsustainable use of natural resources, environmental pollution, etc.

The latest "Human Development Report" developed by the United Nations Development Program was published on 21 March 2017 and contains data based on estimates for 2015. It covers 188 United Nations member states. In the case of Romania, the Human Development Index (HDI) is 0.802, which allows our country to be included in the group of "very large human development" states, exceeding the value of 0.800. The latest report also gives us data on the value of indicators in our country in 2015: the average life expectancy is 74.8 years; the average school years expected to be followed is 14.7 and gross national income per capita has reached its highest value so far: \$ 19,428.

Now, we will analyze the top 10 ranking countries in the Human Development Index (HDI) to identify what kind of welfare state each country belongs to, according to Gosta Esping-Andersen's classification. Because the Esping-Andersen study does not cover our country, we preferred not to add it into this classification. Analysis on the identification of the welfare state model for Romania have come to the same conclusion: due to the development process of a welfare state in which our country is located, we can not fit it into a single model. Characteristics are taken from each, especially from the "social-democratic" model (poverty prevention through redistribution) and from the "conservative" (insurance system that tends to maintain status differentials and social class).

Table no. 1: Relation between top 10 countries according to Human Development Index and welfare state model

Position	Country	HDI	Welfare State model <sup>x</sup>
1	Norway	0,949	Social - democratic
2	Australia	0,939	Liberal
3	Switzerland	0,939	Liberal
4	Germany	0,926	Conservative/Corporate
5	Denmark	0,925	Social - democratic
6	Singapore	0,925	-
7	Holland	0,924	Social - democratic
8	Ireland	0,923	Liberal
9	Iceland	0,921	Liberal
10	Canada & SUA	0,920	Liberal
....		...	...
50	Romania	0,802	-

Source: Authors' contribution with data provided by the United Nations Development Program (UNDP), *Human Development Report, 2016*

<sup>x</sup> - according to the classification made for a limited number of countries by Gosta Esping-Andersen (1990)

Looking at the table above, we can see that the country that has ranked first, for many years actually, in the ranking of countries by the level of human capital development, is Norway, a country that is included in the category of social-democratic welfare states. It is a result that should not surprise us, given that the economic policies specific to the social-democratic states are directed mainly towards the citizens. Alongside Norway, Denmark and the Netherlands are on the 5th and 7th position respectively in the category of social democratic states.

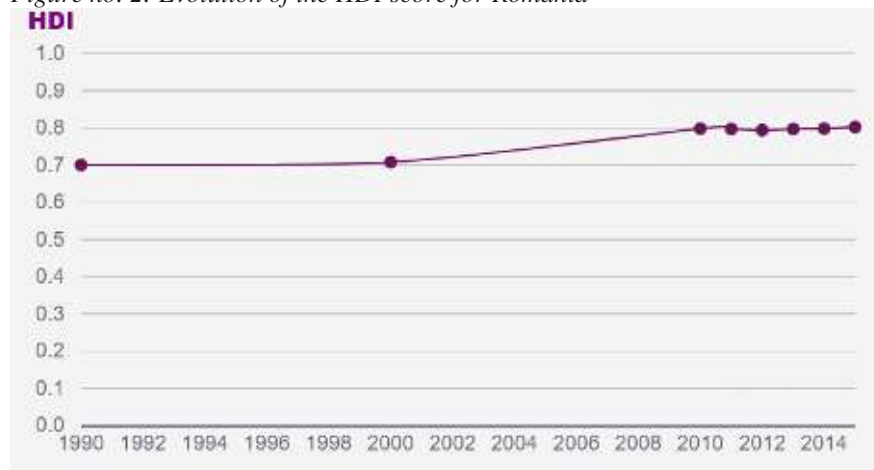
We see an almost as good a result from the liberal welfare states: Australia (2nd), Switzerland (3rd), Ireland, Iceland, Canada and the USA.

And in the category of conservative-corporative states, only Germany in the 5th position, is in the ranking, according to the Human Development Index.

What has been the evolution of our country since 1990, following the analysis of the United Nations Development Program (UNDP)? As we know, after the revolution in Romania, major economic, social and political transformations took place. But to what extent have all these transformations been translated into our development and where are we in terms of well-being? Of human development?

According to UNDP's ranking in 2016, according to the Human Development Index (HDI), Romania ranks 50th out of the 188 analyzed countries and is positioned in the category of "high human development" countries. However, it is important to note the evolution over time in the case of Romania, with an impressive jump between 2000 - 2010 and a slow but ascending later development.

Figure no. 2: Evolution of the HDI score for Romania



Source: United Nations Development Program (UNDP), *Human Development Report, 2016*

Analyzing the chart, we can see that the best development of the Human Development Index (HDI) for Romania was after 2000, year when the Social Democrat Party came to power with a program that put its focus on quality objectives of life: increasing material wealth and quality of life, increasing the incomes of the population, creating new jobs, reducing poverty.

#### 4. Conclusions

The state of welfare represented a transformation of the relationship between states and markets. In particular, the welfare state has rejected the liberal idea that a "good" state is the one that would least interfere with the economy and society; accepting the view that governments have increasingly been seen as guardians and protectors of citizens. Thus, the states are committed to making, on a large scale, what members of families and local communities have done during the pre-capitalist period, namely, to take care of people when they can not help themselves.

Analyzing the ranking of countries by the Human Development Index (HDI), we could see that the first place is Norway, a country that is in accordance with the classification made by Esping-Andersen in the category of social-democracy welfare states, and the following two positions finds Australia and Switzerland, countries belonging to the category of liberal welfare states.

An explanation of the fact that the first position is a social-democratic state is the lower poverty rate in the countries attached to the social-democratic model than in the liberal and conservative states. In addition, the employment rate of women and the share of employment in the public sector are higher in the social-democratic countries. These results are mainly obtained through social benefits which, in many areas, take the form of services and are not provided only in cash. On the whole, the welfare state of the social-democratic type makes mobility between social strata, higher. Due to the fact that children from families with a difficult social situation also benefit from good educational offers, there is a potential in these countries that remains untapped in the liberal or corporate.

Statistics show that in our country the effort to ensure a better standard of living for the population has increased and Romania has managed to enter the category of countries with high human development according to the classification made by the United Nations Development Program through the Human Development Index (HDI). The results will be even better when we renounce the idea that the state is parasite on the economy, and government spending will increase and will be even more efficiently allocated, especially for the benefit of citizens.

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