

Chapter Title: Between community care and European welfare state Policy alternatives for the national welfare state

Book Title: Sticking Together or Falling Apart?

Book Subtitle: Solidarity in an Era of Individualization and Globalization

Book Author(s): Paul de Beer and Ferry Koster

Published by: Amsterdam University Press

Stable URL: <https://www.jstor.org/stable/j.ctt45kd13.12>

---

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact [support@jstor.org](mailto:support@jstor.org).

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at <https://about.jstor.org/terms>



This content is licensed under a Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License (CC BY-NC-ND 4.0). To view a copy of this license, visit <https://creativecommons.org/licenses/by-nc-nd/4.0/>.



Amsterdam University Press is collaborating with JSTOR to digitize, preserve and extend access to *Sticking Together or Falling Apart?*

JSTOR

# 10 Between community care and European welfare state

## Policy alternatives for the national welfare state

Although the analyses in the preceding chapters do not add fuel to the belief that individualization and globalization render the welfare state unsustainable in the long run, they nevertheless point to some weaknesses of many present welfare states. These weaknesses relate mainly to the balance between one-sided and two-sided solidarity and to the strong focus of contemporary welfare states on the national level. This final chapter discusses some policy options that address these weaknesses. However, neither theoretical considerations nor empirical results are conclusive with respect to the direction these changes should take. On the one hand, there is a case in point for shifting the balance of the welfare state to two-sided solidarity, in order to foster the support of the middle-classes. On the other hand, there may be good reasons to restrict public provisions to one-sided solidarity, too, in order to reduce public expenditures. The simultaneous processes of globalization and localization could be an argument for shifting the main provider of welfare services to the supranational level (e.g. the European Union), but also to the local level (e.g. the municipality).

In this chapter we discuss the pros and cons of the various options that national governments can choose from. These options arise from the combination of the two dimensions we just mentioned: one-sided versus two-sided solidarity and supranational versus local provisions of social services. First, we discuss three options for national welfare states based on the particular mix of one-sided and two-sided solidarity. These options correspond with the well-known welfare regime types of Esping-Andersen. Next, we consider the options of scaling down the welfare state to the local level and scaling it up to the supranational level, respectively. We conclude that there is not one best option for the welfare state,

but that a combination of scaling down and scaling up might offer the most attractive prospects.

## 10.1 Nine options for the welfare state

Much of the recent comparative literature on the welfare state is about differences and similarities between welfare states. In the wake of Gøsta Esping-Andersen's seminal *The Three Worlds of Welfare Capitalism* (1990), numerous papers have been written about the best way to classify welfare states. Most of the criticism of Esping-Andersen's typology of social-democratic, conservative-corporatist and liberal welfare regimes stems from the observation that some existing welfare states do not fit in his ideal types. The classification of welfare states we present in this chapter serves a different purpose. We do not want to classify existing welfare states but give a theoretical typology of welfare states that might serve as a target for welfare state reform. Of course, depending on the current shape of the welfare state, some options might be closer, while others are further away. Thus, not every option might be a real alternative for each kind of welfare state that currently exists. In the vein of this book, the basic criterion in distinguishing welfare state types will be the kind of solidarity that the welfare state embodies. We utilize two distinctions we made in Chapter 2 with respect to solidarity, *viz.* the extent of reciprocity, *i.e.* one-sided versus two-sided solidarity, and the scope of solidarity, *i.e.* the size of the group covered by the welfare state. Since we also distinguish a middle position along both dimensions, and include combinations of the two dimensions this leaves us with nine possible types of welfare states, which are summarized in Scheme 1.

Scheme 1 Options for the welfare state

Extent of reciprocity: Scope:	One-sided solidarity	One-sided and two-sided solidarity	Two-sided solidarity
<b>Local</b>	Community care	Welfare city	Direct-benefit principle
<b>National</b>	Liberal welfare state	Social-democratic welfare state	Conservative welfare state
<b>Supranational</b>	European night watchman state	Broad European welfare state	Supranational risk-pool- ing

If we move along the dimension of reciprocity at the national level, we come across the three welfare regime types of Esping-Andersen. The liberal welfare state represents a national welfare state that is primarily based on one-sided solidarity, the conservative (Bismarckian) welfare state represents a national welfare state based on two-sided solidarity, and the social-democratic welfare state includes both kinds of solidarity. Along the vertical axis we distinguish the current national welfare state from the alternatives of a locally organized welfare state – or, rather, welfare city – and a supranational, supposedly European, welfare state. Depending on the extent of solidarity, both a local and a supranational welfare state can take different shapes, which are indicated in the second row and the bottom row of Scheme 1.

In the next sections we discuss the main advantages and drawbacks of each kind of welfare state. We base these assessments as much as possible on the theoretical and empirical analyses in this book. Thus, we will focus primarily on the viability of the various welfare state types in the light of individualization and globalization.

Before starting, it should be noted that a preference for a particular kind of welfare state need not concern the whole welfare state, but might be limited to particular welfare state programmes. For instance, it is conceivable to favor a supranational organization of social insurances, such as unemployment or disability benefits, and prefer a local organization of social assistance and child care at the same time.

## 10.2 A liberal welfare state based on one-sided solidarity

For those who fear that the welfare state may not be affordable in the long run, a reduction of welfare services to those who are really in need seems the most logical option. Actually, this amounts to limiting the welfare state to one-sided solidarity, since it means that one draws a strict dividing-line between those who contribute to the welfare state and those who benefit from it. This way, the circulation of public funds within the same group of people is prevented, which makes the welfare state needlessly expensive. Estimates for Denmark, for example, suggest that three-quarters of the income transfers via the welfare state end up with the

same people that contributed to them (Sørensen et al. 2006). In other words, only one in every four euros (or *kroner*, for that matter) transferred by the welfare state actually boils down to a redistribution of income between persons, the other three euros are a kind of intrapersonal redistribution over time. An average citizen pays most or all of their old age pension, their health care expenses and the costs of education for their children. By canceling out these intrapersonal contributions and benefits, public social protection expenditures could be reduced by more than half and, consequently, taxes and contributions could be cut considerably. The remaining welfare provisions will then primarily be transfers based on one-sided solidarity, such as social assistance and means-tested subsidies for education, health care and housing. Social insurances, which are for the most part based on two-sided solidarity, such as unemployment benefits and disability benefits, are thus considered an individual responsibility that can be left to the free market. The outcome will be a liberal, residual welfare state that concentrates on poverty relief by providing services at a subsistence level only.

The main advantage of such a liberal welfare state is that its costs are modest and, as a result, its tax rates are rather low. This welfare state seems, thus, well-prepared for the competition with other European countries and with low-wage countries, such as China and India. However, the other side of the coin is that a liberal welfare state, since it is almost exclusively based on one-sided solidarity, appeals strongly on affective motives for solidarity instead of on calculating, self-interested motives of the contributors. As we explained in Chapter 5, such affective motives for one-sided solidarity presuppose a strong (national) community spirit. In the absence of this community spirit, citizens would not be prepared to contribute to social services which they will probably never benefit from themselves. In modern societies, this community spirit depends principally on identification with fellow citizens.

A common fear is that the processes of individualization and globalization hamper this identification with fellow countrymen, but, in Chapters 5 and 8, we did not find empirical support for the hypotheses that either individualization or globalization undermines the willingness to contribute to one-sided solidarity. Nevertheless, international comparisons show that residual welfare states with a strong focus on poor relief, such as the United States and the United Kingdom, offer less protection to their least-

advantaged citizens than more comprehensive welfare states, such as the Nordic countries. For instance, poverty rates are much higher in the USA and the UK than in Sweden and Denmark. This suggests that a strong focus on one-sided solidarity might ultimately erode the public support for this kind of solidarity (cf. Skocpol 1995; van Oorschot 2007).

Of course, two-sided solidarity need not be absent in a liberal welfare state that only embodies one-sided solidarity, but it will be organized outside the welfare state. Two-sided solidarity may take, partly, the form of informal solidarity, such as friendly services in return, but the greater part will probably be organized through private companies operating on the free market. For instance, private insurances might replace obligatory social insurances. Only if these private insurances are more efficient and, thus, less costly than social insurances, or if people prefer less insurance coverage than a more comprehensive welfare state would provide, will the private provision of insurance be cheaper for the average citizen. If these conditions are not met, the relatively low tax rates of a liberal welfare state will only be a seeming advantage, since citizens will have to pay more for their private insurances and provisions.

### 10.3 A conservative welfare state based on two-sided solidarity

A typical conservative welfare state in Esping-Andersen's typology rests on the principle of two-sided solidarity. It focuses on the interests of middle-class people who want to insure themselves against the risks of modern capitalist society, such as sickness, disability, unemployment and old age. Social insurances, which balance contributions and receipts, are the main social provision of such a welfare state. But it might also include provisions in kind from which large groups benefit, such as education, health care and childcare facilities.

The main advantage of such a conservative welfare state is, of course, that it does not appeal to affective motives, like community spirit or altruism, but is simply based on enlightened self-interest. It thus appears not to be vulnerable to the consequences of individualization and globalization. The most apparent drawback is that a conservative welfare state does not have much to

offer to the weak and least-advantaged groups in society. It will result in a deep cleft between the insiders, who are well provided for, and the outsiders, who are hardly supported by the welfare state at all. Moreover, to protect the interests of the insiders, the outsiders will probably be kept out as much as possible, and only those who are expected to be net-contributors to the welfare state will be let in.

Although a welfare state based on two-sided solidarity may get strong support from the middle classes, it also runs the risk of gradually eroding its own foundation. This is caused by the problem of adverse selection. If solidarity is based on weighing the costs and benefits, people who know that they run a lower risk than the average citizen have an interest in withdrawing from the collective insurance. If they are not able to do that, since social insurances are mandatory, they will support any proposal to cut back benefit levels. The more information that is available about individual risks, the stronger the incentive will be for these groups to withdraw from the public system. This incentive will be even stronger if the welfare state also provides services that are targeted at particular groups. For instance, childcare facilities and educational subsidies will only be supported by those who (expect to) benefit from them, *viz.* (future) parents. Theoretically, a package of social services might be put together that offers a reasonable balance of benefits and contributions to almost every citizen and might, thus, get sufficient public support. But even then, most people will have an interest in taking out those elements of that package which they do not ever expect to utilize. Ultimately, a welfare state that is principally based on two-sided solidarity may end up being a lean and mean welfare state, which is limited to the provision of a few basic insurances, such as sickness, disability and old age benefits.

#### 10.4 A social-democratic welfare state based on both one-sided and two-sided solidarity

Since most people seem to be motivated both by affective and by calculating motives, a welfare state that appeals to one-sided and two-sided solidarity simultaneously might get the strongest support from the people at large. This appears to be confirmed by the favorable experiences of the social-democratic Nordic welfare

states. These welfare states offer both a high standard of public services to the middle classes and decent support to the least advantaged groups in society, resulting in low poverty rates, relatively small income disparities and a high quality of life in general. Evidently, the people in the Nordic countries have to pay a high price for their comprehensive welfare state: tax rates are among the highest in the world. This raises the question of whether such welfare states will be sustainable in the long run. In the sociological and economic literature, the long-term sustainability of the Scandinavian welfare states is still a subject of much debate. Many economists are convinced that a high tax burden will inevitably hurt economic progress, while many sociologists point to the favorable social returns of an encompassing welfare state (cf. Lindbeck 1997 and Esping-Andersen 1990). Our research has shown that there is no reason to fear that the processes of globalization will render the social-democratic welfare state untenable (Chapter 7). However, we did find that in a more open economy, the public support shifts slightly from state-organized solidarity towards informal, communal solidarity (Chapter 8). Thus, the weight of the social-democratic welfare state may ultimately have to move to a lower level of organization (see Section 10.5 below).

The process of individualization may put pressure on the social-democratic welfare state if the balance between one-sided and two-sided solidarity is perceived as tilting over to the side of one-sided solidarity. If the knowledge about individual differences in risks grows, if people perceive risks increasingly as being caused by individual choices, if people more often distrust each other, then for many the balance between individual costs and benefits might seem to be disturbed. Although we did not find empirical indications that this is already happening, it might be very hard to maintain the delicate balance between one-sided and two-sided solidarity in the long run.

## 10.5 A local welfare state

There are several reasons why a welfare state that is organized at a lower level than the national state might promote public support. In general, community spirit appears to be stronger in local communities than in national communities, since local communities are usually more homogeneous, making identification with other



members of the community easier. Moreover, in small communities, counting no more than a few hundred members, such as a neighborhood, a company or a sports club, personal contact between the members may foster affective ties and facilitate control of individual behavior. All these factors may contribute to the support for one-sided solidarity.

According to the European Values Survey of 1999, 56 percent of European citizens say they belong first of all to their locality, town or region, and only 31 percent say to their nation. These figures suggest that people feel more attached to their local community than to the national community. Thus, there might be a viable alternative for the national welfare state in organizing one-sided solidarity at the local level, which we may call *community care*.

The willingness to show two-sided solidarity could also be strengthened by organizing it on a smaller scale than the national level. Once again, the fact that a smaller community is often more homogeneous is a crucial factor. If one restricts a (social) insurance scheme to persons sharing similar risks and preferences, the odds are much smaller that particular groups will benefit disproportionately than in the case of a nationally organized insurance scheme. Within a homogeneous group the emphasis lies on chance solidarity rather than on risk solidarity (based on differences in risk), meaning that everyone has about the same chance of benefiting from the insurance. Another advantage of a small group is that often more information is at hand about individual behavior, making it easier to prevent opportunistic behavior and abuse.

While the local community, such as a neighborhood or a small town, may be quite suitable to organize one-sided solidarity, two-sided solidarity is probably better organized at the level of a large company or an industry. Employees of the same company or industry often have a lot of characteristics in common and run similar risks, which makes it a matter of enlightened self-interest to pool these risks. This might be called the *direct-benefit principle*: those who benefit from a particular social provision contribute to it. For example, metalworkers or civil servants might organize their own sickness, disability and unemployment insurances and pension schemes. In fact, in many countries such occupational schemes already exist as a supplement to mandatory national social insurances. If the balance of costs and benefits is well-preserved in each homogeneous group, people will have a strong in-

centive to support those occupational schemes. One could also imagine other groups organizing their own social provisions on the basis of common interests. For example, young parents may organize their own day-care centers, retired people may collectively finance their own rest homes, etc.

Although organizing two-sided solidarity at a smaller scale may strengthen its internal support, the flip side is, of course, that it nullifies solidarity between groups. In the above examples, there will be no solidarity between employees in different industries whose risks may differ, or between younger and older people. This can have two undesirable consequences. First, people whose risks are above average might find it hard to get access to a group, because they will be considered to be net-profiteers. For example, a company may decide not to hire employees that belong to a high-risk group, such as handicapped or chronically ill people, if it is fully responsible for paying sickness benefits. Second, groups that are homogeneous with respect to risk may not be able to spread their risks sufficiently. This may be caused by so-called interdependent risks. For instance, a cyclical downturn may cause many employees in the same industry to become unemployed simultaneously, making it very hard to finance an unemployment insurance scheme. For that reason, a more heterogeneous group has the advantage of making it easier to spread these risks.

In combining one-sided solidarity and two-sided solidarity at a local level, one would end up with a *welfare city* instead of a welfare state. This might be an attractive alternative for the same reasons that organizing one-sided solidarity (community care) and two-sided solidarity (direct-benefit principle) at the local level can be attractive. However, since the optimal group in organizing one-sided solidarity may differ from the optimal group in organizing two-sided solidarity – and the last may differ between different kinds of two-sided solidarity – it will not be easy to reap all the benefits of organization at a smaller scale in a welfare city. The citizens of a city may be homogeneous in one respect, for example language (dialect) or religion, but may differ strongly in another respect, for example occupation and industry. Thus, it might not be wise to organize both social assistance and unemployment and disability insurance at the level of the municipality. On the other hand, a metropolitan area, which might be the size of a small nation-state, may be sufficiently large to organize all aspects of a welfare state, but will generally not have the advantage of a homoge-

neous population. Although the nation-state is not by definition the optimal scale to organize a broad, social-democratic welfare state – unless its population is rather homogeneous – it is not clear what the optimal scale would be.

## 10.6 A supranational welfare state

If national borders gradually lose their salience and national states gradually become part of a global – or at least European – economy, then a natural thought is to organize the welfare state at a higher, supranational level, too. Though the idea of a European welfare state, which includes income transfers between the citizens of different member states, has been put forward once or twice, it is considered to be a viable and realistic alternative for the national welfare state by very few people. There are a number of reasons for this.

A practical reason is, first, that the differences between the institutions of the current national welfare states in Europe are so large that it is hardly imaginable how they could be merged into one overarching European welfare state. A more fundamental reason is that most preconditions, discussed in Chapter 5, for one-sided and two-sided solidarity are not met at the European level. A European welfare state that is limited to one-sided solidarity, i.e. a *European night watchman state*, might not seem a utopian idea at first sight, since the principle that the rich member states contribute more to the European Union than the poorer member states was recognized a long time ago. Since 1988 the contributions of the member states to the EU are mainly dependent on their gross domestic product (GDP). However, this only refers to one-sided solidarity between member states. There are no direct payments of the EU to individual citizens of member states. In view of the conditions that have to be met to create public support for one-sided solidarity, it is not very likely that such income transfers to individual EU citizens will come about in the foreseeable future. After all, one-sided solidarity requires a community spirit, which is absent at the European level. Most people in the EU do not consider themselves primarily European citizens. According to the European Values Survey 1999, only eight percent of the European residents say they belong first of all to Europe, as opposed to 31 percent that say they belong primarily to their nation.

Probably, the willingness to support poor and needy people in other member states (one-sided solidarity) is very feeble, apart from extreme circumstances, such as following the occurrence of a natural disaster. Moreover, in Chapter 8, we observed that Europeans are much less concerned about the living conditions of immigrants than about other countrymen, which confirms that there is not a strong commitment to foreigners. On the other hand, the more open a country is, the stronger the solidarity with immigrants appears to be. Thus, the gradual integration of countries in the EU may contribute to a growing solidarity with the citizens of other member states.

Two-sided solidarity requires mutual interdependence, limited information of individual risks and trust that others will also contribute to solidarity (Chapter 5). As a consequence of European integration, the mutual dependency of the citizens of different member states has increased, so this is less of a hindrance to solidarity at the European level than it was in the past. However, due to the enlargement of the European Union, which at present consists of 27 countries, the economic diversity of the EU has increased. As a consequence, certain economic risks, such as unemployment, are distributed unevenly across the member states. This makes it rather predictable which countries would benefit most from a European welfare state based on two-sided solidarity and which countries would contribute most. Thus, two-sided solidarity between European citizens will probably be perceived as one-sided solidarity between member states. Consequently, the willingness to contribute to a European system of social insurances will be rather small among the populations of those countries that will be net-contributors.

The third condition for two-sided solidarity, trust, is not likely to be met at the European level, either. In a 1996 survey, EU citizens said they trusted their fellow countrymen much more than citizens of other member states. On a scale from 1 to 4, the average score of trust in compatriots was 3.39 and the average trust in citizens of other member states only 2.75 (European Commission 1997: Table 4.4; unfortunately this question was not repeated in later years). The fear that the funds of a European welfare state will not end up with the people that it was intended for and that others will not contribute proportionally is probably a severe hindrance in getting public support for a European welfare state.

Considering these problems, it is no surprise that the up-to-date social policy of the European Union does not comprise much more than the formulation of common targets. The responsibility for realizing these targets and the choice of the means and instruments to accomplish them lie at the national level. This so-called Open Method of Co-ordination (OMC) is currently applied to the fields of employment, social inclusion, healthcare and pension policies. Although the European Union formally considers social policy to be a communitarian objective, it is rather unlikely that this will represent a first step towards a truly European welfare state.

Although a European welfare state, based on either one-sided solidarity or two-sided solidarity, does not seem a realistic option, another kind of supranational income transfer might have better prospects. This is the option of *supranational risk-pooling*. With respect to private insurances and pension funds, it is already common practice to share risks internationally. Private insurance companies reassure their risks with internationally operating insurers and investors, who specialize in spreading risks optimally on a global market. Pension funds and life-assurance companies invest worldwide to maximize their returns and minimize their risks. Actually, these international activities amount to organizing two-sided solidarity globally, even though the policyholders themselves may not be aware of that.

It is conceivable that national governments would spread the risks of social insurances internationally, too. Thus, they could benefit from the fact that countries often pass through different phases of the business cycle. For instance, in the US the phase of the business cycle is often one or two years ahead of the business cycle in continental Europe. If, for example, the unemployment risks of the US and of Germany would be pooled, then the expenditures on unemployment benefits and, consequently, the social contributions would be less volatile in both countries. Although one might expect that business cycles would become more synchronized as a consequence of globalization, empirical research shows that this is not the case, yet (cf. Kose et al. 2003).

International risk-pooling is based purely on enlightened self-interest and is, thus, only a realistic option for two-sided solidarity. Moreover, trustworthy international financial institutions are needed to minimize the risk that foreign partners will not live up to their obligations or abuse the solidarity of others. In the past,

such institutions did not exist, but the boom of global capital markets might rapidly increase the opportunities for such forms of international risk-pooling. The American economist Shiller (2003) anticipates a great future for numerous forms of global risk-sharing. At the time of writing, it was not yet clear whether the global financial crisis that started in 2008 will speed up or, on the contrary, delay the development of such institutions for global risk-sharing.

## 10.7 Conclusion

Although, in Chapter 9, we concluded that the processes of individualization and globalization do not render the current welfare states untenable, there may nevertheless be good reasons to reconsider the present organization of the welfare state. Public support for the liberal welfare state, based on one-sided solidarity, may gradually erode due to the increasing diversity of national populations. The conservative welfare state, based on two-sided solidarity, is vulnerable to the problem of adverse selection, which might hollow out its foundation. The social-democratic welfare state, embodying both kinds of solidarity, will only be sustainable in the long-term if it succeeds in maintaining the delicate balance between one-sided and two-sided solidarity. Some of the pressures on present-day welfare states might be withstood by either reducing or extending the scope of solidarity. Scaling down the welfare state to the local level of cities or even neighborhoods has the advantage of a more homogeneous community, which might produce a stronger community spirit and, thus, more support for one-sided solidarity. However, the idea of a “welfare city” also raises a number of problems, such as a weak financial basis due to fewer opportunities for spreading risks. Alternatively, the option of a supranational, European, welfare state as such does not seem plausible, but introducing elements of international risk-pooling is certainly worthwhile considering.

Perhaps the most interesting option would be to combine elements of scaling down and scaling up. The growing demand for local security and community spirit could then be met in a European or even global context of spreading risks all over the world. This would fit in with the theory of the political economists Alesina and Spolaore (2003) about the optimal size of nations. They

argue that in a globalizing world, the advantage of the homogeneity of small geographical entities might gain weight. Thus, a stronger emphasis on the local community would not mean that people turn their backs on the global community, but that they utilize the opportunities offered by economic, social and political globalization to secure welfare and security for all at the local level.