The Virtuous Circle of the Welfare State
Is It Valid Any More?

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Markets and welfare

• Neoclassical economic theory: well functioning markets is the best possible way to fulfill the needs of the people i.e create well-being.

• Thus the welfare interventions by the state harms the economy i.e. create welfareloss by restricting the markets.

• According to neoclassical economy there are market failures, which can legitimize the state interventions, but they are exceptions.

• Mainstream economics: welfare state is a burden.
Alternative theory: virtuous circle

Our exercise challenges mainstream neoclassical approach:

1. An alternative theory to assess the welfare state
2. The welfare state has been assessed by its contribution to economic growth - we assess it by its contribution to the well-being of the people
Increasing inputs in public social policy

Decreasing inequality

Increasing social capital

Increasing well-being

Increasing inputs in public social policy
Previous approaches

• Gunnar Myrdal (1957) was perhaps the first who presented the idea of virtuous circle in the context of the development of the whole society.

• Bo Rothstein and Eric Uslaner (2005) have presented empirical evidence how equal distribution of resources and opportunities leads to increased well-being and how this is linked with social policy and trust.
Step 1. Public inputs in welfare policy

- Public social security transfers: expenditure % of gdp
- Public social services (incl. health): exp. % of gdp
- Active labour policy: exp. % of gdp
- Replacement levels and coverage of public sickness-, unemployment and retirement benefits (Esping-Andersen: decommodification)
Step 2. Inequality

- Gini-coefficient i.e. inequality of incomes
- Freedom of choice
- Deprivation index
- Gender gap
Step 3. Social capital

- Generalized trust
- Trust in social institutions
- Passive participation in civic activities
- Active participation in civic activities
Step 4. Well-being

- Expected life time
- Educational enrolment rate
- Gdp/capita
- Satisfaction with life
Empirical test

- 23 OECD countries
- Data from 3 cross sections: 1) early 1990s, 2) the turn of millennium and 3) the mid-2000s
- Structural equation modelling (hybrid of regression and factor analysis)
- The cross section analysis supports the theory of virtuous circle and its every step i.e. correlations are in line with our hypothesis
Results of longitudinal analysis

• Longitudinal analysis does not any more support our hypothesis: there are two failures.
• (1) The last step fails: changes in the level of well-being does not have positive correlation with the later changes of the public inputs in welfare policy.
• Possible explanation: the increasing support for neoliberal policy among the political elite.
Welfare inputs and equality

• (2) More surprising and interesting are the correlations against the first step of our hypothesis: changes in the level of the public inputs in welfare do not have positive correlation with the later changes in the equality

• This need to be examined more thoroughly
Possible explanations

There are many explanations why public welfare inputs are less efficient in decreasing the inequality:

• Taxation i.e. financing of welfare inputs does not level the income differences as efficiently as it did before. There is less progression in the taxation.

• The share of income related benefits (esp. pensions) has increased in social transfers.

• The unemployment has increased.

• There might be diminishing marginal returns.

But the above notions do not explain the change of the positive correlation into negative.
The problem

• The development of welfare inputs has been less generous (or there has been more cutbacks) in Nordic countries compared to the other countries. Nordic countries have lost their lead.

• Nevertheless there has been more positive development in equality (apart from the distribution of the incomes), in social capital and in well-being in Nordic countries compared to other countries. Nordic countries have increased their lead.

• This contradicts with virtuous circle.
Alternative explanations

1. The welfare state has fulfilled its tasks and begins to create more bad- than well-being. The cutbacks in Nordic countries gives positive results. (Neoliberal explanation.)

2. There is a time lag. The high level welfare state continues to create positive results although there are cutbacks. The turn to diminishing well-being will become later. (Virtuous circle explanation.)

Both explanations can have plausible research results as their justification. It might be impossible to find research results which are assertive enough.
The choice between explanations?

• The choice between explanations might reflect one’s philosophy of life: (1) everyone is the architect of one’s own fortunes, (2) human being is a communal creature.

• What is the role of a researcher? Is it possible to be impartial? I doubt.
Researcher shapes the society?

• According to Michel Foucault politics shapes/moulds the human being.
• E.g. in the Nordic countries the people have much more positive attitude towards the state compared to the attitude in the Central and Southern Europe.
• Politics is not done only by politicians but also by other actors. Does our choice of the research topics and the framework of our approach shape the people and society???
• We are not only analysing but in fact advocating???
Finally

• My sympathies are for virtuous circle (human being is a communal creature) and for foucaultian approach (people are outputs of politics).

• Nevertheless I think that some aspects of the welfare state criticism of neoliberalists should be taken seriously in research.

• How we could reshape the welfare state, which e.g.
  – is less authoritarian,
  – supports more civic activities
  – solves the problem of the financing the welfare state.
The end