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**Family Well-Being, Public Policy and Economic Growth:  
Lessons from History and Insights for the Future**

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This policy seminar convened at 2:00 PM in the Ballroom of the National Press Club, 529 14<sup>th</sup> Street, NW, Washington, DC.

**Political Sustainability and European Welfare States**

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KIMBERLY MORGAN: Great. Thank you so much to the organizers for putting together this very interesting panel on some very interesting work. I think Professor Lindert has spoken and written very eloquently about this question about the economic sustainability of the European welfare state. And as I am not an economist, I dare not tread upon the realm of economics, but as a political scientist, I thought I would talk about the political sustainability of the European welfare state; in other words, why despite repeated predictions in the media and among some academics that the European welfare state would collapse in crisis, why it has proven so politically sustainable.

I'll talk about this by first looking historically at the political foundations of European welfare states, focusing in particular on the design of tax and benefit programs and how that has affected their political sustainability. And then I'll talk about some recent reform efforts.

And I would like to focus in particular on a point raised by Professor Lindert about policies that support working mothers and support families more generally, and how there have been growing efforts in Europe, in Western Europe, to improve these kinds of supports, and that this is very much in line with the kinds of politically popular policies that politicians have long pursued on the European continent in the redistributive realm.

Before I get started, I should just note some geographical limitations. I'm really just talking about Western Europe. That is in part because Eastern European welfare states have had

a different trajectory, but also on a more mundane level, I'm simply less knowledgeable about Eastern Europe so I'm going to just kind of stick with terrain that I'm a little more familiar with.

So, first, I'm going to talk a bit about the political foundations of the European welfare state model. Readers of the mainstream press would know that the demise of the European welfare state has long been predicted. Yet outside of the U.K., there has been virtually no major drive to slash the welfare state in Western Europe. And even under the U.K. under Margaret Thatcher, I think a lot of people would say that her efforts essentially failed.

You don't even really hear a strong anti-welfare-state rhetoric in political campaigns in Europe brought by opposition parties. And the interesting question this raises is why this is the case and why this is contrary to what media has often predicted.

In answering that question, I think I could take a number of different tacks, but I would like to focus on one factor that Professor Lindert has especially highlighted in his work, and that is the design of welfare state benefits and financing, and where he has really talked about the economic sustainability of this model, I'll talk about the political sustainability of it.

First, in the area of social benefits, European welfare states consist, as we all know, of universal social insurance programs, essentially for things such as pensions, health insurance, maternity and parental leave, unemployment compensation and other areas. These are universal programs, and the fact that they are universal gives us one hint as to why they have been so politically sustainable. They basically reach a very large constituency; they include the middle class in them, and thus are likely to have more political strength than, say, means-tested programs that target a much narrower constituency.

Just as important is the fact that these are social insurance programs, in which people pay a percentage of their income, and what they get back out is also related to their income. So it's not that people get back some kind of universal flat-rate benefit from most welfare state programs, but they get back according to their income, basically income replacement.

This has reinforced the political strength of these programs because it has kept the middle class within the universal welfare state, rather than having to look outside the welfare state for private supplements, private forms of insurance, to assure that their income would be replaced in the event of illness or old age or unemployment. Social insurance benefits basically keep the middle class within this universal constituency and create strong support among the general public for the programs of the welfare state.

The second critical part of welfare state design, though, in the European context, is what Professor Lindert has pointed out, the financing of these programs. And I think he has highlighted something that a lot of people hadn't really thought about very much, about how European countries finance the state. Namely, there is a particularly heavy reliance on consumption taxes and payroll taxes, and relatively less on things like income taxes, capital taxation, and so on.

Now, while from an economic standpoint, these taxes might be less harmful than other forms of taxation, as Professor Lindert has highlighted, they may also be more politically sustainable, too. If you take the example of payroll taxes, people often say they like payroll taxes, or at least dislike payroll taxes less than other forms of taxation. If you look at public opinion data in the United States – and there are data that go back many decades – it shows that people consistently say that payroll taxes, such as the Social Security taxes they pay are the most fair or the least unfair of the taxes that they pay.

Similarly, consumption taxes are also potentially have some politically sustainable dimensions to them. And there are a number of reasons for this. One is that consumption taxes might be less visible. People are not confronted with the annual bill of how much they pay to the federal government once a year with consumption taxes. Instead, these are spread out over the year, and in the case of the value-added tax are incorporated within the price of goods, so conceivably people are not even necessarily aware of just how high consumption taxes are.

One thing I would also say about the political appeal, potentially, of consumption taxes that is also true of payroll taxes, is that they can be seen perhaps as more acceptable to groups that might otherwise lead an anti-tax movement, namely the rich or business groups. These potentially powerful opponents of the welfare state might be less mobilized under a system of taxation that taxes consumption and labor rather than taxing income and capital.

Some people are starting to argue that the financing of European welfare states really rests on a sort of cross-class compromise, one in which seemingly regressive forms of finance, which are less likely to antagonize powerful groups in society and are simply less visible to the public, basically fund progressive redistribution through social benefits. And if you look at the consequences in terms of inequality, the tax systems in a lot of European countries are not terribly progressive, but the reduction in inequality and the redistribution of income really comes through the progressive social benefits, the net result being lower overall inequality in European countries than in the United States, and also of course lower poverty rates.

Thus, to give a contrast with the United States, and sum up this point about the political feasibility and sustainability of the European welfare state, we can think about the U.S. and its system of financing and its system of public benefits. On the one hand, we use a tax system that is arguably quite visible and fairly antagonizing, that is, a progressive income tax structure that used to be especially progressive – is much less today – and also relatively high taxes on capital. And arguably, these are precisely the things that have catalyzed an anti-tax movement in this country that has really become a movement against the welfare state.

In addition to this, we have a welfare state that is smaller and simply less visible in people's lives. People just don't perceive that the state does much for them; especially the non-elderly population would argue that the state does very little for them. Of course what they don't realize is all of this sneaky backdoor ways in which the state is actually doing things for them, things like tax expenditures which subsidize employer-provided health insurance and pensions, and also things like the home mortgage interest deduction. Very few people would recognize these benefits that the federal government is providing for them, and instead would insist that the state does very little for them.

In other words, this combination of a fairly visible and antagonizing tax system, and a fairly invisible welfare state arguably has done much to undermine support for the welfare state in this country. By contrast, these European welfare states have more visible systems of benefits and services. People really see what the state does for them in their daily lives, how it supports them in a range of ways, and a less visible or antagonizing tax system.

Now, all of this is not to say that there are not problems with the European welfare state or that Europeans themselves are not cognizant of various problems facing them. There is this problem of chronic unemployment, particularly in continental Europe, and especially the Southern European countries, as Professor Lindert outlined, and also much concern about the sustainability of large pension and healthcare commitments in the face of an aging population.

But I would say the way that countries are trying to respond to this and various other problems they are facing has not been to try to radically cut the welfare state or adopt an American-style model, but rather to try to recast it and reorder its priorities. In other words, countries are trying, and it's not always very easy, to reduce spending in certain areas and redirect social spending in other places that could be seen as more productive. This helps account for the reason why there have not been overall reductions in social spending. But that is not to mistake the fact that there have been ongoing reforms and efforts to improve the workings of the welfare state.

One area that I think is gaining growing attention in Europe is precisely one that Professor Lindert has outlined as a particularly important investment that states could make, and that is investment in mothers' employment and in supporting mothers in paid work. Now, it's important to note that European welfare states have always contained systems of universal family supports. That was really part of the welfare state from the beginning in Europe, from early in the 20<sup>th</sup> century; that they are not only about supporting an old-age population but also about supporting families and providing universal supports for families.

This meant things like universal family allowances, allowances paid to people according to the number of children that they have, basically to subsidize the costs of having children, various tax subsidies provided as well, things like wage supplements for breadwinners, and various social services that are universally available.

However, European welfare states were really forged in an area of much more traditional social values. They were really created in the 1950s, the 1940s, a time when the assumption was – and it was really born out in reality – that most mothers would be home, and the issue then was providing supports to male breadwinners.

With the rise of women's employment, though, over the last few decades, this has really put pressure on welfare states to recast themselves, to reorient their spending, to take into account the changing needs of the population. This has led to attempts to create policies that would support mothers' employment, policies such as universal childcare, generous paid parental leave policies, and also part-time work possibilities as well.

Now, there are numerous reasons for this, and numerous discourses that surround this whole discussion about women's employment. One set of goals is about gender equality. This has been something that has been very much pushed by the many women in European politics. Women have higher rates of representation in parliamentary politics in Europe than in the United States. But I think it also reflects some pragmatic goals to try to recast the welfare state to meet some of these changing conditions.

Thus, when faced with the problem of unemployment and the ways in which women are shut out of labor markets, as Professor Lindert was outlining, this sort of labor market that makes it hard for youths and women to break in, these policies try to mobilize women's employment and give them better access to the workforce.

Faced with the problem of an aging population, people are increasingly talking about promoting women's employment as a way to address that. The goal is to encourage women to have children because they don't have to worry so much about being able to stay in paid work after their children are born. A lot of the Northern European countries that provide these supports for women have higher fertility rates. Also in the coming decades, as the baby-boomer population retires and the labor market starts to shrink, causing labor shortages in Europe, promoting women's employment is just plain good economics.

Finally, to of conclude, I think it's also part of this political orientation of the welfare state, that in this time of changing family needs, policymakers are trying to find a way to recast the welfare state, to continue to keep the middle class within its ambit and provide policies that will actually support them in their various goals in their lives. And so in this sense, I think this effort to reform the welfare state will very much contribute to the political sustainability of the European model in the years to come. Thank you.

(Applause.)