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Seminar paper

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The Sustainability of Western Welfare States

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We begin by looking back briefly at past attempts to see into the future of western welfare states. Many of the predictions made in the 1980s were gloomy. They have not been born out. Why, and what may that tell us about our future? What are the new challenges?
These welfare states may have survived but are they merely sliding gradually into a neo-liberal future as one recent commentator on Europe has maintained (Ellison 2006)? What does all this have to say about the state of comparative research in the field?

Reflections on past predictions

The profits of doom
Thirty years ago, in the wake of the oil crisis and growing fiscal and demographic pressures, the very future of welfare states was called into question across the political and disciplinary spectrum.
William Baumol, a leading classical economist, looked at New York's impending bankruptcy and concluded that there were fundamental reasons why labour intensive public services everywhere would move into fiscal difficulty. They would become steadily more costly relative to other parts of the economy (Baumol 1967). The productivity gains achieved in private sector enterprises, and captured in part by the workers in those industries, would force up labour costs. They could not easily be offset by productivity improvements.
A comparable analysis by the Marxist left predicted a 'fiscal crisis' as voters refused to support rising taxes but would also oppose cuts in public services (O'Connor 1973 and Gough 1979).
This was the decade when public choice theory became an influential a contributor to both economic theory and public policy, particularly that part of it which questioned the supposedly benign motivations of public servants and professionals working for the state (Niskanen 1971; Borcherding 1977; Brennan and Buchanan, 1980; Mueller 1989, Chapter 17 for a summary of the then literature). Growing public budgets were the result of self interested 'rent seeking' public bureaucrats controlling the supply of public knowledge in their own interests. But the game was now up and, so exposed, the public would return to its senses and prefer to spend its own money on private schools, health care and pensions. Constitutions should contain limits to the growth of the state, in case voters continued in their deluded ways.
The Swedish economist Asar Lindbeck (1995) argued that recipients of welfare were also a problem. Welfare had changed people's attitudes to work. Since the penalties of non work were low, a long term shift in attitudes had taken place. Unemployment in Europe and the social evils associated with it could be blamed on welfare states. Similar

conclusions were drawn in the US in relation to welfare's impact on the family and the encouragement of single parenthood (Murray 1984 to the right; Ellwood 1988 to the left). Coming on top of economic crises this constituted the most fundamental intellectual critique welfare states had faced since the Second World War. Academics wrote books in which 'crisis' and 'welfare', the 'end of welfare states' or 'what comes after the welfare state' or 'the race to the bottom' came in varied combinations.
The Danish inventor of comparative 'welfare regimes', Esping-Andersen (1990; 1996) questioned whether any of his 'regimes' could survive without significant change. Most at risk, he concluded were those of the United States, Canada and the UK which depended on 'the loyalties a numerically weak, and often politically residual, social stratum' (1990 p38).
International conferences were called to discuss the problem. One, convened by OECD (1981), occupied more cautious centre ground. As Halsey noted in his summing up (p27) there were pessimists and optimists present, the latter retaining 'a cheerful faith in the potential of local communities for both industriousness and altruism'.

Doom avoided
In the end none of these 'collapse', or 'decline and fall', scenarios came about.
Overall public spending on social policy has not declined as a percentage of the GDP in most OECD countries, though the rapid rises in its share in the last half of the twentieth century levelled out (Castles 2004). Esping-Andersen's prediction of particular decline in the Anglo-Saxon 'residual' countries did not materialise.

The 'Anglo-Saxon' low spenders increased their social spending share of GDP by about the same amount as the central continental countries (3%). More if Japan is included in the low spending club. The Scandinavian countries continued to grow rather faster. The fastest growing welfare states were those of the Mediterranean countries who sought to catch up with the prevailing level of services in Europe – Greece, Spain, Portugal and Italy averaging an 8.4 per cent increase. The ex communist countries seem to be doing the same.

Table 1 Social Welfare spending by country clusters:
Per cent of GDP on social expenditure, excluding education

	1980	1990	2003	1980-2003
Anglo- Saxon residual or 'English family'				
Australia	10.9	14.1	17.9	+ 7.0
Canada	14.1	18.4	17.3	+3.2
New Zealand	17.7	21.8	18.0	+0.3
USA	13.3	13.4	16.2	+2.9
UK	16.6	17.2	20.6	+4.0
Ireland	16.8	15.5	15.9	-0.2
Average Growth				*2.9*
Other G8 low spender				
Japan	10.3	11.2	17.7	+7.4
Average low spenders				*+3.5*
Middle continental Europe				
Belgium	23.5	25.0	26.5	+3.0
France	20.8	25.3	28.7	+8.1
Germany	23.1	22.5	27.3	+4.2
Netherlands*	24.1	24.4	20.7	-3.4
Average growth				*+3.0*
Southern European				
Greece	11.5	18.6	21.3	+9.8
Italy *	18.0	19.9	24.2	+6.2
Spain	15.5	20.0	20.3	+4.8
Portugal	10.8	13.7	23.5	+12.7
Average growth				*+8.4*
Scandinavia				
Denmark	25.2	25.5	27.6	+2.4
Finland	18.7	24.5	22.5	+4.1
Norway	16.9	22.6	25.1	+8.2
Sweden	28.6	30.5	31.3	+2.8
Average growth				*+4.4*
New Europe (ex- communist)				
Czech		16.0	21.1	+5.1
Slovak		18.9	17.3	-1.6
Poland		15.1	22.9	+7.8
Hungary		20.6	22.7	+2.1
Average growth				*+3.4 in 13 yrs*

*Italy is included in the Mediterranean /southern Europe group where I think it belongs not as in Castles and Mitchell (1993) in Central Europe. Netherlands I have included with other Central European countries, notably Belgium and Germany, which fits its institutional history, not put it with Scandinavia.

So why were the profits of doom wrong? Were they wrong? Have such prophesies only been delayed? Has the neo-conservative medicine been taken in small but growing doses and will in the end prevail?

The reasons for resilience

Political reasons for resilience

One of the earliest authors to ask the question 'why resilience?' was Paul Pierson (1994), a political scientist from Harvard. He compared social policy changes in the UK and the USA under Reagan and Thatcher. Both had powerful electoral support. They had committed themselves to rolling back the state. Why had they not, in the main, succeeded? His answer was that such retrenchment was politically difficult where a large proportion of the population was dependent on welfare services – pensions, schooling, and health care in the UK - and where so many jobs depended on them. The client groups affected had mobilised effectively –'programme-based interest networks' as he called them. Where a poor minority was involved, public housing in the UK or welfare mothers in the US, it was relatively easier but overall the welfare state had not been rolled back.

Economic reasons

Helpful though this approach was in thinking about the politics of retrenchment it failed to consider the fundamental economic reasons that made scaling back difficult. Looking back at the literature of the 1980s, it is revealing to see that the problems identified were only seen to impact public services. No attention was focused on the funding problems that might face private insurers. Market failure and its interaction with an ageing population were never mentioned.

Market failure is not just an abstract academic idea. The UK Pension Commission's First Report (2004) sets out in a devastating analysis just how it adversely affected the pension incomes of a whole generation of very real people who could vote. The UK was one of the west's leading examples of a private insurance led solution. The private insurance example held up by the World Bank to the emerging economies was that of Chile. There, too, it has failed in the primary duty all states have – to support the elderly poor (Barr and Diamond forthcoming). It is now introducing what is, effectively, a base citizen's pension on which reformed private schemes can be built.

In the poorest economies insurance market failures were compounded by the weakness of their capital markets. A devastating review of its own advice and errors was undertaken by the World Bank's Independent Review Group 2006. In the diplomatic words of its summary - 'the Bank did not always fully consider the country's underlying economic and financial structure'!

We now understand much better why individuals systematically under save and under insure for retirement and long term care (Choi, Laibson and Madrian 2004; UK Pensions Commission 2004, Chapter 6). They find information about future financial options difficult to grasp and even when they do grasp it they do not act on it. It is always rational at any given point to defer action if you are making a difficult decision about the distant future that is hard to assess. Tomorrow will do. This is exactly what individuals do when considering investing in a pension scheme- there is always tomorrow.

Long term care presents an even more difficult case since the future of care costs and your own vulnerability are so uncertain. Private insurers largely withdrew from the long term care market in the UK in the early years of the new century. They had already largely withdrawn from funding health care for the elderly.

In short, when growing longevity was seized upon by those forecasting a decline in welfare states, they completely ignored the evidence that it was likely to cause even more problems for their private alternatives.

Much the same is true of the argument that the relatively high cost of labour intensive human services would cause difficulties for public sector human services. What private human services sell is even more intensive staff support with higher qualified staff. This makes them more vulnerable to relatively high salary cost inflation. Private school fees in the UK are a good example. These schools sell small classes and good staffing quality. Between 1996/7 and 2001/2 school fees rose by 34 per cent. From 2001/2 to 2006/7 they rose by 39 per cent. This rise was faster than not only general inflation and average earnings but more than <u>twice</u> as fast as the earnings of those in professional and managerial jobs (15 %).

During a period of sharply rising income inequality a rise in the size of the private school sector might have been expected. Instead private pupil numbers have fallen behind births in those social classes. Big increases in private university fees took place in the US. This has eroded the value of federal support but also checked any rapid growth in access to US higher education. Rising health inflation and the resulting burdens on US firms have reinforced calls for some kind of federally supported coverage there.

However, the fact that the private market model faces funding problems does not make the state's fiscal task any easier- on the contrary.

So how have western welfare states responded both to fiscal constraints and the powerful case against monopoly state provision and 'moral hazard' that was mounted in the 1980s?

Past adaptations: will they be enough?

<u>Welfare state adaptations</u>

- *The shift of public spending to social policy* Social policy has come to take a higher share of public spending across the western world, a lower share going to defence spending and, with the privatisation of major basic industries less tax revenue has gone on subsidies and publicly funded investment in basic industries. Neither trick can be played again. Other demands, like that of environmental policy, and international terrorism may make life more difficult for social policy in the future.

- *Up front charges* In health and social care, especially in social insurance based systems, this has been a major strategy. (The French pay a quarter of their doctors' bills themselves.) However, the exceptions that have to be made, not to burden the long term sick and elderly, means that more revenue will be difficult to raise this way in any system. The really big changes have been made for the future.
- *Reduced pension promises – longer working lives.* Governments gradually scaled back unrealistic pension promises. Take Sweden as an example. The Swedish pension scheme, as it was in the 1990s, would have alone required a life time tax burden for the average Swede born in 1990 of 20 per cent of the average person's lifetime earnings (Fenge and Werding 2004). The cross party reform agreed in 1998 stabilised this life time contribution at 12 per cent of life time earnings. (The predicted share to be paid by those born in 1955.) In Italy the 1995 reform reduced the equivalent projected life time tax rate from about a quarter to 18 per cent. German pension promises have been reduced over a fifteen year period of reform (Borsch-Supan et al 2007). In the whole of the EU pensions levels promised have been reduced by a quarter (EU Economic Policy Committee 2006).

    - Longer life is only a major fiscal problem if pension ages remain unchanged as life expectancy grows and attempts to lengthen working life are beginning to pay off. A century long decline in the age of retirement was reversed in the USA in the 1980s, turned in the UK about 1995 and at about the same time in other OECD countries. Across the western world governments have been getting a difficult message across with increasing success. Both the Swedish and German pension reforms have built in automatic reviews of pension levels in line with life expectancy. Italy has steadily reduced its very early retirement rights. France has done so in the private sector and is trying in the public. In the UK the Pension Commission persuasively argued that the portion of adult life spent in retirement could not reasonably and fairly continue to go on <u>growing.</u> In 1950 the average male spent 17 per cent of his adult life in retirement. By 2000 it was 31%. That could not continue they argued. 'Let's keep retirement at about 30 per cent of adult life and raise the full state pension age as life expectancy grows'. That got cross party support and is now legislated. Voters may be less irrational than many supposed once the problem is explained.
    - More women in the paid labour force made possible by more family friendly work rules and child care.
    - An objection made to both strategies is that there will be fewer carers to look after the elderly if people are in paid work for longer. That does not hold if the expectation of healthy life goes on extending – everything just moves forward in line.

- o Though often portrayed as being on the verge of bankruptcy the US social security pension system can be put in the black for the rest of the century to come by relatively small reductions in the benefits of the higher paid and modest increases in the payroll tax. The combined employer –employee payroll tax would have to rise from the present 12.5% to 14.2% in 2055 and 15.4 % by 2078.

- *Sustainable additional spending?* On average members of the European Union will have to devote another 4 per cent of their GDP to welfare spending by 2050 to sustain current policies and promised benefit levels excluding education. (Including education reduces the figure as numbers of school children are expected to fall but this depends on fertility assumptions which may be becoming out of date plus immigration.) [Lots of caveats to enter about uncertainty and assumptions built into these projections – expectation of life projections keep being shifted up, assumptions vary on expectation of lengthening <u>healthy</u> life, on the care given by families etc etc But swallowing hard…] Widening the definition of 'western' to most OECD countries increases the estimate to between five and six percent. (OECD 2001; 2006; 2007; EU 2006; UK Cm 6841; Kings Fund 2006). These figures are highly uncertain but this kind of transition is surely politically feasible especially given the costs of private solutions. There are wide variations around the average and some countries have still to adapt to the implications of their demographic future. [See Table 2 below]
- *Required or encouraged private contributions on top of a welfare state platform. 'Quasi-taxation'*. The state can intervene to structure, encourage or require individually funded provision. A whole range of new mixed modes of funding are developing in pensions, higher education, health and long term care. In some cases this has gone along with attempts to ensure that the universal basic platform has improved.

  - o In Sweden 2.5 per cent of a worker'searnings have to be invested in private funded pensions. In Germany a voluntary top up contribution attracts government matching money. In the UK the findings of behavioural economics in the US have been harnessed so that people not in an approved occupational scheme must opt out opt out of a national savings scheme which takes 4% of their income matched by employer and government funding.
  - o Australia followed by New Zealand and more recently Hungary and the UK have developed a version of the graduate tax as a way of funding universities. Universities can charge fees for courses and receive the cash up front when the student enters but students only pay these fees as an addition to their tax bill after they graduate. Students from low income families in the UK receive grants and bursaries which defray most of the costs of tuition and

living costs. The OECD urged other countries to consider such a model.

- In the Netherlands all citizens have been required, under last year's reforms, to take out private health insurance that covers a full range of health cover. They must pay a small premium towards the cost of that cover but most is funded out of taxation and varies according to the age and health status of the individual. People can add to that premium and buy more. French supplementary health insurance does the same.
- Perhaps the most surprising example of this new funding model is health care in the USA. Both Massachusetts and California have introduced 'universal health care' coverage by making it compulsory for individuals to take out health insurance but with help for lower paid families. Other states are discussing similar moves a creeping. All the main Democratic contenders have promised to extend that kind of scheme over the whole USA. Mrs Clinton's is the most thorough going. Insurers will have to accept all applicants however bad the risk (as in the Netherlands) and all employers will have to offer schemes and contribute to it or face a tax. Small firms will get tax support. It looks possible that the USA will end up with universal access to health care funded in this way.
- In short, we see variants of a mixed funding model emerging not just in 'Anglo-Saxon' countries but across the board.
- The down side of 'quasi-taxes' is that they may reduce people's willingness to pay 'real' taxes.

- *Work and anti-moral hazard measures.* Little by little western governments have been responding to the criticism that welfare states have produced a fundamental shift in the incentive to work. My own view is that much of the problem can be traced back to the high unemployment levels of the 1980s which made the old rules and stigmas of the 1940s collapse. The response was slow, but there has been 'an internationalisation of labour market policy in these respects' (Banks, Disney, Duncan and Van Reenen, 2005; Lodemel and Trickey 2001). The model here was not the USA, where the focus was on single parents, but Scandinavia and Australia with their mix of tougher time limits on unconditional income support and active help to return to work combined with reduced replacement rates. No western welfare state has now failed to move in that kind of direction though how it has done it depends on its public assistance tradition (Lodemel and Tricky 2001). Few countries in Europe have followed really radical or draconian steps. The 'welfare regime' categories do not prove good predictors of the extent of change or its nature. 'A radical change from welfare to workfare is supported only in Ireland and moderately in Denmark' (Vis 2006, p105). In contrast the US relatively harsh measures on welfare reform have had a significant impact in getting single parents into work and in reducing its welfare roles. It has not made much impact on poverty levels though. The UK's soft approach has had relatively little impact getting single parents into work but has reduced child poverty (Waldfogel 2007).

- *Attempts to make devolved and diverse social welfare institutions more efficient and consumer responsive.* This had a double logic. If more could be squeezed out of the service providers, voter demands could be met, in part, without tax increases. Moreover, the more satisfied users were with public services the more ready they would be to pay more in taxes, or at least, less resistant. Public sector performance targets, and public sector management reform became a widespread response. A separate logic led to introducing more competition between providers of services. The British dubbed this the introduction of 'quasi markets' but it had its counterparts in Swedish health care reforms and those in Germany and the Netherlands where it has been taken furthest. Here there is competition between those purchasing health care for their members as well as those providing it. Efficiency gains that have resulted are still in dispute. There has been little in the way of new entrants to the market or bankruptcy of failing enterprises, let alone good information on quality for these markets to be working well. But it is the direction of likely change and it builds on the pattern of diverse providers well established in Continental Europe, Canada and Australia. The exception may be schooling. Here there is some resistance to competing and diverse private provision. The reason may have a lot to do with the solidarity building potential, or supposed potential, of schooling. In a world of growing diversity and fear of losing national identity that feature of schooling may become more prized.

Table 2 Possible changes in welfare expenditure driven by demography on present policies: 2000 or 2004- 2050 (excluding education)

Anglo Saxon	
Australia	5.6
Canada	8.7
New Zealand	8.4
USA	5.5
UK	4.0
Ireland	8.8
Middle continental Europe	
Belgium	7.0
France	3.4
Germany	3.6
Netherlands	5.2

Southern Europe	
Greece	-
Italy	2.4
Spain	9.1
Portugal	10.1
Scandinavia	
Denmark	5.1
Finland	5.9
Norway	13.4
Sweden	3.1
New Europe	
Czech	7.9
Slovak	4.1
Poland	-4.8
Hungary	7.7

Sources: EU 2006; OECD 2001; OECD 2007; UK sources see text.

A slide into a neo-liberal future?

To return to the question I posed at the outset - how are we to view these trends? Are they best described as a 'slide into a neo-liberal future'? Part of the problem here is that Ellison (2006) does not clearly define what he means by neo-liberal though he cites with approval Ferge (1997), who sees the kinds of trends I have described as 'the individualisation of the social', and Klein and Millar (1995) who say 'social policy is becoming a branch of the do it yourself industry'.

I disagree. If I am right about the market failure features of the private insurance sector, especially in relation to the elderly, the collective action will have a growing role.

It may be one that regulates and shapes the private pension market more and provides a secure state platform for it. It may be that it requires membership of private schemes in places where this used to be voluntary but this will entail more not less state action.

I do not accept that increasing choice and individual agency contradict or undermine social solidarity. On the contrary both are a good in themselves – necessary means to human freedom, so long as they can be shared by all. Moreover without them you lose the support necessary to bind in the middle class voter on whose taxes and votes the welfare state depends.

The tensions between taxation and international competitiveness and poor relief and moral hazards in the labour market are as old as the eighteenth century, if not much earlier (Lindert 2004).

New challenges

Inequality

Where most welfare states have struggled is in coping with the sharply rising inequalities in original market incomes (Brandolini and Smeeding 2007) In nearly all countries inequalities in original market incomes rose. In Canada, Finland, Germany, Sweden and the UK the equalising effect of taxes and benefits has had to grow to mitigate those inequalities. The UK welfare state is now redistributing twice as much as its 1940s predecessor (Glennerster 2006) but is only partially mitigating the rise in inequality. It is working twice as hard fiscally just to get inequality to stand still. Sweden has an almost equivalent level of original inequality as the UK and it has also risen a since the 1960s. But Sweden has reduced its inequality by much more than the UK. (By 45% compared to the UK's 33%, excluding the impact of services in kind.) [If we include benefits in kind in the calculation the scale of 'income' redistribution is greater, especially in the 'Anglo-Saxon' countries (Garfinkel, Rainwater and Smeeding, 2006; Glennerster 2006).]

But even in Sweden disposable incomes after tax have grown more unequal. These have been good years economically. If we were to make inroads in inequality this was the decade. Given the other fiscal pressures to come it is difficult to see governments doing more to reduce inequalities in the future.

The object of people's altruistic concern may well turn to the really poor of the world of which people have more knowledge than they used to. Altruism may get spread thin.

Population movement and diversity.

In my last regular social policy lecture to students at the LSE in 2001 I left a lot of time for questions. I was asked what did I think was the most important force for change in the next twenty years? I said 'population movement'.

Then I saw world income disparity and the growing capacity to travel as the problem. What I did not foresee was the likely impact of climate change accelerating that movement, especially from Africa. Movements even within Europe have been larger than predicted following the removal of barriers for new members of the EU. These recent movements have been potentially beneficial in the short run, they bring younger populations who generate net gains in revenue, though they will retire eventually. However, they and especially those from even poorer countries pose other kinds of problems. Incomers face difficulties in adapting just as do the host populations notably the least advantaged. Areas most likely to absorb the newcomers are already experiencing high population turnover and decline (Lupton 2003; Ploger 2007). Given the scale of these movements it is possible to argue that the adjustments, both in housing markets and allocations, as well as in schooling and medical care have been fairly successful. People in poor areas have been remarkably accepting of new comers and diversity (Mumford and Power 2003,Chapter 4). If there had not been an accepted structure of universal services and safety nets things would have been much worse. But there is growing separation in living space and schooling (Burgess, Wilson and Lupton 2007).

At a more fundamental level two American authors (Alesina and Glaeser 2004) have suggested that one of the reasons for American relative reluctance to develop European type welfare states lies in the relative past homogeneity of Europe's nation states and

America's diversity. The more newcomers the less willing will Europe's population be to support the poor. Others argue this is a misplaced fear. It is the labour and working class traditions of the past that have sustained welfarist traditions and it their absence in the USA that is the difference (Taylor-Gooby 2005). Even if that were true significant newcomers might change that tradition. I suspect that we are underestimating the scale of this challenge. It is not just a problem for welfare systems as we have traditionally seen them but it is about community building in crowded urban spaces, security and policing. Policies that encourage choice and diversity may bind the middle class into state services but may create ethnic and religious divisions unless we are careful and build incentives and policies in that do the reverse.

Growing individualisation
Related but different is the claim that western societies are less and less aware of what binds them. Wars and national collective sentiments are being overtaken by narrow individual concerns. Belonging to voluntary organisations and mutual self help activities has declined (Putnam 2000). We 'bowl alone' and hence the very glue that binds us, even if we are of the same the colour and creed, is disappearing. Welfare states must suffer as the expression of togetherness.
I am no sociologist but I find this unconvincing. Traditional forms like trade unions are indeed declining but less formal yet more intimate informal and semi formal groups seem to be on the increase – not least because communication is so much easier.
Unsustainably high expectations
Consumers' expectations of welfare states may outrun their capacity to satisfy. Health care must be a prime example. What is medically possible is driven by the consumer expectations of the richest society in the world prepared to spend 15 per cent of its income on health care and rising. Breast cancer suffers demand no less treatment here. But taxpayers say no. This could bring collective health care systems into disrepute. This future is going to be difficult to manage. Yet the Dutch, the Swedes, the UK and others are devising ways of rationing health care in rigorous, open and debatable ways (Maclean 2008). Will these mechanisms retain political legitimacy in the face of powerful pharmaceutical and other pressures? One can only hope so.

Fertility and changing families Perhaps one of the most striking changes in recent decades has been the decline in fertility rates in some countries and the general change in family forms. In Germany, Italy and Spain, to a much lesser extent in the UK In the former countries this is seen as a major social policy issue. France has a higher fertility rate but some of this is attributable to its large Muslim population. This is going to provoke much more attention and possibly divisive debates.
So, too, will concerns about the pressures on families by working life. Welfare states have responded at different speeds and in different ways to these changing family forms. As Lewis (2007) has argued governments find this an extremely difficult area in which to move. When they do, they can be contradictory. At one extreme some have been penal, seeking to deter single parenthood, and subsidise the traditional family. At the other they have been accommodating to new family forms or they have faltered between the two – 'Janus- faced' (Lewis 2000). But in the end legal unions of lesbians and gay couples have been legislated across Europe in some very unlikely countries such as Spain. Pension and

property rights of women, and indeed both partners, in broken couples have been extended either by statute or judges' rulings in many countries (Maclean 2005). But internationally 'the concept of the family underlying the legal norms is far more homogeneous than the diversity of social reality' (Maclean 2005 p 6). This may provoke an increasingly bitter debate with traditionalists seeing welfare systems as a growing enemy, trying to adapt them to turn back the tide of family change. All this could de-legitimise welfare.

'Super-nationalisation' of welfare states and the internationalisation of social issues.
Increased labour and capital mobility, climate change, the spread of contagious diseases, all these require wider international regulation, rules about rights to protection, to safety nets, to refugee status. Little by little specific agreements to tackle each will be worked out.
Yet despite facing similar problems European countries seem unlikely to adopt over arching EU reforms. The UK and Germany are in many respects similar economies but ' during the 1980s and 1990s there has been little evidence of Europeanization influencing domestic welfare state reform processes in the UK or Germany' (Classen 2005). Suspicion of any international <u>state</u> is growing, not least in the European Union. Populations remain very attached to their individual health systems, schools and pension systems. I do not see any super state apparatus taking over nation state welfare systems but more mechanisms to discuss and act on common problems in the EU, the OECD and beyond will grow.

Global economic change
The future world economy is going to be dominated by Asia, by China and India which Ian Gough is discussing. It will entail change for the west. Failure to adapt will cause social disruption that could well endanger western welfare states and much besides. But adaptation is going to require top class education systems and research.

The future

What, then, might the future look like?

- No collapse or disintegration of western welfare states despite growing fiscal pressure. In the end market failure and the political economy of ageing populations and the economic need for good educational standards will force up taxes to sustain welfare institutions but not enough to prevent major change. But both sources and types of revenue will change.
- Some further convergence in spending between 'regime types' will take place as young countries like Australia and Canada, Japan and the US age. The Mediterranean countries will catch up with their central European neighbours as their systems mature. The US creates a universal health care system and the UK health spending has converged with the rest of Europe. The high spenders will continue to contain their increases in <u>state</u> pension spending.

- Tax or equivalent funding is supplemented by ‘quasi’ taxes, expected or enforced contributions to health care and personal pension insurance, and long term care, with income related deferred fees for higher education spreading. There will be more user charges but not the main solution.
- But there will also be more diversity in the range of institutions providing services in those few countries that do not already adopt this approach. This will be necessary to hold the consumer driven middle class in welfare systems and drive up efficiency. We shall have mixed public private forms of finance and mixed private public forms of supply.
- Efforts will continue to counter the moral hazard problem posed by benefit regimes. This not only for economic reasons but because the political legitimacy of welfare systems depends on it. Convergence on measures that ‘work’.
- More family friendly state services and requirements placed on employers that appeal to both left and right despite continuing dispute about family forms and about state support for them. The continued gradual accommodation of family law to diverse family forms after the Canute type failure to arrest this trend in various countries.
- Yet there are major ‘downside’ risks, as economists would say.
- Growing inequality in original incomes and wealth driven by technical change and global labour and capital markets could be a major destabilising risk. But one view of the origins of welfare states at the beginning of the twentieth century is after all that uncertainty drives people to look for collective insurance.
- More worrying could be the effect of big population movements often by people used to a very different way of life. In combination they may fatally test the capacity of cities and services to respond. It may break people’s willingness to see welfare services as a universal feature of life and may produce major ethnic and religious strife. Social policy will no longer be a purely domestic issue. It will become, is already, an international one.
- Social policy may cease to be the main driver in politics. The era of ‘social politics’ will not end but be overtaken and overlap with concerns about the environment, international and cultural conflict.

The future of welfare state research

Internationally informed policy options Governments now systematically scan for what other governments are doing. They do not copy without adaptation, but they look for new directions, successful innovations that can be modified to fit existing traditions- ‘adaptive policy learning’. This is happening much more than thirty years ago and will grow. In the early part of the twentieth century the flow of ideas was largely east to west across the Atlantic. Significant external but common shocks have made this a sensible strategy. Governments and local institutions have available much sounder, common and comparable data sets on spending levels, on income distribution, on administrative/financial systems and on service outcomes. The first detailed cross country study of school children’s attainments in reading, writing, maths and science by the OECD (PISA study 20000) prompted much heart searching and policy discussion,

especially in Germany and France. Comparative heath outcomes have been similarly disturbing for the UK and not least Scotland. Most of this basic data is collected by international institutions - OECD, World Bank, EU. But it is important they are not the only or prime sources. A lot of politics goes into the collection and form of the data – PISA is a good example. So, more collaborative work between academic institutions is important. The Luxembourg Income Study is a prime example.
To make policy judgements you need to compare the way the detail of benefit regimes actually work. Micro simulation models across countries are data hungry and require people to really know about the local detail.

Comparisons of institutional practice. National data spending and outcome measure are useful but they do not help us understand the way institutions actually work and respond to incentives and organisational forms. This is what matters if micro efficiency is to improve. Despite the sociological/ political science interest in differences between ‘systems’ and ‘regimes’, at bottom, getting hospitals to work efficiently, teaching poorer young children to read, looking after frail old people, coping with dementia, getting the long term sick back to work, pose much the same micro economic/ administrative, incentive/professional problems in all western advanced societies. Our nationalistically Ludite attitudes to these things will have to give way to more ‘institutional’ learning. What works best at an institutional level will become an increasing focus of comparative work.

Local system studies The same can be said of <u>local</u> system challenges. The LSE/ CASE work on ‘weak market cities’ shows how similar are the fundamental problems and emerging solutions to be found in struggling post industrial cities in US, UK, German and French cities.

These kinds of study involve much more difficult inter-disciplinary, institutional, micro work than sitting in front of your computer comparing international data sets – are much more useful but involve a lot more close institutional collaboration to do well.

Official international collaboration It makes little sense for the work of bodies like NICE, evaluating the cost effectiveness of different treatments, to be replicated in every advanced economy where only a small number of studies can be done. The international pharmaceutical industry can get one country to succumb and stampede other countries into buying its wares by ramping up public pressure.

Teaching material If I look back to the literature of the 1960s, when I began teaching social policy at the LSE, very little international comparative work appeared on students’ reading lists. Today comparative social policy is central to the syllabus and is becoming critical for political debate. But to do it properly at post graduate level we need students able to speak other languages – not something the English are any good at.

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