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**“Reinforcing Economic
and Monetary Union and
Welfare State Policies”**

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**Three perspectives:
The Welfare State as:**

a) public expenditure

b) social policies

a) public investment

**--- Austerity and debates focus on
quantity rather than quality ---**



Monetary Union **versus** Economic Union

EU Integration versus Social Market Eco. & Welfare State

THREE ARGUMENTS

- 1) The welfare state is a collective investment. It is not responsible for the crisis, fiscal deficits, unemployment.
- 2) Cutbacks are not the solution to public deficits. Growth and taxes reform should contribute to fiscal balance.
- 3) Citizens must better perceive the incentives and costs of public policies in order to improve State's actions.

-The various models of welfare states - Expenditures -

Figure 1: Expenditure in social protection in Spain and the EU (% of GDP)

Source: Seguridad Social 2011, Informe Económico-Financiero, p. 400

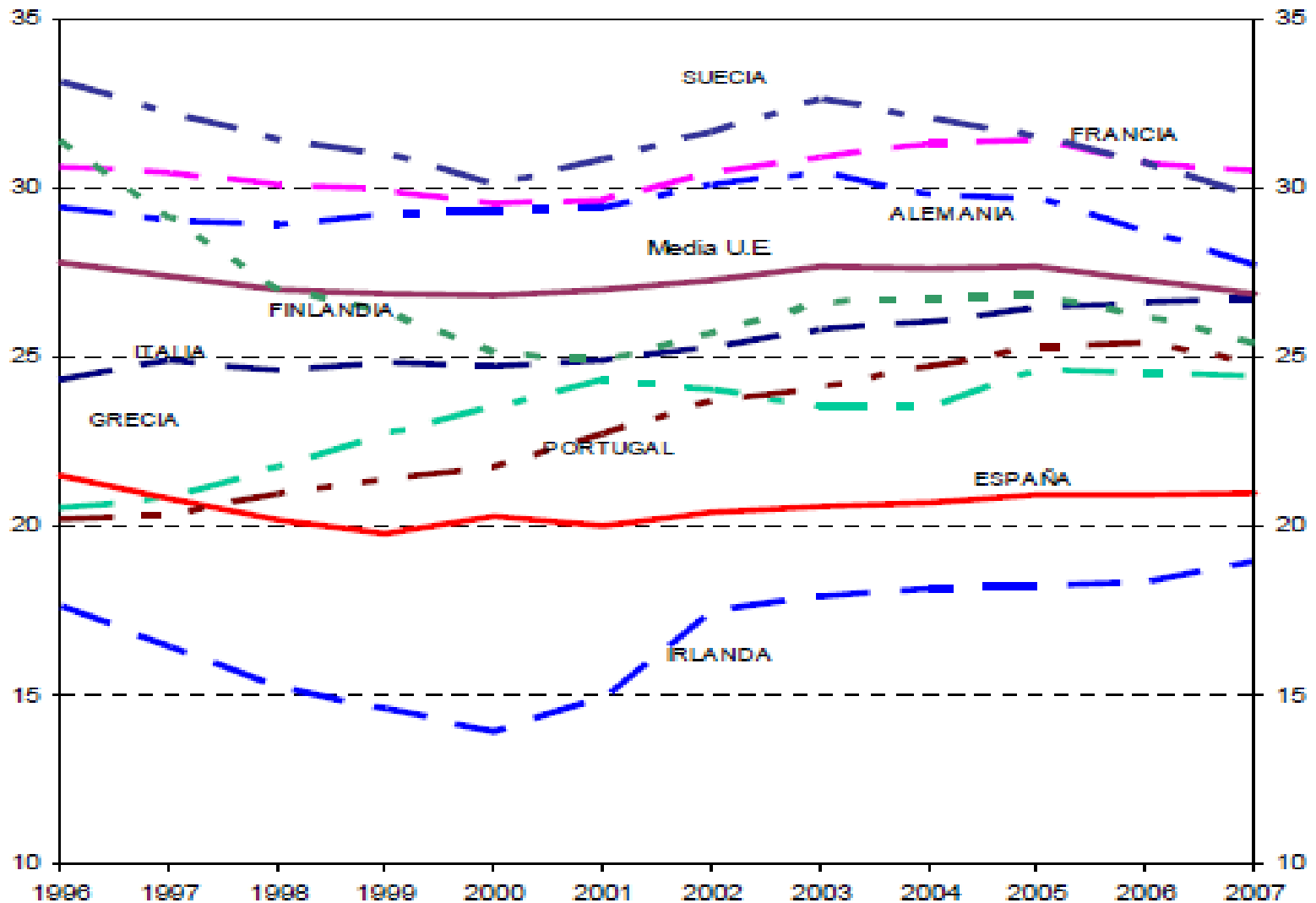
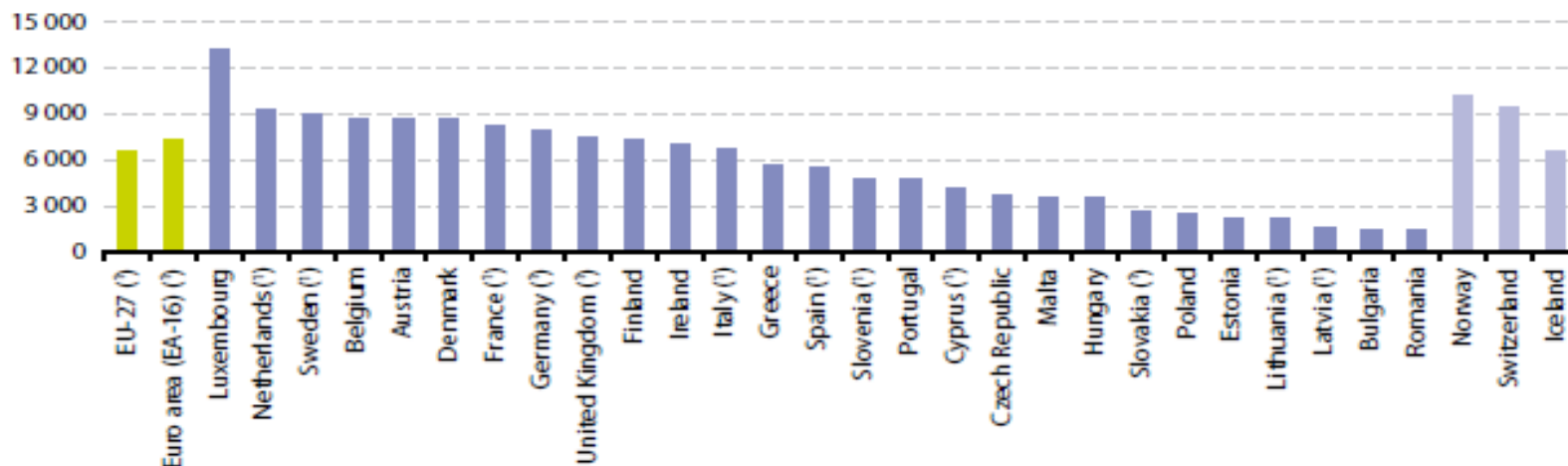


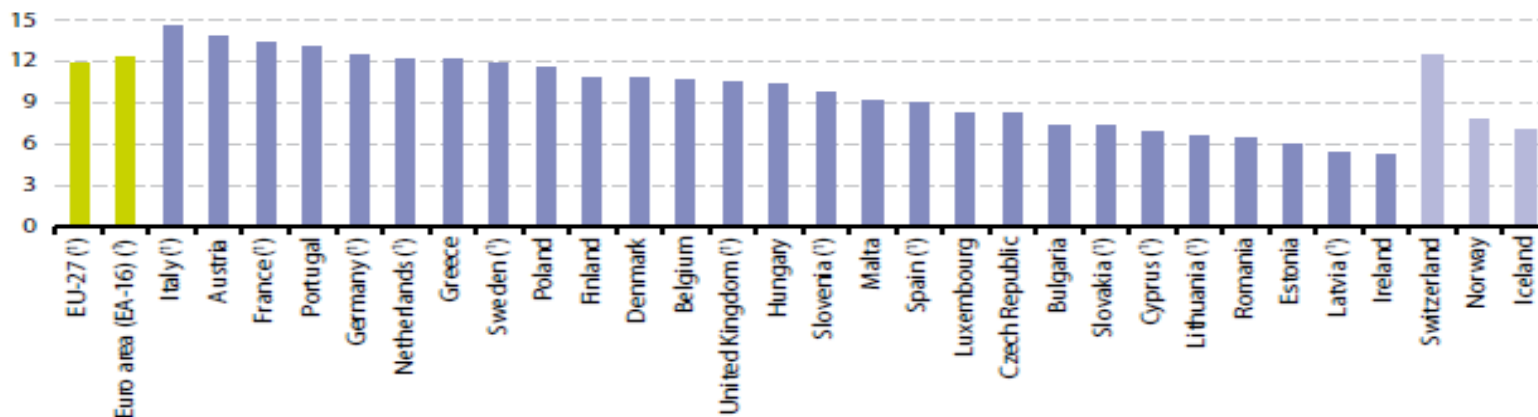
Figure 2: Expenditure on social protection per inhabitant, 2007 (PPP)

Figure 3: Expenditure on pensions, 2007. Eurostat



(*) Provisional.

Source: Eurostat (tps00100)



(*) Provisional.

Source: Eurostat (tps00103)

a) The Welfare State as Public Expending

1. There are **various models** of Welfare States
2. Analytical instruments can be **inaccurate**. It is necessary to consider limits and stimuli mechanisms

In conclusion:

By opposition to the **intellectual orthodoxy** and its insistence on **reducing public policies** academic debates should focus on the analysis of the various aspects of the Welfare State.

SOME QUESTIONS

- Why then are we not insisting that countries follow the successful experiences of the best European Member States?
- What are the restraints on retaining the Social Market Economy as Europe's economic model?
- When it comes to making cuts for austerity measures, ... why is the size of the liberalization and reductions in public spending the only issue we discuss?

No more public regulations?

Two simplifications:

- The Welfare State generates public deficits. It could be dismantled. It is **less** efficient than other policies.
- The Welfare State reduce growth, competitiveness, and job creation: **distort** the right functioning of markets

However:

many of these arguments are based on a very narrow view of the functions of the State, which are not only designed to improve economic efficiency, but also to promote equity and to foster the stability of eco., social, political systems.

Figure 4: U.S. Labour taxes and benefits (in % of GDP)

Figure 5: Combined net social wage, in % of GDP, for 6 OECD countries

(U.S., Australia, Canada, Germany, Sweden, U.K.) Source: Shaikh (2003: 42)

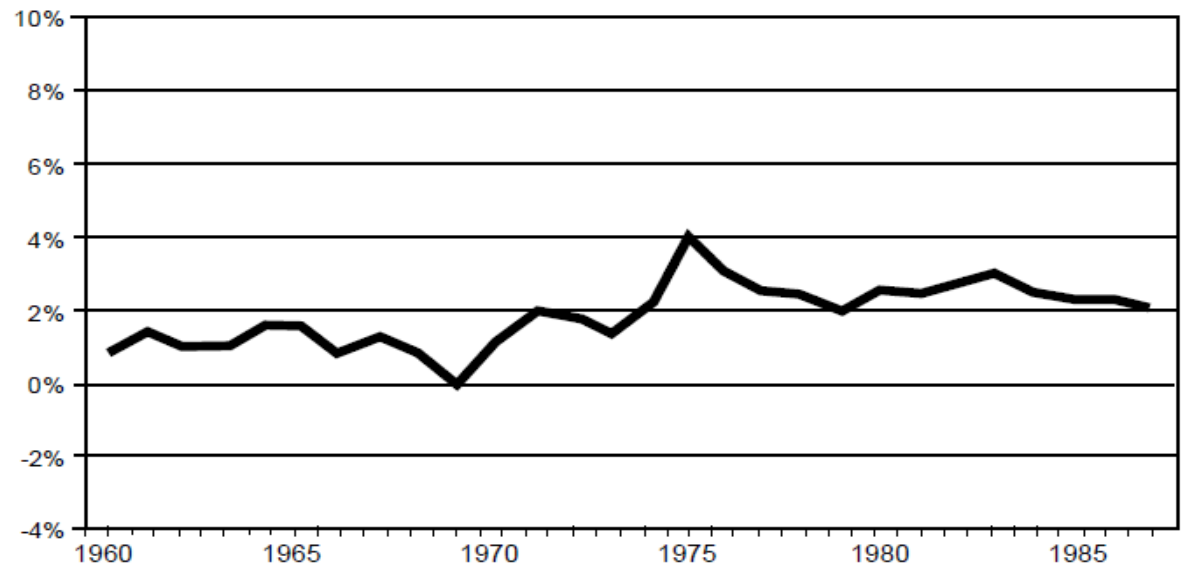
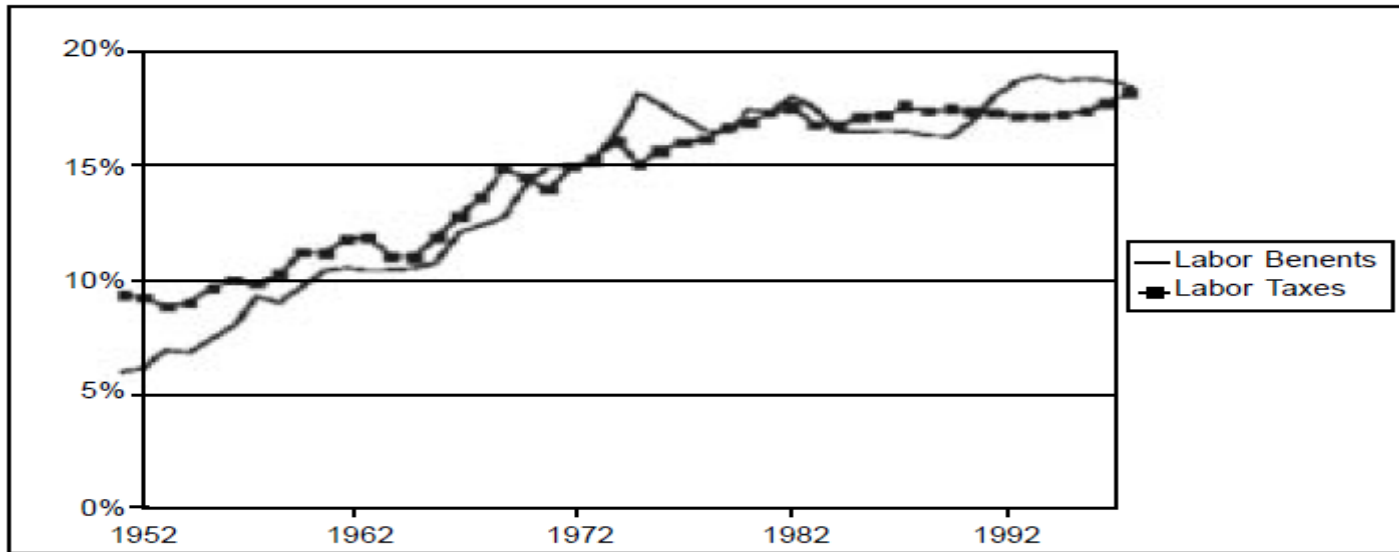


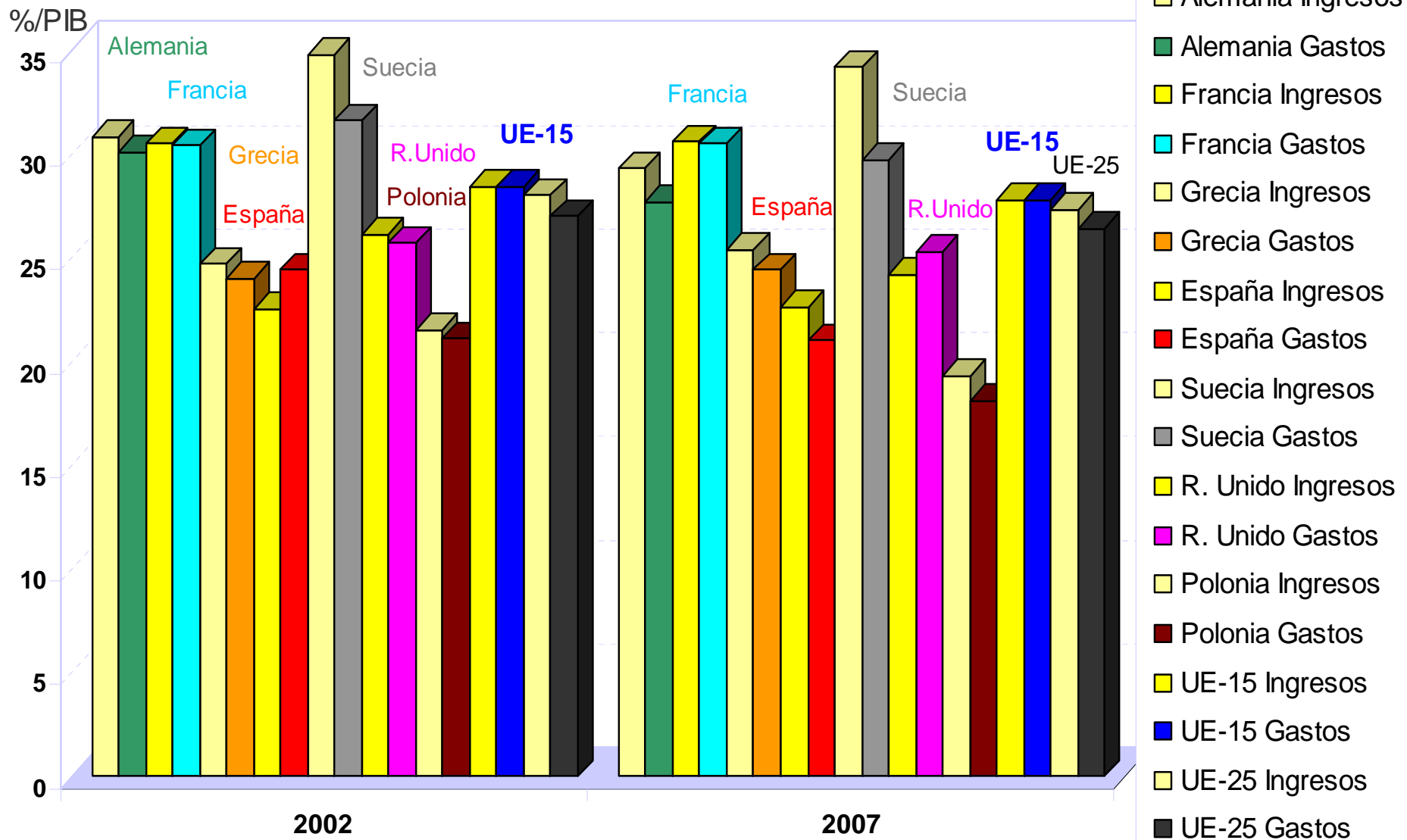
Table 6: Revenue and expenditure of social protection (in % of GDP)

EU countries	Flows / years	1997	2002	2007
• Alemania	Revenue	29,8	30,8	29,3
•	Expenditure	29,0	30,1	27,7
• Francia	Revenue	30,3	30,5	30,6
•	Expenditure	30,4	30,4	30,5
• Grecia	Revenue	21,7	24,7	25,4
•	Expenditure	20,8	24,0	24,4
• España	Revenue	21,1	22,5	22,6
•	Expenditure	20,8	24,4	21,0
• Suecia	Revenue	35,1	34,8	34,2
•	Expenditure	32,2	31,6	29,7
• Reino Unido	Revenue	28,0	26,1	24,2
•	Expenditure	26,9	25,7	25,3
• Polonia	Revenue		21,5	19,3
•	Expenditure		21,1	18,1
• EU-15	Revenue	28,4	28,4	27,8
•	Expenditure	28,4	28,4	27,8
• EU-25	Revenue		28,0	27,3
•	Expenditure		27,0	26,4

Source: Presupuestos Seguridad Social 2011: 381-385. Own calc.

Figure 7: Revenue and expenditure of social protection in the EU (in % of GDP)

UE: Ingresos y Gastos de protección social en % del PIB



Fuente: Presupuestos Seguridad Social 2011, p.381-385. Elaboración propia

Table 8: Evolution of Revenue of social protection in the EU (% of GDP)

Source: Presupuestos de la Seguridad Social 2011, Anexo p. 391

PAIS	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
BELGICA	30,2	29,5	30,7	31,1	31,3	31,3	32,4	33,2	34,3	35,7	33,2	33,1
DINAMARCA	34,3	33,3	33,3	33,1	32,2	33,4	33,6	35,3	34,6	34,4	33,1	32,5
ALEMANIA	29,8	29,8	29,8	30,2	30,6	30,4	30,8	31,3	30,9	30,5	29,9	29,3
GRECIA	21,4	21,7	22,2	23,1	24,6	24,8	24,7	24,5	25,1	25,5	25,5	25,4
ESPAÑA	21,3	21,1	20,7	20,9	21,8	21,6	22,5	22,1	22,1	22,4	22,4	22,6
FRANCIA	30,3	30,3	30,2	30,3	30,0	30,3	30,5	30,5	30,6	30,9	30,8	30,6
IRLANDA	17,9	16,7	15,6	15,1	14,5	15,5	18,7	19,2	19,4	19,1	19,3	19,8
ITALIA	25,0	25,2	25,0	25,6	25,5	25,6	26,0	25,7	26,7	26,7	26,8	26,8
LUXEMBURGO	22,6	22,7	22,7	21,7	21,8	24,0	23,8	24,0	23,5	23,0	22,2	21,6
HOLANDA	34,0	33,4	33,2	33,0	32,1	30,7	31,4	33,1	33,3	32,5	32,6	32,2
AUSTRIA	28,9	28,9	28,7	29,0	28,3	28,9	29,1	29,4	29,0	28,7	28,3	27,7
PORTUGAL	21,7	20,3	20,5	20,7	21,2	21,5	23,1	23,9	26,0	26,4	26,6	26,1
FINLANDIA	35,2	32,3	30,6	29,6	28,3	28,4	29,0	29,4	29,2	29,6	29,5	28,7
SUECIA	35,9	35,1	34,3	33,0	33,5	34,7	34,8	36,3	35,9	35,1	33,8	34,2
R UNIDO	28,3	28,0	27,0	26,9	27,2	27,0	26,1	25,9	25,8	26,3	24,6	24,2
UE-15	28,6	28,4	28,1	28,2	28,2	28,2	28,4	28,6	28,6	28,6	28,1	27,8
REPÚBL CHECA					19,3	19,2	19,8	19,9	19,1	19,0	18,9	19,3
ESTONIA					13,6	12,8	12,5	12,4	12,8	12,4	12,1	12,3
CHIPRE					18,5	18,8	19,6	22,3	21,2	22,2	21,7	22,1
LETONIA					15,3	14,4	14,0	13,9	13,5	13,3	13,9	13,4
LITUANIA					15,7	14,9	14,3	13,9	14,2	14,2	14,7	15,3
HUNGRIA					19,7	19,8	20,6	20,6	20,3	21,5	23,9	25,6
MALTA					16,9	18,0	17,9	18,4	18,9	18,6	18,2	18,1
POLONIA					19,9	21,4	21,5	21,2	20,3	20,4	20,3	19,3
ESLOVENIA					23,8	24,0	24,1	23,8	23,4	23,3	22,5	21,8
ESLOVAQUIA					19,3	19,2	19,4	18,4	17,4	17,2	18,0	17,7
UE-25					27,9	27,8	28,0	28,2	28,2	28,2	27,6	27,3

b) The Welfare State as Social Policies

- 1) Not to ignore the role of public expenses in favour of **stabilisation**, and in offering equal **opportunities**.
- 2) **Budget balances** do not depend on fiscal expenses alone, but also on **tax revenues**, and economic growth.

The EU and its countries cannot solely attend the financial sectors. They must also meet standards of *social legitimacy*.

Education, health, labour... several types of social policies:

Universal services / Social inclusion / Poverty and exclusion

No indiscriminate cuts in order reduce fiscal deficits

Such an approach ignores the role of public spending in helping to create macroeconomic stability and in creating equal opportunities for everyone.

Over the long-term, the ability to balance budgets does not depend on public spending alone, but also on tax revenues.

- What kind of investment should be promoted.
- What scope and scale of investment should be introduced.
- What controls should be established.
- How to transmit public spending is supported by everybody.

Fig. 11: *Evolution of GDP, employment and Social Security deficit or surplus*
 Source: *Seguridad Social 2011, Informe Económico-Financiero, p. 42.*

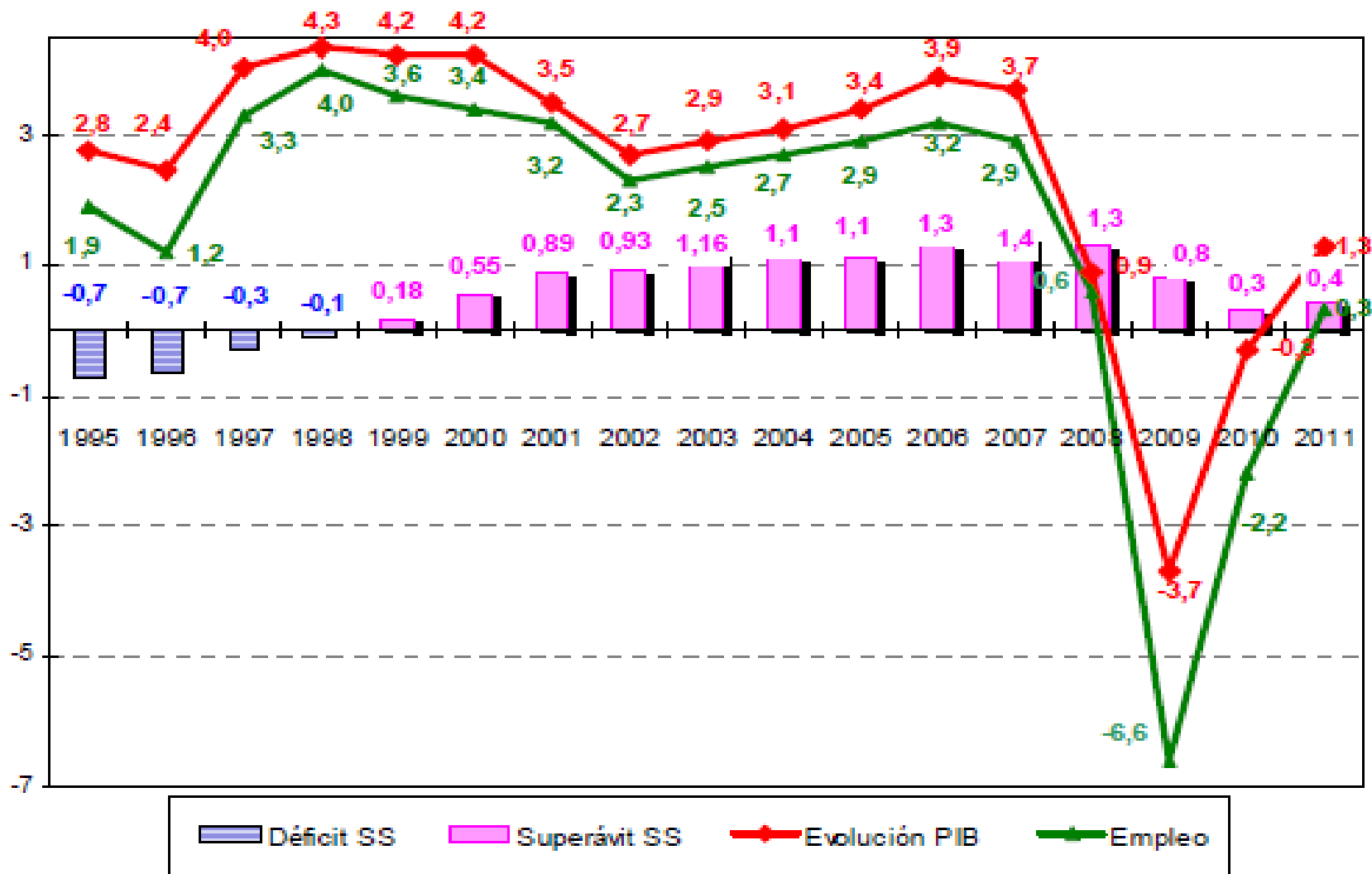
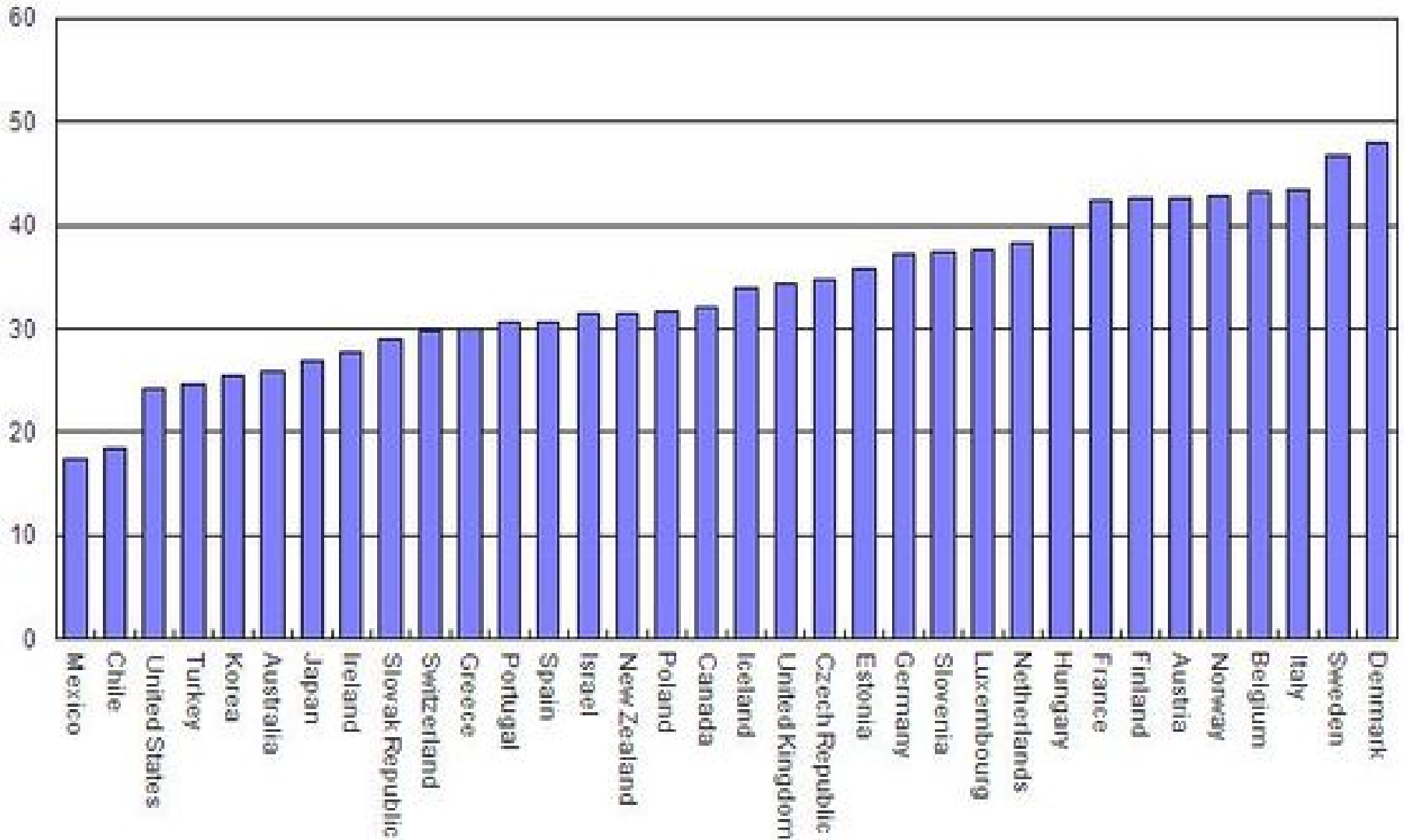


Figure 12: Total tax revenue as percentage of GDP, 2009
(OECD countries have been ranked by their total tax revenue to GDP ratios). Source: OECD 2011



c) The Welfare State as Public Investments

The crisis seems to more seriously affect European periphery

Consider: greater fiscal pressure on **taxes on capital** (campaigns against fraud, better financial regulation).

Result: the creation of jobs related to social policies.

- Greater **cohesion** could be achieved, extending markets, reducing uncertainties, stimulating **productivity** and growth.
- All these aspects are essential to making the welfare state **sustainable** and to further developing its basis of **legitimacy**.

Finally

- Public policies need more efficient and visible **systems of incentives and costs.**
- **Public spending policies** are part of our past and of our future: social legitimacy.
- Reinforcing Monetary Union, but do not forget economic cohesion, social policies, public regulations: pragmatic utopia.

“Reinforcing Economic and Monetary
Union and Welfare State Policies”

!Thank you!

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Examples / Debate

1. Academic fees more flexible, increasing payments from families with higher incomes, and scholarships and training?
2. Health care: delete useless therapies and reduce costs that mainly benefit pharmaceutical industries or private activities?
- 3a. Why not encourage more part-time contracts (young people), reducing taxes or contributions in these specific cases?
- 3b. Why not to establish a strong link between perceptions of subsidies and the achievement of some social benefits?
- 3c. Mobility: City Councils offering housing for rent at low prices, with the support of specific legislation for the financial system?

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Figure 10: Expenditure on education, health care and pensions (% of GDP) - Source: Eurostat (Conde-Ruiz 2007)

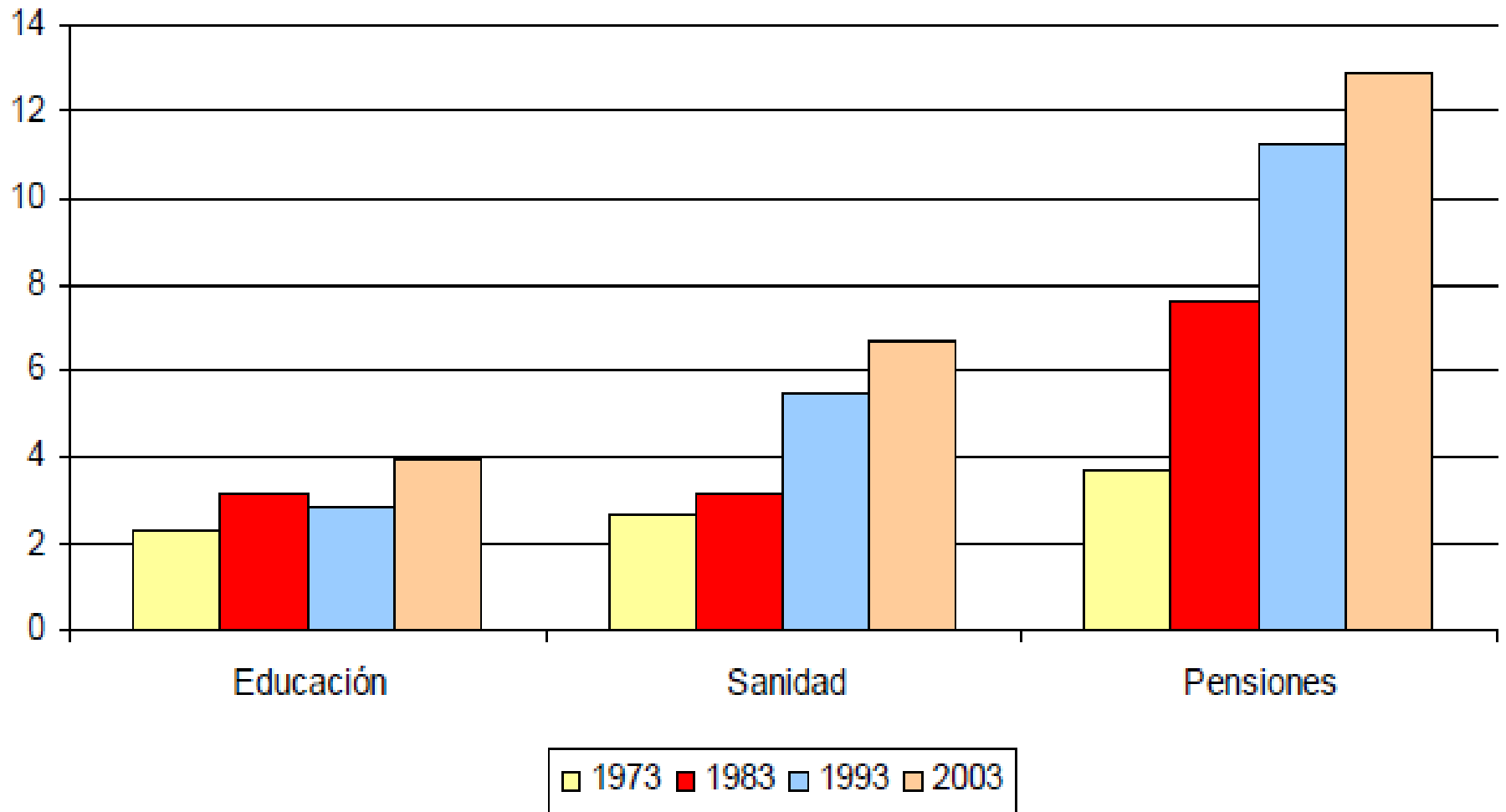
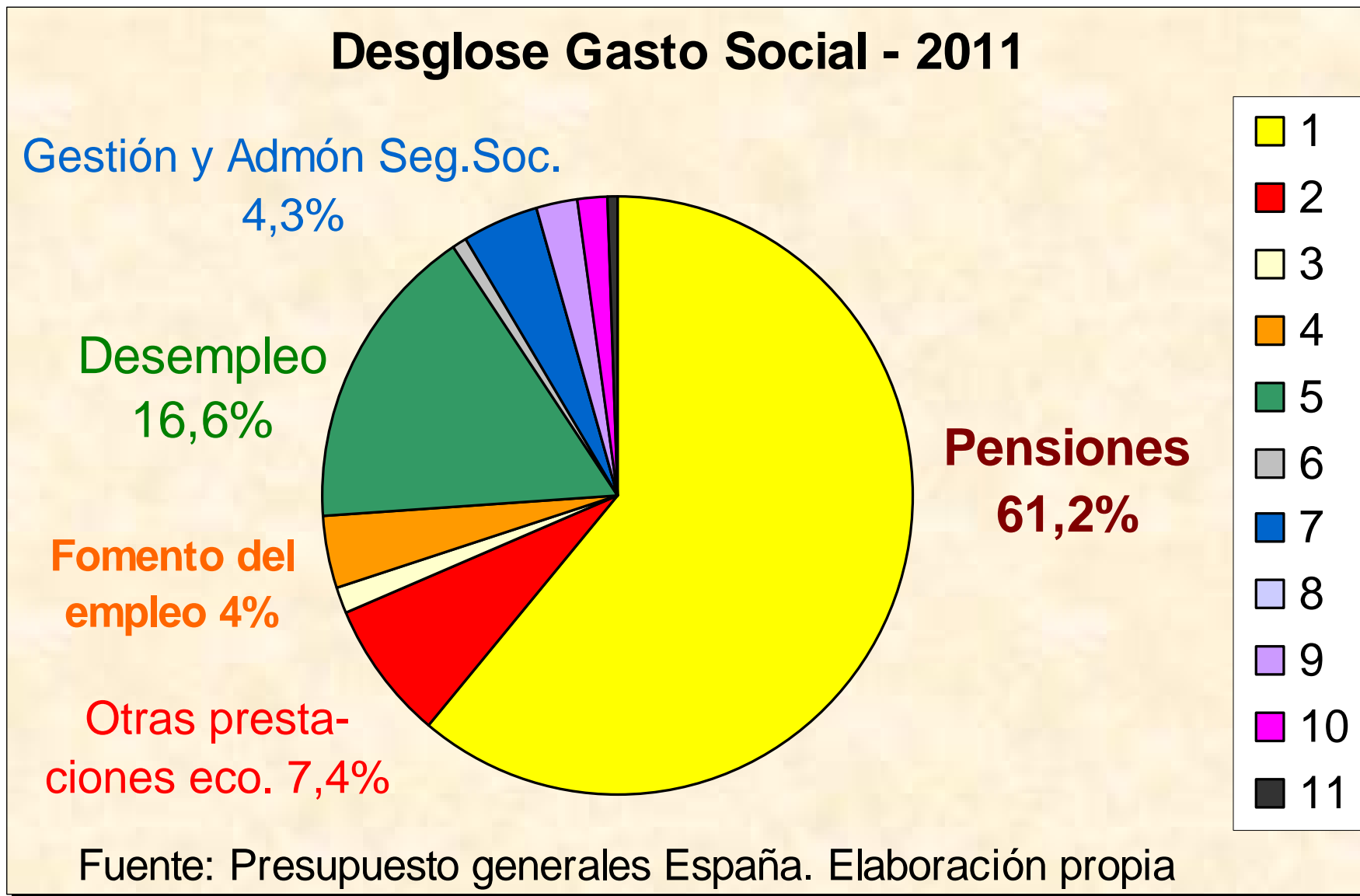


Figure 9: Social expenditure breakdown, Spain 2011.



¿ Conclusions ?

- ✓ If we as citizens contribute to financing the welfare state -and if we benefit from its policies- we must strive to make it **sustainable** (not only social cuts)
- ✓ To increase the sustainability, improving efficiency and equity, it is necessary that the costs and **incentives** of public policies be more **transparent**
- ✓ It is indispensable that fiscal revenues from **capital incomes increase their contributions.**
Fiscal reform vs. reducing the size of the State.