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European Views toward Social Welfare Policy

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Abstract

This paper reviews current criticisms of the welfare state, in particular those put forth in West Germany and Austria. The review is set against a background of alternative attitudes toward social policy--attitudes forming a spectrum of ways in which the term "social policy" may be defined in Europe. It is pointed out that the "crisis of the welfare state" is not solely a fiscal crisis. It must also be seen as an indicator of a "systemic crisis," characterized by, among other problems, negative effects of social welfare policy on individual freedom and private initiative, by the emergence of a new class of underprivileged members of society, and by an increasing degree of centralization, bureaucratization, and professionalism. While none of the alternative attitudes toward social policy would deny the existence of these problems, they would disagree substantially about their relative weights and about the implications to be drawn for future welfare policy.

European Views toward Social Welfare Policy

Due to the substantial differences between the political systems in western Europe, "European social welfare policy" can only be conceived of as a conglomerate of different schools of thought, varying emphases on political and social issues, and alternative sets of instruments to achieve policy goals. Neither in politics nor in science is there a general agreement on how broad the scope of social welfare policy should be, or on what policy areas should be included in an enumerative definition. The relation between "economic policy" and "social policy" is a special subject of dispute.

The intent of this paper is twofold.[1] First, it outlines the spectrum of schools of thought underlying views of social welfare policy in Europe. Second, it attempts to give an overview of the chief criticisms directed against social welfare policy by summarizing the current discussion in some European countries, particularly Germany and Austria.

In Section I we highlight the variety of schools of thought by describing three positions, which we term the liberal position, the "security net" position, and the position of integrated social policy. We then describe briefly how one of these schools--representing a kind of medium position--can be translated into a concept of economic order: the concept of "social market economy," as found in the Federal Republic of Germany (FRG). Against this general background, Section III reviews the main line of criticism directed at current welfare policy in Germany and Austria. We emphasize fundamental challenges to the welfare state rather than policy issues of more local relevance.

I. ATTITUDES UNDERLYING SOCIAL WELFARE POLICY

We will describe three examples of possible attitudes on which alternative concepts of social welfare policy can be based. We do so by comparing the relative weights of basic (ideological) aims, by pointing out different views of the role of the state in a socioeconomic system, and by describing the relation between social policy and economic policy in these various concepts. Of course, the formulation of three attitudes can only be achieved by simplifying and by ignoring the variety of opinions within the described positions.

To some extent the following spectrum could also be identified as a political one, those of the liberal position lying on the right, and those of integrated social policy lying on the left, as in the prevailing attitudes of political parties toward the desirable intensity of state intervention in an economy. (Note that the term "liberal" in Europe is used in exactly the opposite way as in the United States; historically, it has meant freedom of, for example, the individual from state control.) However, one should be cautious about too quickly equating certain theoretical positions with established political attitudes. Although in many cases the identification will be correct, there are also notable exceptions. To give an example, while ideas which we call "integrated social policy" are often advocated by politicians of the left, the actual implementation of those basic ideas leaves room for alternative political positions, some of which are on occasion held by Christian Democratic groups.

1. The "Liberal" Position

The liberal position--as, for example, advocated by F.A. Hayek--is based on an individualistic conception of the human being. The basic assumption is that individual freedom is the most important aim for a society to fulfill. A collectivity should be understood to result from the voluntary agreement of individuals who join because it is in their self-interest to do so. Individual welfare constitutes social welfare.

The task of the economic system is to ensure an optimal provision of goods and services, which is only possible if resources are allocated efficiently. Hence (allocative) efficiency is the only criterion by which to evaluate the performance of an economic system.

The role of the state is basically that of protector, to ensure that markets can work and that resources will be properly allocated. The state therefore must establish a reliable legal system, e.g., by defining and enforcing property rights.

The best "social policy" which can be undertaken in a society is to guarantee a market system that will--among other benefits--stimulate economic growth, which is the best method to forestall social problems. Admittedly, for marginal groups of poor and needy individuals some kind of support should be provided; for this purpose, private charity and a minimum of public aid to the needy (in the sense of basic welfare programs) should be sufficient. To quote J.S. Mill (1965: p. 967), "the problem to be solved is...one of peculiar nicety as well as importance: how to give the greatest amount of needful help, with the smallest encouragement to undue reliance on it."

Economic policy is based on stability of currency, a precondition for the proper functioning of markets. Economic growth is also an important aim, since the accumulation of goods and services is identified with an increase in (social and individual) welfare. Employment goals are in general not of dominant importance, since unemployment is viewed as a temporary phenomenon.

2. The "Security Net" Position

This position also conceives of freedom as a central and basic aim in society. However, individual freedom is seen as a trade-off for security, in the sense that society has a certain responsibility for the economic adversities that individuals may experience--adversities of a specified nature, such as loss of the breadwinner, sickness, etc. The catalogue of basic aims also includes considerations of equality and equity, insofar as the position is opposed to extreme inequalities in income distribution, which would result from a pure market distribution in which the principle of marginal productivity is applied.

Consequently, the role of the public sector is not limited to protective measures to guarantee the allocation of market resources; government also has the explicit task of income redistribution, and measures to achieve full employment.

Social and economic policy coexist on the same level, although in practice there is a hierarchical order between them because social policy is limited to a corrective function. Economic policy is focused on efficiency, but economic growth is not so much a goal in itself as an effective way to relieve social tensions. Economic policy also has an employment policy aspect, since countercyclical monetary and fiscal policies are advocated. In some versions of the "security net" position, in particular those with a strong corporate feature, there is in addition an emphasis on incomes policy, which is seen not only as a means of redistribution but also as an effective instrument for stabilization.

The main objective of social policy is to correct market outcomes in accordance with basic equity considerations. Therefore, social policy has two main components: (1) regulatory policy, and (2) income maintenance policy as protection against the the traditional social hazards. Following from the mainly corrective character of social policy, income maintenance usually consists of a system of monetary transfers, intended to enable deprived members of society to obtain access to market goods and services. Hence, although they depend for their income on public support, the poor still have freedom of choice in meeting their own individual needs. It should be parenthetically mentioned that there is also a social policy aspect to employment policy. While employment policy, seen as part of economic policy, would focus on stimulating demands for goods and services, and hence for labor as well, social policy would try to relieve the economic problems of individuals, once unemployment has actually occurred. This would be done by, for example, a system of unemployment compensation payments.

3. The Concept of "Integrated Social Policy"

Although freedom is still an important element in its catalogue of basic aims, this position differs considerably from the other two. First, freedom has a stronger collective connotation, since it can be defined only with regard to the individual's responsibility toward society. Second, there is greater emphasis on equity and solidarity. Third, equality is defined much more broadly than in the "security net" position, since equality does not pertain only to income but also to the relative position of individuals in cultural, political, legal, educational, and social terms.

As to the role of the state, there is no clear limit to public sector activity, although the community undeniably has broad responsibility for individual well-being. However, this does not necessarily mean that everything falling under communal responsibility is actually carried out by public sector institutions. Since the state alone cannot achieve all welfare aims, the "welfare state" should eventually become a "welfare society" (OECD, 1981a, p. 34).

In this concept, the relationship between social and economic policy differs substantially from the other positions. Social policy has a preventive rather than a corrective function. Social policy and policies for employment, finance, health, housing, transport, and education should be coordinated. Hence, social and economic policy are seen as having equal weight among measures to serve the needs of individuals (see Pfaff, 1978). Social policy is oriented toward the achievement of certain goals regardless of the origin of a particular problem. (This is sometimes called the "principle of finality," which supersedes the "principle of causality" that typifies the money transfer system in the ideas of the "security net" position [see Albers, 1976].) Hence, there is a stronger emphasis on the direct provision of social services (for example, health care, education, housing, family counseling), which are mostly supplements to, sometimes even substitutes for, money transfers. To summarize, "the conceptualization of social policy coincides with the meaning of the term Gesellschaftspolitik frequently found in the German language literature on the subject" (OECD, 1981c, p.13).

Let us apply the ideas of "integrated social policy" to an example such as employment policy. Social policy would then mean not only the traditional monetary and fiscal policy supplemented by unemployment compensation, but would also include "active labor market policy" (e.g., direct job creation, various incentives to increase labor mobility), promotion of part-time work including incentives for women's employment (e.g., day care centers), and improvement of working conditions--reduction of work hours, flexible retirement plans, continuing or recurrent education, etc. All these aspects would be seen as a package serving the aim of ensuring employment and improving the working life of individuals (see, e.g., Engelen-Kaefer, 1978).

II. THE CONCEPT OF A "SOCIAL MARKET ECONOMY"

These theoretical positions have been extensively discussed, both in the scientific community and by policymakers. However, their translation into more concrete political concepts has been pursued in varying degrees. An example of quite successful translation of this nature is the German version of a socioeconomic order called "Soziale Marktwirtschaft" (social market economy), in which social welfare policy is essentially as described in the "security network" position. This concept took shape after World War II, formulated in particular by the German economists Walter Eucken, Ludwig Erhard and Alfred Müller-Armack. It is important to note that the "social market economy" was immediately put into practice, since it was the guide to postwar German economic policy, and also prevailed (at least implicitly) during the period of the coalition of the Social Democratic and the Liberal parties.[2]

There is no doubt that in a social market economy the dominant force for allocating resources is the market. The state is therefore supposed to guarantee that this principle can be carried out--e.g., by ensuring that there is a viable currency. In fact, one of the first economic actions taken in 1968 by Ludwig Erhard was currency reform, coupled with abandonment of price and quality regulation by the government; free market prices were intended to be the result.

However, theoreticians of the social market economy had additional governmental responsibilities in mind, although the various advocates did not completely agree about the intensity of other government intervention. Of particular importance was the role of A. Müller-Armack, who from the very beginning put greater stress on the social components of the social market economy than did, e.g., representatives of the Freiburg School (such as W. Eucken). Müller-Armack's conception was strongly influenced by Catholic social theory,[3] in which the activities of the state are defined in accordance with the "principle of subsidiarity" (see Schlecht, 1981, p. 19).

This principle states that collectivities should engage in only those activities that cannot be handled by individuals (see the encylical Quadragesimo Anno, 1931, No. 79). Furthermore, smaller organizations (e.g., communes) are preferred to larger ones (e.g., the state, federal agencies). On the other hand, collectivities do have a responsibility to ensure that individuals and small groups can help themselves. From this interpretation, it is often concluded that small social units such as families or neighborhoods, as well as local governments, should receive sufficient support through public policy to fulfill their roles in society (see Nell-Breuning, 1957).

In those fields where public activity is regarded as inevitable, such effort should be organized to function in the manner of a "semi-automatic machine"--i.e., in principle the market should work by itself, although basic guidance and occasional corrections should come from outside the market, i.e., from political decisions.

Another principle is needed to supplement this strategy: "market conformity," according to which state measures must conform to the economic and social order--i.e., among possible courses of action, that selected should be the one most compatible with a functioning market, and the most unlikely to require further intervention (Watrin, 1979, p. 421). To give an example from stabilization policy: direct price controls would be in conflict with the principle, whereas global changes in income taxes affecting the conditions under which markets operate would conform to the principle.

Implementation of market conformity encountered problems, both on the theoretical and pragmatic levels. As far as practical objectives are concerned, it proved impossible to compile an exhaustive list of admissible and non-admissible state measures, although the effort was on occasion made (see, e.g., Eucken, 1952). Theoretically, it was soon learned that the principle could arouse conflict between the general goal behind certain political steps (e.g., in social welfare policy: a comprehensive social security system) and the narrow range of measures acceptable within the principle. Therefore, as early as the mid-1950s, market conformity was no longer viewed as the only guiding principle of state intervention (see Blum, 1980, p. 156).[4]

Advocates of the social market economy conceived of its flexibility as a main advantage, since one goal was to avoid any kind of dogmatism. For example, in the area of social welfare policy, the intent was to improve the network of social welfare measures in tandem with economic development, and also to make needed adjustments in the institutional form of social welfare provision. One controversial issue in this respect was the automatic indexing of retirement pensions to inflation (see Schlecht, 1981, pp. 26-27); other examples include various forms of employee protection, or the issue of worker participation.

However, this "flexibility" was also the target of strong criticism from both sides of the political spectrum. Since the concept of social market economy would not set specific rules about the extent of public activity in certain fields, it was never difficult to argue that the government was intervening either too much or too little in the economy (see also Borchardt, 1981, p. 36). While exponents of the liberal school would point out that the economic order in Germany has turned into a kind of mixed economic system which is too far removed from the principles of a market economy, representatives of the (ruling) Social Democratic party would argue that it was the Socialists who adapted the principle of a social market economy to solve current economic problems by, to give one example, applying a more active business cycle policy (see Schlecht, 1981, p. 20). There is also, of course, the viewpoint that the social market economy is a contradiction in terms, and--because social goals are paramount--the functioning of a market economy should be ignored.

III. CURRENT PROBLEMS AND FUNDAMENTAL CRITICISM OF EUROPEAN SOCIAL WELFARE POLICY

There is no doubt that most of the European welfare states have reached a high level of development, a fact in principle admitted by protagonists of all the positions described in Section I, although evaluated quite differently. Basically, "high level of development" refers to several areas:

(a) regulatory social policy; specifically, various forms of employee protection, regulations concerning working hours, vacations, restrictions for lay-offs, etc.;

(b) minimum protection of individuals from traditional social hazards--i.e., a system of cash transfers providing social insurance against the effects of sickness, disability, loss of employment, retirement, etc.;

(c) provision of services, e.g., in the fields of education, health, child care, and other personal social services;

(d) promotion of individual well-being beyond basic economic needs--worker participation, more equal access to the cultural, political, and educational activities of the various states.

There is some empirical evidence and theoretical support for the hypothesis that social welfare policy changes emphasis over time, in that the higher the development of a welfare state the more stress will be laid on items (c) and (d), since (a) and (b) are taken for granted (see, e.g., Lampert, 1980). In particular, there is ongoing discussion as to whether there is sufficient evidence that public social policy eventually supplements the "income strategy" (i.e., item b) by a "service strategy" (item c), which is reportedly reflected in an increasing portion of government welfare expenditures on services rather than on cash transfers (see Badura and Gross, 1976; Kaufmann, 1979, p. 43; Herder-Dorneich, 1981, pp. 415-417).

This characterization should not be taken to mean that European welfare states are homogeneous. Differences can be observed in the network of regulations and rules in various countries, and also in the advocated extent of social welfare measures, both among countries and among various political groups within countries. Note, however, that in general differences are more substantial with regard to aspects (c) and (d) than (a) and (b).

The "Financial Crisis" of European Welfare States

The generally advanced development of European welfare states can be demonstrated by key figures.

As can be seen in Table 1, social welfare expenditures averaged in 1979 about 25% of gross domestic product (GDP) in EEC countries, starting at the bottom with Ireland (18.2%) and Great Britain at about 20%, and ending with the Netherlands with about 30%. In 1970 those percentages ranged from 13% to 21% (OECD, 1981a, p. 85).[5] On the average, social welfare expenditures would come close to 60% of total public expenditures (OECD, 1981a, p. 74).[6]

Other indicators are total government spending and total tax revenues as percentages of GDP, shown in Tables 2 and 3. These figures can be viewed as indicators of the broad responsibility the state has acquired in European welfare societies, although the growth of the public sector has not been motivated solely by welfare goals (see, e.g., Logue, 1979, p. 77). As can be seen, differences in European countries are substantial. In western European welfare states, government spending as a percentage of GDP varies from 40.1% (Switzerland) to nearly 60% (Sweden). On the tax revenue side, the respective figures are nearly 31% for Switzerland and about 50% for Sweden.

Of particular importance in this context is the dynamic aspect of these figures, sometimes referred to as the "overload phenomenon": costs of public sector policies have risen continually, notwithstanding the

Table 1

Social Welfare Expenditures as a Percentage of GDP

	1975	1978	1979	1980
Austria	23.9%	26.4%	25.9%	25.9%
Belgium	24.5	26.4	27.0	--
Denmark	25.8	26.2	27.1	28.0
France	22.9	25.0	25.3	25.8
Great Britain	20.0	20.4	20.4	--
Italy	22.6	23.6	22.8	--
Ireland	19.4	17.5	18.2	--
Luxembourg	22.4	25.6	25.3	26.5
Netherlands	26.7	28.9	30.0	30.7
West Germany	27.8	27.4	26.8	--

Source: EEC, Eurostat, Social Statistics. Current figures for Austria are from unpublished data of the Austrian Institute for Economic Research.

Table 2

Total Government Spending in 19 Nations

	Total Government Spending as a Percentage of GDP	Increase in Total Government Spending as a Percentage of GDP	
	1977-79	1960-63 to 1970-73	1970-73 to 1977-79
Sweden	59.7	13.1	14.1
Netherlands	57.7	11.9	10.2
Norway	51.3	11.3	8.0
Denmark	51.1	13.8	8.1
Belgium	49.2	7.8	10.5
Ireland	49.0	9.0	9.4
Austria	49.0	5.5	8.7
Germany	46.4	5.1	7.2
France	45.0	2.2	6.5
Italy	44.8	6.9	6.5
Britain	43.8	5.8	4.1
Canada	40.3	6.8	3.9
Switzerland	40.1	5.9	9.7
Finland	39.1	5.0	6.8
Greece	34.6	5.6	5.1
United States	33.4	3.54	1.2
Australia	31.7	3.1	5.4
Japan	305	2.5	9.5
Spain	28.5	5.1	5.5

Source: Taken from Cameron (1982, p. 49).

Table 3

Tax Revenues as Percentage of GDP, 1980, in Selected OECD Countries (provisional estimates)

Austria	41.54%
Belgium	42.49
Denmark	45.14
Finland	34.46
France	42.51
Germany	37.23
Netherlands	46.19
Norway	47.36
Sweden	49.87
Switzerland	30.74

Source: OECD (1981b, p. 174).

sharp decline in the growth rates of European welfare states since 1973. From 1971 to 1977, public spending in OECD countries rose on average 7.5% a year while economic growth averaged only 2.4% a year. This arithmetic decline in growth rates is a main reason for the increase of governmental spending in relation to GDP (OECD, 1981a, p. 158).

Two other patterns characterize nearly all European welfare states. First, a rapid increase in public debt, which in 1979 reached the following proportions of GDP:

Italy	69%
Great Britain	63
Belgium	57
Norway	55
Sweden	50
Netherlands	45
Austria	36
FRG	29
Switzerland	29
France	16

Source: Austrian Museum for Economic and Social Affairs, 1981, p. 65.

The second pattern is the high level of non-wage labor costs. For 1978, non-wage labor costs as a percentage of total labor costs were as follows:

Great Britain	26.8%
Germany	32.7
Belgium	33.9
Netherlands	34.2
France	38.1
Italy	43.6

Source: Gruppe Politikinformation, 1982, pp. 1-2.

Note that these figures are lower than those usually quoted, because they reflect non-wage cost as a percentage of total labor costs, whereas non-wage costs are usually related to wages.

Although these figures again demonstrate differences among the countries, one problem can be said to affect all European welfare states. During the postwar period of exceptional economic growth, governmental spending was seldom challenged, but eventually the tax burden reached orders of magnitude that caused the efficiency and the direct and indirect costs of welfare to the taxpayer to be increasingly questioned. Resistance to taxes has now become a substantial political problem (OECD, 1981a, p. 75).

At the same time, a number of external factors have sharpened the conflict. Unemployment, unfavorable demographic changes, and increasing levels of expectations from citizens now accustomed to state solutions to every problem all exert pressure to expand public expenditures even more. While the welfare state hitherto was seen as a guarantor of economic security, now a new climate of uncertainty has emerged (see, e.g., Heclo, 1982, p. 400). As it is the welfare state itself which is sometimes blamed for this situation, that state is occasionally seen as a "victim of its success" (Logue, 1979).

The current difficulties are often referred to collectively as the "crisis of the welfare state" (OECD, 1981a). Growing economic problems (in particular unemployment) and the "fiscal crisis" threatening virtually all European welfare states seem to demonstrate that social welfare policy has failed.

On the surface, the current crisis appears to be primarily financial, and the term "fiscal crisis" has gained substantial popularity in most European countries. Yet it is questionable whether the problems of the welfare state can be attributed solely to financial causes. A deeper examination reveals a number of problems indicating a much more complex phenomenon than simply a problem of liquidity. The financial crisis serves more as the starting point for basic criticism of social welfare policy of the last decades. These critical arguments can only be fully understood against the background of the schools of thought we described in Section I. Most critics would agree that the "crisis of the welfare state" is systemic, but they would substantially disagree as to what the crisis involves and what the possible solutions are. We will review the main lines of criticism and proposed solutions.

The Argument that the Aims of the Welfare State Have Been Achieved

One of the strongest criticisms of the welfare state holds that its entral aim has already been achieved (see, e.g., Biedenkopf, 1973). Social welfare policy is conceived of as a system of political measures designed to cope with social problems resulting from the industrialization of the nineteenth century. Since the network of institutions guaranteeing social security is "nearly perfect" (Biedenkopf, 1973, p. 104) and, moreover, since regulatory social policy has created adequate protection of the workers, the main problems which justified a public social policy are already solved. Inequalities in the distribution of income and wealth are regarded as negligible.

It can be seen that this criticism is based on the "liberal" conception, according to which many achievements of social welfare policy are the result of a political bargaining process, a compromise that could be expected to jeopardize the free development of a market economy, and therefore the increase in social welfare. The current problems are merely proof that these warnings should have been heeded earlier.

Consequently, the only way to cope with the crisis is to reinstate more of a free market and substantially cut back existing rules and regulations of social policy.

It should also be noted that according to this view the achievement of an equitable income distribution--apart from protection for the destitute--was never seen as a basic aim of the welfare state. It therefore is problematic to try to "disprove" this criticism on the basis of empirical arguments about changes in income distribution, as is done by Social Democratic authors (e.g., Strasser, 1979, pp. 39-41). Evaluation of this line of arguments cannot be undertaken until value judgements about the desirable degree of social welfare policy are explicitly stated.

Arguments that Grant Negative Effects of the Welfare State on Freedom and Private Initiative

Another set of arguments is often confused with the position we have just described. This criticism points out that the welfare state has led to an "inflation of claims," i.e., permanently rising levels of expectation of government services (see, e.g., Klages, 1978), accompanied by a sharp decline in private initiative, very broadly defined. Examples are the negative work incentives caused by public expenditures and high tax rates (see, e.g., Lindbeck, 1979). This argument also states that an increasing percentage of the population expects the public sector to solve social and economic problems (e.g., housing, health care) of individuals.[7]

Another implication drawn is that the welfare state endangers, to an increasing extent, personal freedom because of the new kind of dependencies which are created (e.g., Schelsky, 1976). Social welfare policy teaches people not to take care of themselves; instead the state patronizes citizens and treats them as if they were not capable of making decisions on their own. The welfare state has become a "welfare dictatorship" (see Huntford, 1973).

This line of argument is in principle compatible with all basic positions discussed in Section I, but the weight of its criticism and the implications drawn are different. The liberal position holds that these disadvantages are simply additional evidence indicating that the welfare state should be abolished. From the "security net" standpoint, the decline in private initiative and related arguments indicate that welfare efforts may have been exaggerated in some areas and that more attention should be paid to singling out those measures which may jeopardize other political objectives. In other words, these problems mean that we must search for corrections to social policy measures. While not denying the concept of the welfare state, the argument holds that the growth of public welfare efforts (both quantitative and qualitative) cannot and should not be continued indefinitely. Hence, particular criticism is directed toward automatic increases in government activities, and support for any kind of private initiative (e.g., voluntary work) is encouraged in order to guarantee a variety of resources and a network of countervailing power in society.

Advocates of an "integrated social policy" would not deny the existence of problems concerning freedom and private initiative, but they would consider them as less important than the advantages accruing from a highly developed welfare policy. They usually accuse political opponents of raising these objections merely as a prelude to complete dismantling of the welfare state. They also stress that the loss of freedom resulting from public welfare policy is more than offset by the gain in freedom by those members of society who are dependent for economic security on the state (see, e.g., Strasser, 1979, pp. 97-102; Goodin, 1982; Higgins, 1982).

The "New Social Question"

The emergence of what is called the "new social question" despite, or even because of, social welfare policy is one of the most controversial issues in the current debate. The arguments follow several patterns.

Welfare policy has dealt with social problems in such a way that a new class of underprivileged members of society has emerged. Members of this "class" are those who are not well represented politically--by trade unions, employers' organizations, or other interest groups. Typically underprivileged members of society are retired persons, families with many children, one-parent families, the handicapped, and guest workers.

The most important implication in this general argument is that welfare policy has not succeeded in fighting poverty--neither income poverty nor, especially, poverty defined in terms of multiple deprivation. This is to say, there is a substantial group in society of those who are underprivileged in terms of cultural, educational, legal, social, and political status; these people have not benefited from the welfare state.

This argument was first raised and popularized by H. Geissler (1976), the general secretary of the Christian Democratic party in the FRG. His Socialist opponents did not deny that Geissler had touched on real problems, but they were suspicious of hidden political motives (see Strasser, 1979, pp. 42-43). At the same time, even these Socialists admitted that traditional welfare policy has produced new social problems, which in turn must be solved by a new and intensive social welfare program (Strasser, 1979, p. 69)--an argument which could be virtually a direct quotation from Hayek's Road to Serfdom.[8]

It should be pointed out that the alleged dimensions of the problem of "new poverty" are the subject of considerable controversy (see e.g., Mosdorf, 1980). To give an example, Geissler claimed that in 1974, 9.1% of all German households were below the poverty line, which he defined as a monthly income of from 331DM to 872DM for households with up to four persons. Among retired persons this percentage was reported to be as much as 14.5%. Other studies, using other poverty lines, figured these percentages as only about 2.3% and 7.2% respectively. (For an overview of this discussion, see Klanberg, 1978, pp. 131-144.) Nevertheless, the substantial problem posed by the existence of poverty, and the specific social circumstances contributing to that poverty, received support from other empirical investigations (see Kortmann, 1978, p. 130).

The basic perception of a "new social question" is therefore sound. However sophisticated the system, cash transfers do not eradicate poverty. This is even more apparent if poverty is conceived of as multiple deprivation. (The criticisms using empirical data refer only to income poverty.) This diagnosis of the problem of poverty parallels discussion of the "underclass" in the United States.

The inferences drawn from this criticism are varied. The advocates of an integrated social policy would conclude that it is mere fiction to assume that money transfers will entitle deprived individuals to buy enough goods and services to take care of themselves--in particular because of the low take-up rates for social services and income transfers (especially public assistance), which are estimated to be not over 50% (Henkel, 1981, pp. 11, 232). The only effective way to solve the problem consists of increasing social services to supplement the traditional forms of income transfers. For example, new forms of community work at the grass roots level should be developed in order (1) to reach those people who are eligible for cash transfers but do not make use of them, and (2) to guide those individuals out of deprivation in nonincome terms.

Although the problems posed by the "new social question" have little inherent interest for protagonists of the liberal position, if they considered them, their conclusions would be quite different. Since increasing the direct provision of services will only increase the dependence of individuals on government, that effort is not desirable. On the contrary, remaining poverty is only proof that the sole way to achieve social welfare is to grant individuals the utmost freedom and, therefore, to reduce government activities to a minimum.

5. Centralization, Bureaucratization, and Professionalization

The typical European welfare state is characterized by institutions which are oriented toward an "income strategy" (see Badura and Gross, 1976), i.e, large central organizations which are responsible for implementing the social security laws with their various money transfers. A basic criticism of the welfare state focuses on this point. It is argued that this organizational structure is inadequate to achieve the objectives of modern social welfare policy, particularly the provision of services (like housing, health, education, counseling, etc.) and the promotion of individual well-being beyond basic economic needs (see Kaufmann, 1979).

This criticism should not be confused with a superficial challenge of bureaucracy in general, although it sometimes has an element of this point. Because one feature of bureaucratic organization is clear division of responsibility and clear determination of rules, bureaucracies have their merits for administering social security laws, or for the "income strategy" in general, since one of the principles of this type of social policy is that eligibility conditions for receipt of transfers must be strictly determined in advance.

However, not all tasks of public service organizations can be specified in advance with the accuracy necessary for the proper functioning of a bureaucratic organization. To the extent that social welfare policy is more than simply determining cash transfers, this argument also challenges the organizational principles of the welfare state. In other words, social welfare policy which is also oriented toward social services cannot be administered by the same institutions which administer a pure income strategy.

Thus, the main arguments for reorganizing social welfare policy focus on (1) decentralization of public service organizations; (2) more discretion for local authorities and officials who are in direct contact with the clients; (3) more client participation in the provision of services, which means support for any kind of self-help and voluntary organizations (see, e.g., Prätorius, 1980; Hadley and Hatch, 1981).

These organizational features are advocated for a number of reasons: to help bridge informational gaps between clients and providers of services; to create an atmosphere of trust between representatives of welfare policy and the clients; to permit clients to articulate their own needs instead of having them defined by professional social workers; and to increase efficiency and lower costs of services by making use of volunteers. The administration of social services would simultaneously become more "humane," since administrators will feel that they are dealing with human beings rather than with legal cases, when they decide whom and how to help (see Kaufmann, 1979, p. 36).

The implications of these suggestions are broader than they may at first appear. They concern not only technical aspects of organizing the provision of social services; from a larger perspective, they show that future social welfare policy must utilize at least four systems to provide social services (see Wolfenden Committee, 1978, p. 22). Apart from the "commercial system" (i.e., markets) and the "statutory system" (i.e., the public sector), it must also involve the "informal system" of families, friends, and neighborhoods, and the "voluntary system" of a broad variety of voluntary organizations (see also Matzner, 1982, p. 180; Badura and Gross, 1976).

This is not to say that government should automatically relinquish some of its responsibilities for social welfare in the hope that voluntary organizations and self-help groups will fill the gap. This is only one interpretation of this policy, advocated in the United States by the Reagan administration and in Europe by the protagonists of the "liberal" position. From an integrated social policy standpoint, government's responsibility would change only in that it would need to support and foster various forms of nonprofit voluntary activities. Decentralization of public services, client participation in service provision, and delegation of tasks to voluntary organizations would not necessarily reduce the costs of social programs, although they may help improve the quality of services, and thus achieve the broader goal of individual well-being (see OECD, 1981a, p. 65). The "security net position" would endeavor to combine cost and quality advantages. It would try to improve quality of services, and would advocate service provision from nongovernmental sources. It would advocate delegation of tasks to voluntary organizations on the basis not only of quality improvement but also because of cost considerations (see Badelt, 1980). In order to ensure the quality and reliability of voluntary services, contractual relationships between voluntary organizations and local governments are proposed (see Hadley and Hatch, 1981, p. 66).

SYNOPSIS

At first sight the "crisis of the welfare state" seems to be purely financial in nature. Undeniably, there is a substantial financial element in current problems afflicting European social policy. In the short run, therefore, there is no alternative to traditional solutions--a combination of cuts in services, further increases in public debt, and increases in taxes, contributions, and other forms of individual underwriting of the costs of welfare policy.

The current crisis may also have considerable long-term effects. It has provoked a fundamental debate over the pros and cons of the welfare state, which has resulted in a catalogue of basic problems lying within this form of public policy. It is interesting to note that completely different "schools" of social policy identify quite similar problems: those of declining individual freedom and private initiatives, of failure in the struggle against poverty, and of inadequacy of institutional structures to handle today's problems. It is not only external influences--like an unfavorable demographic structure, declining growth of GDP, etc.--but also intrinsic characteristics that have contributed to the fiscal crisis of the welfare state. Consequently, long-term solutions will have to be based on curing the fundamental problems we have described. These solutions will involve not only marginal adaptations, but the determination of a new direction for social welfare policy. At the moment, however, it is not yet clear which attitudes underlying social welfare policy will prevail, and therefore, what path will actually be chosen.

NOTES

[1]I would like to thank Robert J. Lampman (Madison) and Werner Clement (Vienna) for stimulating discussions and their comments on an earlier draft.

[2]The question of whether German economic policy after 1966 (when Ludwig Erhard resigned and, first, Karl Schiller, a member of the Social Democratic party, and then members of the Liberal party took charge of economic policy) was compatible with the concept of social market economy, is subject to controversy in the literature. This can be illustrated by the problem of Keynesian employment policy. There are indicators that Müller-Armack and Erhard did agree with the basic ideas of global demand management (see, e.g., Müller-Armack, 1974, in particular p. 99 and p. 224; Heusgen, 1981, p. 289). Other authors strongly disagree with this view (e.g., Tuchtfeldt, 1973).

[3]Catholic social theory was rarely explicitly mentioned as a normative basis of the social market economy. But even Ludwig Erhard (who was himself Protestant) implicitly made use of it (see Heusgen, 1981, p. 175).

[4]See, for example, the development of the concept of "workable competition" within the framework of a "social market economy" (Schlecht, 1981, pp. 24-26).

[5]The OECD study also refers to EEC data. Other sources may quote somewhat different figures because of definitional differences, but there is no question that the percentages have risen.

[6]For a more detailed analysis of the structural changes in social welfare expenditures in Europe and in the United States, see Kohl (1982).

[7]This is the result of various public opinion polls, most of them unpublished; an example is that undertaken by one of the Austrian survey institutes, (its name is Dr. Fessel and GfK).

[8]To give an example, the "community housing policy" in Germany and Austria concentrated on the construction of completely new neighborhoods in suburban areas without providing infrastructure, while revitalization of the old neighborhoods was ignored. The long-term result was the emergence of a variety of other problems, including traffic congestion and need for new (public) networks to provide social services--such as youth centers, old people's homes, etc.

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