

# The 'Crisis' in the Western Welfare State\*

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## I. Introduction

It is not only the most rapidly developing countries of the world which are in states of economic transition. The United Kingdom, along with many other West European societies, is also in a period of change. In particular the phases of, sometimes spectacular industrial growth, which have accompanied the development of welfare services especially since 1945, now seem likely to give way to periods of more modest economic expansion in, for example, U.K., West Germany, France, the Netherlands and Scandinavia.

In consequence the Welfare States of Western Europe must now acclimatize to somewhat differing economic and social environments. Some commentators have even argued that there is no solution to the problems that the welfare services face and that they are, as a result, in a condition of 'crisis'. I shall return to that point later, but whether or not we agree with the description it is certainly true that the policy debate which is a key part of the changing face of welfare in the U.K. and elsewhere, is a very complex one.

The purpose of this paper is to set out a number of issues which

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are a part of that debate. This is intended to achieve two aims. First, it is hoped that disentangling the components of this debate will assist towards an understanding of the way in which the U.K. welfare state is changing. Second this paper presents an agenda of issues that nations which may be considering the development of some welfare services somewhat akin to those found in Western Europe, would do well to review quite carefully. There may be lessons to be shared from both the successes and the mistakes of West European welfare policies.

## II. The 'Crisis' in Welfare

Mishra is one commentator who has referred to the 'crisis' in welfare. He, for example, began the 1984 edition of his influential book [The Welfare State in Crisis<sup>1)</sup>] with the comment, "in varying degrees and forms, the welfare state throughout the industrialized West is in disarray", and the observations with which he supported this statement hold true for many European states. First, there is the end of a period of growth in many western economies and the perception of the welfare state as an inhibition to recovery. The present U.K. administration broadly holds this view of social security payments, for instance. Second, with some exceptions, for example Sweden, unemployment levels are high and continue to rise. Third there is the fiscal problem of welfare budget deficits. This is a prominent concern in Denmark and France. Fourth, there is a decline in the resources available to support the social services. This is particularly true, for example, of the Netherlands.<sup>2)</sup>

1) Mishra, R., *The Welfare State in Crisis*, Wheatsheaf, Brighton, England, 1984, p. xiii

2) Throughout, this paper has benefited from my attendance as a U.K. Research

The terminology of crisis is most usually employed by those who are critical of current levels of provision and feel that services are inadequate to meet rising levels of need. They point to economic factors (the consequences of the depression which a reduction in welfare spending is itself intended, in part, to solve) social factors (especially the concentration of deprivations-poor health, low income, poor educational achievement-amongst particular low status social groups), and demographic factors (the rapidly rising numbers of the old and very elderly) as indicative of the need to expand rather than reduce state welfare. As a critical concept the term 'crisis' is thus perhaps deliberately overdramatic.

However, there is an alternative view. George Walden, until recently the British Under Secretary of State for higher education has said (He was speaking particularly about education but the comment is generalizable.);

"What I've seen is not a system in crisis, but one undergoing readjustment. Some of it is a little traumatic... but crisis is a negative word."<sup>3</sup>

Klein and O'Higgins also speak of 'new challenges' and comment;

"For about ten years now there has been a debate about the 'crisis' of the Welfare State. What is generally meant by this is that the social policy commitments taken on in the decades of optimism about economic growth have become unrealistic or unsustainable in the new era of pessimism about the prospects of continuing expansion. The language of 'crisis' provokes, in turn, the vocabulary of policy drama."

Nevertheless, they add;

"If the welfare state is indeed in 'crisis'... then, clearly, there has to be a fundamental rethink of existing policies and strategies."<sup>4</sup>

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Council delegate at a recent seminar, 'The Future of the Welfare State-Constraints and Alternatives', Oslo, June 1986, and from access to the background papers distributed by the Planning Department, Norwegian Ministry of Finance.

3) Quoted in the *Times Higher Education Supplement*, London, 1.8.86, p.11

4) Klein, R and O'Higgins, M(Eds.), *The Future of Welfare*, Blackwell, Oxford, 1985, p.1

Certainly the frequent use of the idea of a 'crisis' in welfare is helpful in drawing attention to some important changes that are taking place within the organization of health and welfare policies and services, in the U.K. and elsewhere in Europe. These changes concern the ideological basis of the services, their organization and provision, and the resources available to provide them. However, as I have indicated in the Introduction, the purpose of this short paper is to suggest that if we are to undertake comparative analysis of those changes in the context of broader changes taking place within and between societies then it may be helpful to set out the components of the 'crisis' a little more fully. So, I shall list some of the main items on the agenda of policy debate about the reform of welfare in Western Europe with particular reference to health, welfare and related services. I shall suggest that the debate as a whole consists of some eleven separate but interrelated issues. Although these issues stem from, first, ideological shifts in government thinking and, second, an overriding drive to reduce levels of public expenditure, they are not, as yet, sufficiently well articulated in most countries, to constitute an entirely consistent 'policy'. (We may witness on occasions, therefore, the pursuit of apparently inconsistent measures.) I thus wish to argue that for comparative purposes the so called in 'crisis welfare' in Western Europe is better referred to as an 'agenda for the reform of welfare'.

Throughout the twentieth century the welfare services of western Europe have achieved a great deal. Now, it seems, we may be entering a new phase in the relationship between the economy, society and welfare. That raises issues which must be considered very carefully not only in the U.K. but also by those embarking on the design and development of new forms of welfare within the

world's rapidly growing economies.

The rest of this paper thus lists some of the items currently on the agenda of policy debate in the U.K. and many other West European countries. Throughout, the discussion will be illustrated briefly by referring to measures and developments in several different national contexts.

### III. Issues and Debates

#### 1. The drive to reduce public expenditure.

Sometimes the drive to reduce public expenditure is referred to as the wholesale denationalization or privatization of major services. That construction overstates the position. For the most part measures are quite selective but there certainly is a widespread and overriding importance attached to reducing the level of expenditure from public services.

In the Netherlands, for example, in recent years there have been severe cuts in government spending in an attempt to reduce the government budget deficit. This has been seen as particularly important since in comparison to Denmark, France, the Federal Republic of Germany, UK and USA the Netherlands has high costs in the health sector, education and social security. Extensive commitments have been possible in the past due to revenue from natural resources, especially gas.

Norway, too, has been able to pursue a policy of generous welfare benefits along with high levels of employment, an external trade surplus, high currency reserves and a surplus in the public sector in the context of high income from oil related taxation. Now, however, there is concern at the high costs of the social security system,

demands on the hospital sector of health care (with the political problem of 'corridor patients') and the needs of the rapidly increasing number of very old people. When oil prices drop and public revenues decline such concerns are thrown into even sharper focus.

2. The promotion of a new ideology of welfare (The 'New Right')

Although in the Netherlands, U.K. and elsewhere, the drive to reduce government spending is mainly economic, there is too a widespread ideological impetus to diminish government intervention in social and economic sectors. As Bosanquet and others have described these ideas they reflect the thinking of the 'New Right'. In summary, Bosanquet points to the key features of the arguments of Adam Smith, Milton Friedman and others;

"...society has a natural tendency to order and the economy an inherent tendency to growth. Government and conscious design are not the main source of order and institutions in society: in fact they are far more likely to inflict damage than to confer benefit. The main source of order is to be found in unintentionally created social institutions—the result of human action but not human design."<sup>5)</sup>

However, although there is this important ideological aspect to current policy discussions, there are, between countries, very considerable differences in fundamental beliefs about the efficiency of 'the market' as an instrument of effective distribution of health and welfare services. There is something of a tendency to believe that the onus of responsibility should now be with those who insist that the market is not adequate. But throughout, it is important to note that governments adopting quite different positions on this question may nevertheless end up adopting quite similar measures. For the difficulties of long term planning in an unpredictable economic

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5) Bosanquet, N., *After the New Right*, London, Heinemann, 1933, p. 5

context often produce piecemeal engineering solutions to the problems of providing adequate welfare services.

3. The privatization of profitable sectors of the welfare economy.

Hand in hand with the reduction of public expenditure is the transfer of services to the private sector. Of course this is only a real possibility where these services can be run at private profit, so that again measures are selective.

In Norway, for example, at the present time the privatization of previously public undertakings in the field of health care is a sensitive political issue. It is argued by some that if a smaller fraction of GNP is devoted to public budgets then the competitiveness of the private economic sector increases. It is also argued that in the field of health care there are some treatments which should not be provided at public expense. These might include drug treatment for hypertension or high technology open heart surgery. There is also concern at the way in which the increased production of health workers (to meet need) leads to a higher and higher salary bill and the further growth of public expenditure. The introduction of market forces would curb this spread, it is argued. In Finland, private institutions have been able to pay physiotherapists enhanced salaries leading to a labour shortage in the public sector.

In Norway and Finland, as elsewhere in Europe, this item of the agenda is debated in 'welfare states' which are, typically, a complicated mixture of public and private provisions, public and private insurance systems, user payments and consumptions individually and collectively.

4. The push for efficiency.

The privatization of care is linked not only to the idea of reducing public expenditure but also to the increase of efficiency in providing services. In Finland, for example, social service expenditure is expected to increase moderately over the next few years but great emphasis is being placed in the development of government services on improvements in real competitiveness through the better use, for example, of technology, research and education. In some other Scandinavian countries budgets are reduced by 1~2% each year on the presumption of equivalent efficiency savings and without expectation of reduced services. In sections of the U.K. National Health Service new developments are only possible if funded from similar savings in existing programmes.

Although 'efficiency' is sometimes a euphemism for cost-cutting, there is a strong belief that efficiency can be improved not only through the profit motive within the market, but also by specific efficiency measures within state run services. Such measures may take the form of changes in management structure but often also focus on cost controls and other reforms of systems of financial management.

5. The nature of accountability.

Very closely associated with the push for efficiency is an emphasis on the importance of accountability. This refers not only to systems of financial control and other structures of management but now extends crucially to the idea that professionals delivering services should be accountable for their practice and the standards of their services. In Austria, for example, some considerable attempts have been made to curb the the influential autonomy of some senior



medical practitioners. In the U.K. the system of 'clinical budgeting' in the Health Service is an attempt to secure the decision-making of consultants within a financial framework. In the fields of education and social work there is the more pointed use of inspectorates on the part of central government. In the health services, again, there is the now widespread use of 'performance indicators' on the presumption that authorities are accountable for the standards of their services. Increasingly in the U.K., too, negotiations for increased salaries are dependent upon professions being prepared to demonstrate the achievement of adequate standards of performance individually.

#### 6. The importance of evaluation

The significance attached to efficiency and accountability mean that the activity of evaluation is projected into a central position within the planning, development and organization of services. There are major theoretical and methodological problems in conducting evaluations of health and welfare policies. In Sweden, as a result of far reaching criticisms which have been made cost-benefit analysis, alternative methods of arriving at economic and social assessments of programmes are being explored. The point of relevance here is that such questions are now politically as well as scientifically important and thus evaluators often find themselves at the centre of the policy process. Their evaluations are most particularly sensitive when budgets are being cut rather than when they are expected to rise annually.

#### 7. The search for alternative forms of care.

As I have already noted, the review of existing services does not consist only of the argument that many should be run by private

rather than state enterprises. It consists also of the argument that some services should take an entirely different form. One example is the encouragement of so-called 'informal care' by friends and relatives and thus the development of support policies for the carers rather than directly for those in need. In Denmark, for example, some experiments have been suggested in which the parents of children in institutional care play an increased part in institutional activities and assume a right to the institution's operating budget, or part of it.

#### 8. Service deinstitutionalization and the preference for 'community' care

A particularly important aspect of the search for alternatives is the preference currently given to various forms of community care. There is a widespread belief that services are best provided outside of the confines of welfare bureaucracies and especially outside of residential institution. One expression of this view is to be found, for example, in Finish Child Care legislation. With the principal objective of supporting the care of children in their own homes, social measures have been supported with social security measures allowing, since 1985, the payment of a home care allowance to parents of children under three years of age. Similarly there are measures in Denmark to target social cash benefits in order to strengthen non-institutional solutions to problems of care. In the U.K. there are experiments, for example, in the community care of very severely handicapped children, whereas previously it was presumed that such children, would be institutionalized for their entire lives.

Of course, such policies find particular favour where the costs are less as a consequence of such measures. This is generally true

of the care of the growing numbers of very elderly, although here it should be mentioned that the 'true' costs of entirely adequate community based services is often a matter of considerable disagreement.

#### 9. The role of the consumer perspective

Several items on this agenda for the reform of welfare prompt a growing interest in ways of systematically tapping consumer perspectives and assessing the reactions of consumers of services to these services. Such interest compliments a faith in the efficacy of the market as an instrument of distribution. Consumers are, too, a rich source of suggestions for alternative forms of care. On the other hand it is well known that the powerful expression of demand for services from consumers may lead to the call for expanded services and thus increased expenditure. It remains to be seen if the interest in consumer perspectives is sustained if demand consistently exceeds the supply of resources allocated to meet need.

#### 10. The relationship between services

Reviews of existing services raise many questions about the best way of relating services in an overall system of care. Effective community services, in particular, frequently cross traditional barriers and call for new ways of relating previously largely unrelated welfare bureaucracies. In Norway, for example, 'care of the elderly' is only a part of what is known as a 'policy on ageing' and this comprises a broad range of social and cultural services for all elderly people who are no longer in employment. This requires effective discussion between various government agencies whose responsibilities include the needs of the elderly, such as the Director of

Public Health (health services for the elderly) and the National Insurance Administration (old age pensions and other benefits). To take another example, in the Netherlands, as in the U.K., proposals for a system of student loans in higher education raise questions about the relationship between the educational and social security systems.

#### 11. The concern for reorganization

Many services, especially in the U.K., in the field of health care, education and the personal social services, have been the object of much organizational change over the past 20 years. In Sweden, to quote another example, recent extensive reorganization has taken place at the National Board of Health and Welfare and the National Board of Education and it is quite possible that further reorganizations will be undertaken in the Government administration in the 1980s.

In the past, such changes have taken place in the context of economic growth. Approximately 50% of OECD populations the majority of those born after 1950 have experienced nothing but the continuous expansion of Welfare states. Now organizational change is part of the process of, in many cases, reduced budgets in real terms. As, throughout western Europe, slower economic growth imposes budgetary constraints, displays and generates new social and economic needs, and raises questions about the efficiency of existing welfare programmes, it remains to be seen what form organizational innovations will now take.

### IV. Conclusion

This paper began with the suggestion that if the widely used

notion of a 'crisis' in the welfare states of western Europe were to be helpful in comparative analysis, then the agenda of topics for discussion within this theme could usefully be itemized. The body of the paper listed such an agenda concerned with reduced expenditure, new ideology, privatization, efficiency, accountability, alternative care, community care, the perspective of consumers, service interrelationships and reorganization in welfare bureaucracies.

Throughout the paper brief reference has been made to the consideration of such issues in a number of Western European contexts. Whether or not such an agenda forms a helpful framework for considering the changing face of welfare in Korea and in a rapidly expanding economy is a question which it may now be fruitful to explore.