

THE EVOLUTION OF SOCIAL POLICY IN BRITAIN AND GERMANY

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ABSTRACT: *Social policy has become a vital part of the development of nations, as it stands as a cornerstone for the promotion and implementation of comprehensive poverty reduction programs, thus limiting and even erasing social and financial uncertainty so that a minimum level of „welfare” could be achieved. Under these circumstances, it is clear that „social policy” and „welfare” are positively correlated, with "welfare" being one of the fundamentals of social policy. When the economic dimension of „welfare” is taken into consideration, namely the need for non-discriminatory access of the population to financial resources, the state’s role in the field of social protection becomes that of the „social welfare state”.*

KEY WORDS: *social welfare, welfare states, social protection, social policies.*

JEL CLASSIFICATION: *I30, I 38, I 39*

1. INTRODUCTION

The term „welfare state” which only became widespread after the Second World War refers to „the concern towards individual and collective well-being of citizens” (Liebfried & Mau, 2008 , p. XVIII), due to the fact that following the state’s transition from „a neutral stage to an active intervention” (Matei, et al., 2011, p. 10) and the expansion of citizens’ rights, the state assumed „responsibility for the acquisition, maintenance and development of public infrastructure and social security” (Liebfried & Mau, 2008, p. XVI). In its attempt to fulfill collective social expectations and to meet the interests and needs of its citizens, the state eventually embraced its „welfare role” (Liebfried & Mau, 2008, p. XVI).

Currently, most experts in the field of social protection the fulfilment of the state’s „social welfare role” requires the implementation of „a series of programs

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aimed at mitigating the adverse effects and subsequent inequalities that derive from the market and affect certain social groups" (Liebfried & Mau, 2008, p. VXI). Given this latter, it is clear that the main tool of the welfare state is social policy, the act through which the *„unemployment, poverty, social exclusion, old age and health related problems are mitigated*" (Tudose, 2014, p. YY).

2. THE EVOLUTION AND CHARACTERISTICS OF THE SOCIAL WELFARE STATE IN BRITAIN AND GERMANY

With a variety of histories and political orientations, Europe is yet to know a universal social welfare state model, as each country has its own social protection system and promotes its own vision on equality, justice and social solidarity. As previously stated, the expansion and development of social policies after the Second World War has been self-governed throughout Europe, in direct correlation to the national domestic policies of each country.

The United Kingdom, for example, has a very comprehensive social protection system, which, however, can not be considered completely universal. Based on the relatively modest level of benefits, which are often predefined and do not vary in terms of value, the system reflects the importance that is being given to *the „accurately identified needs on which subsequent transfers are based*" (Hamerijck, et al., 2013, p. 13). These issues arise from the very specific Beveridge orientation of the system according to which *„the principle of citizenship guarantees a minimum income for all people*" (Titmuss, 1974, p. 25), the starting point of social equity.

The current market-oriented features of the Anglo-Saxon approach on which the British social welfare state has been founded, have led to a gradual reform between 1979 to 1997. Although the main objective of this reform was to restore balance of the public finances, on the downside, it gave way to an increase in social inequality and classe disparities. After 1997, the government's orientation towards social programs aimed at adjusting the welfare state to the existing challenges. In this respect, certain mechanisms have been put in place so that the specific problems of those living below the poverty line could be addressed. Along with the reform of the tax code, the minimum wage and other benefits offered to the social disadvantaged have been increased. The new vision of interrelation between employment status and individual welfare promote the idea that *„employment and employability can successfully combat poverty*" (Clasen & Clegg, 2006, p. 543) but rejected the old vision where *„equality and social justice are achieved through interventionist measures of income redistribution between social groups*" (Schmidt, 2002, p. 184).

Further steps taken by the welfare state in the labor market have resulted in income correlated *„benefit packages*", the launch of the *„active unemployment*" concept (Schmidt, 2002, p. 185) and better compensation for persons seeking employment and the introduction of the minimum wage. After 1997 the benefits were extended to other target other social groups such as single parents, persons with various degrees of disability or with chronic diseases and the elderly. The issue of the minimum wage was enacted in 1999 but only after age related and annual growth rate thresholds were set.

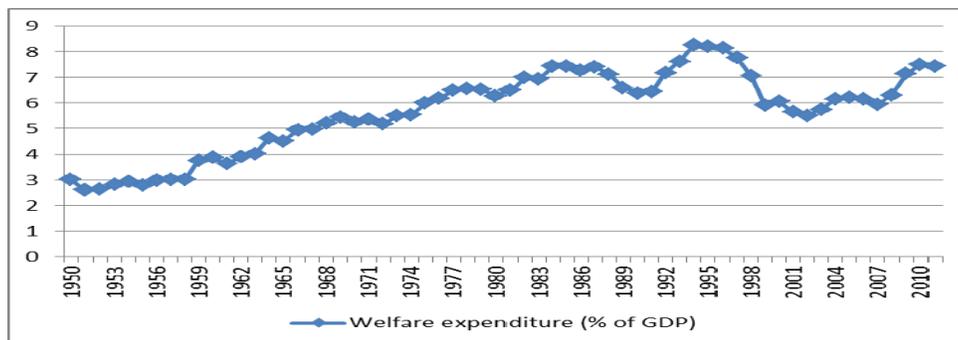
Another direction of the British welfare state targeted various family incentives, especially subsidized - interest social loans. This form of financial aid, although initially designed exclusively for certain social groups, was subsequently extended to other social categories so that together with the minimum wage so that any individual who „achieved employment for a period greater than or equal to 30 hours per week ” (Daly, 2010, p. 440) could earn an income above subsistence level.

During the social protection reform of 1979-1999 the measures undertaken by the welfare state also focused on family support fundamentals such as: additional subsidies to cover the costs of raising children; through social credits, part of total family income was diverted to the person earning less or even not earn income in order to combat potential harmful psychological frustration; programs targeting child care and education in disadvantaged geographical areas were developed; in kind subsidies for education; full deductibility of expenses related to the up-bringing, care and education of children from single-parent families; flexible working hours for parents.

Through the Employment Act of 2002 (<http://www.legislation.gov.uk/ukpga/2002/22/contents>) the paid paternity leave was introduced for a period between 18 and 26 weeks, for both biological and non- biological children. Simultaneously, under the same act, maternity leave was extended to 39 weeks.

In 2013, the government introduced a new universal credit „to ease the transition to professional reintegration” (Hamerijck, et al., 2013, p. 17), replacing the previous subsidized - interest social loans and subsequently, all other form of social incentives and stimulus. Following this approach, the various opponents of the welfare state and of its means of intervention highlighted the the risks deriving from the apparently unsustainable level of social protection expenditure.

Although, as can be seen in Figure 1, the level of welfare related expenditure in Britain increased between 1950-2011, the correlation between the expenditure and the number of inhabitants should not be ignored.



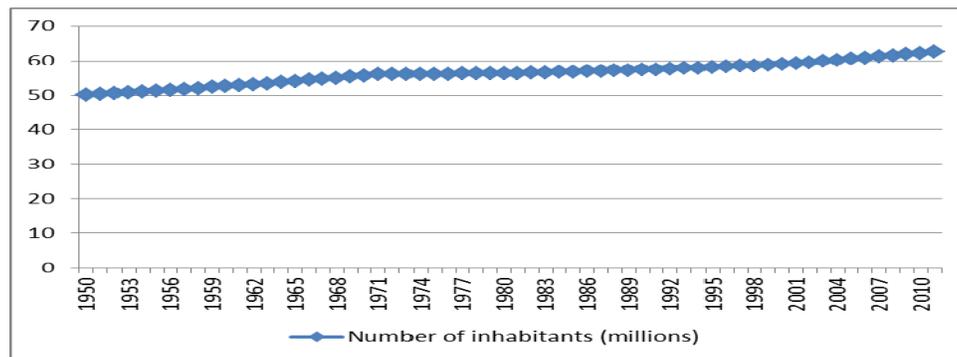
Source: working of the author based on data from http://www.ukpublicspending.co.uk/downchart_ukgs.php?year=1950_2011&state=UK&view=1&expand=&units=p&fy=2010&chart=40-total&bar=1&stack=1&size=m&color=c&title=Welfare%20Chart#copypaste, accessed on 30.06.2014

Figure 1. The evolution of welfare expenditure in Britain between 1950-2011 (% of GDP)

While the evolution of the number of inhabitants has known a gradual and uniform increase over the entire reference period, according to Figure 2, the total costs of the welfare state as a percentage of GDP had a linear variation with periods of gain and decline.

Thus, between 1950 and 2011, the total expenditures of the welfare state in Britain rose by 4,42 percentage points, from 3,02% of GDP in 1950 to 7,44% of GDP in 2011, marking a total increase of over 147 percentage points. During the same period, the population increased from 50,079 million inhabitants in 1950 to 62,649 million inhabitants. In terms of dynamics, the population increased by 125%, a value close to that of the total expenditure.

As can be seen in Figure 1 the dynamics of welfare expenditure peaked between 1979 - 1996, during the fundamental reform of the welfare state reaching the maximum level of expenditure in 1994 (8,55% of GDP). After this period the trend was reversed, with expenditure ratio decreasing to 5,51% of GDP in 2001, at a level that has remained relatively constant until the onset of the global economic recession in 2009. Under these circumstances, we believe that this recent increase in expenditure is a clear consequence of the economic constraints of the crisis which also impacted the labor market and inflation, with pressure also deriving from the growing number of inhabitants.



Source: working of the author based on data from http://www.ukpublicspending.co.uk/downchart_ukgs.php?year=1950_2011&state=UK&view=1&expand=&units=p&fy=2010&chart=40-total&bar=1&stack=1&size=m&color=c&title=Welfare%20Chart#copypaste, accessed on 30.06.2014

Figure 2. The evolution of the population in Britain between 1950-2011 (millions)

Based on the above analysis, it becomes obvious that during the last 15 years the British welfare state has taken great steps towards optimum recalibration. The main objective of the welfare system, namely that of „*labour efficiency enhancement*” led to the introduction of measures that focused on an active labour market insertion, extension of social benefits and the introduction of the minimum wage. The success of all these efforts came as the result of the unique and also optimum combination of welfare and labour policies which targeted families with regard equal opportunities and

social inclusion, eventually making the British social welfare state comprehensive and homogeneous.

In contrast with the specific Beveridgian social policies in Britain, the welfare state in Germany corresponds, together with The Netherlands, Austria, France, Belgium and Luxembourg, to the Bismarck welfare state, for which the concept of work is „the only absolute responsibility of every citizen” (Hamerijck, et al., 2013, p. 21) and all efforts which aid disadvantaged social groups should be directly linked to their productive results. The core values of the welfare state in Germany make direct reference to the much needed support of the traditional family structures, in direct correlation with the Bismarck tradition that brings into discussion the implicit link between employment status, family status, social rights and social benefits.

The social benefit range of the social protection system of the German welfare state model is large and significant in terms of value. Directly dependent on the level of income and family status, benefits are generally offered for long periods and social insurance coverage is universal, leading to high levels of social expenditure and subsequent fiscal pressure. The labour market is closely regulated and seeks to provide certainty, stability and a secure future income. With a general penchant for full employment, the social policy of the German welfare model encourages employees’ associations and trade unions to actively engage, through collective bargaining, social protection decision making, but it retains the right to regulate issues such as retirement age and level of mandatory contributions.

The system is financed through mandatory contributions applicable to all forms of income and though the minimum wage is not regulated, citizens can benefit other types of income provided through social assistance.

The liberalisation of the vision regarding atypical employment, in particular, and the German social security system, in general, was achieved in 2002 through the four Hartz reforms. During the first phase of the reform (Hartz I) all efforts focused on the rethinking of the education system so that vocational majors be recognized by the German Employment Agency beginning 1 January 2003. In addition to this, Hartz I also regulated a new form of social support, „the financial support payments”, which was provided through the German Employment Agency.

In the second and third stage of the Hartz reforms two additional types of employment contracts were introduced, under the names of „Minijob and Midjob” (<http://www.spiegel.de/wirtschaft/soziales/hartz-iv-zahl-der-mini-minijobs-nimmt-zu-a-89412.html>) for which the level of compensation was regulated by the state, as follows 450 euro per month for Minijob contracts and 860 euro per month for Midjob contracts. While the Minijob employment contracts were exempt from all forms of social contributions, for the second type of contracts the imposed levels „were minimal” (Hamerijck, et al., 2013, p. 23).

The last Hartz reform, Hartz IV, adopted in 2005, involved the merging into a common structure all social benefits, namely unemployment insurance benefits (Arbeitslosenhilfe) and social benefits (Sozialhilfe). This merger also introduced rigid eligibility criteria and a reduction of the duration of social benefits from 32 to 12 months for people below 50 years of age and from 32 to 15 months for people over 50 years of age (Ochel, 2005, p. 18). Individual benefit level was initially set at 374 euros

per month and then increased in 2013 to 391 euro per month (Ochel, 2005, p. 19) and was supplemented with access to additional subsidies for the purchase of housing or financing costs of rearing and education children.

The eligibility of applicants was linked to previous income, life insurance status and employment status of the spouse. In 2008, the threshold from which a person could gain access to this form of benefits offered by the state was set at 3.100 euros per year (Ochel, 2005, p. 19) based on a mutual financing agreement between the applicant and the state. The financing contract set a series of terms for the applicant, among which, the most important is the one according to which the applicant was required to bring constant proof that all measured were being taken towards finding employment and that no employment offer had been ever refused.

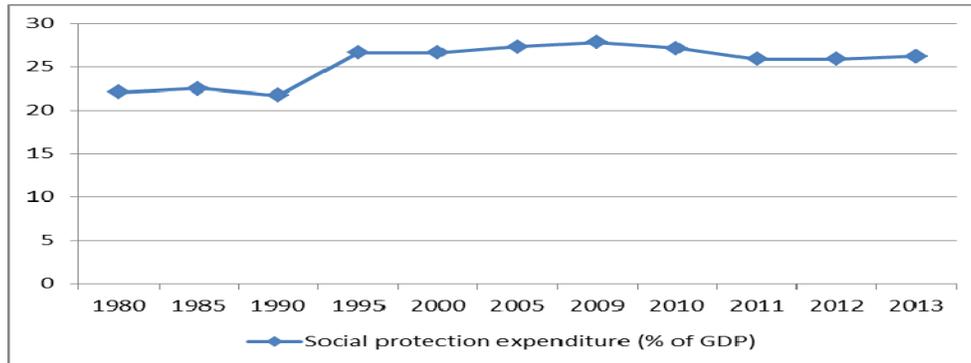
All these Hartz IV measures eventually led to the elimination of unemployment benefits, which stood for, in the traditional sense of the Bismarck welfare model, „a clear violation of all principles of social justice” (Clasen & Clegg, 2006, p. 254). Thus, while some authors who believed in the traditional model of the welfare state pointed out that the new German social protection system had departed from its classic features, becoming more of „a combination between the Bismarck social security model and the minimal support forms of the Beveridge model” (Hamerijck, et al., 2013, p. 23), other specialists believe that „despite the limitations of the traditional welfare, the new welfare model expanded to other social group, reaching universality of coverage and of social protection” (Hamerijck, et al., 2013, p. 23), since the Hartz reforms managed to „reorganize and unify employment assistance and placement of labour force and expanded placement options beyond public management” (Hamerijck, et al., 2013 p. 24). Moreover, the Hartz reforms placed formal child care at the centre of all social concerns, granting parents significant tax incentives.

In 2007, despite all the political opposition, a new bill was voted, granting, throughout the first 12 months after the birth of a child, an universal parental allowance which stood for 67% of the previous income, but with a maximum of 1,800 euro per month (Hamerijck, et al., 2013, p. 23). At the same time, financial benefits were offered to those who fostered children from orphanages and also to parents who reintegrated their previously abandoned children. The measures were subsequently extended through tax refunds to help cover parenting costs and to companies for the development of public childcare centres. By the year 2013, up to 750.000 additional seats were available in childcare centres for which the German welfare state covered a third of total expenditure from a budget of 4 billion euros.

All these reforms led to an increase in the share of social protection expenditure in relation to GDP, from 22,1% in 1980 to 26,18% in 2013 (Figure 3), with peaks during 2005 and 2009, reaching between 27,3% of GDP and 27,8% of GDP. The steep dynamics of 2005 - 2009 is directly linked to the social policies of the Hartz IV reform which by placing labour and family policies at the centre of all social concerns influenced the overall expenditure of the German welfare state.

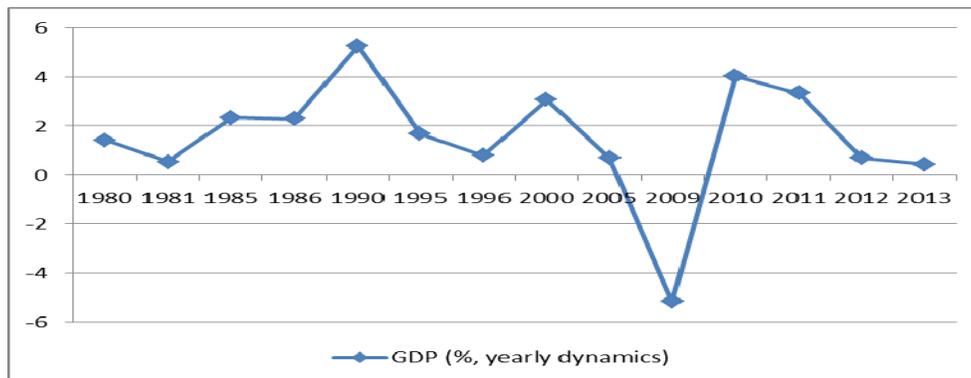
Despite the additional costs imposed by the new benefit package offered by the welfare state, the objectives of the reforms were focused on solving both short and long term problems that affected the German social protection system. Under these circumstances, German social policies targeted both the stimulation of child birth by

diminishing the area of uncertainty among young families who showed obvious reluctance to having more than one child, and, also, full employment as a future source of additional state revenue that could correct a true vicious circle of the overall sustainability of the German social protection system.



Source: working of the author based on data from OECD, <http://www.oecd.org/statistics/>, accessed on 30.06.2014

Figure 3. Social protection expenditure in Germany between 1980 -2013 (% of GDP)



Source: working of the author based on data from OECD, <http://www.oecd.org/statistics/>, accessed on 30.06.2014

Figure 4. Evolution of GDP in Germany between 1980 -2013 (%)

Thus, since 2011 social protection expenditure as a percentage of GDP declined, particularly due to the improvement of the growth rate of the GDP (Chart no. 4) as a result of the efficient labour market integration. Under these circumstances, we believe that the welfare state in Germany shows increased viability, despite the view of Bismarckian dilution under Beveridgean influences. The potential lies in the fact that, as a precursor of the modern welfare state with a broad vision and a constant concern for the welfare of their citizens, Germany will adapt to the challenges of the new

millennium and will continue to reform its social policies so that in the near future social welfare will equal human investment.

3. CONCLUSIONS

Even though the welfare states in Europe date back to the post-war prosperity, recent developments have scored much more than a simple upgrade, standing for an overall economic, moral, social and political reconstruction. From an economic perspective, the reconstruction stood for a new direction of addressing welfare issues so that free-market interests and individual prosperity be reconciled. From a moral perspective, developments have sought to defend the ideas of social justice, solidarity and universality, while from a political perspective, the welfare state stands for the challenge of state rebuilding, especially in the context of globalization and integration.

Although, at present, welfare states face multiple challenges and see old policies transform under pressure from the aging populations, the transformation of the traditional family model and the shift of the economy and labour market, the importance and benefits of the welfare state should neither be denied nor ignored. The current combination of structural elements and political doctrine, coupled with the threats mentioned above can lead to future new models of social development.

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