THE WELFARE AND THE ECONOMIC GROWTH: TWO FACES OF THE SAME COIN[1]

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Abstract - The research starts with review of the evolution of the concept of welfare. The model of economic growth and social welfare of the European Union continuously adapts to social and economic changes of contemporary European society. As a result of the financial and economic crisis and its impact on the EU's economy, including economic contraction and rising unemployment, European Commission has launched the Strategy "Europe 2020". The study will focus on the analysis of the strategy "Europe 2020" as a tool for economic growth and welfare.

Key-Words: welfare, growth, reform, strategy, model, employment.

JEL Classifications: D6, I38, P51.

1. Introduction

The model of welfare expresses the values of social welfare (universalism, solidarity, social justice) and reflects the state's role in social protection. The state is the guarantor of a fairness social protection and has a founding role of an effective system which answers to the needs and the social realities of each society. The influence of the mechanisms regulating the economy, the size of the private and public sector, and the balance between market and state define the different models of social welfare.

Along with the establishment of democracy and the market economy, expanding social protection systems are an essential component of the European model of society. Since the last decades of the nineteenth century, the welfare systems have played an important role in the modernization of European countries in order to reduce constraints resulting from the economic cycle, to stimulate population growth and, last not least, to support the transition from agriculture model to the industrial society.

The development of the extensive social protection systems in order to protect people at risk and to answer to the social needs has been a predominant feature of postwar European societies. European systems have been set differently in terms of organization and financing methods, reflecting the cultural, historical, and institutional differences. The sequence in the evolution and the development stage of every European nation's social policy have influenced the current stage of the social protection systems.

2. The evolution of the concept of social welfare

Great economists like Adam Smith, John Keynes were concerned about the "wealth of nations". The promoter of classical economics, Adam Smith, analyst of competition and growth, emphasized that both market

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and competitions play an important role in improving the welfare of nations, by giving motivation and economic force. Thus, the productive and innovative potential of the economy can be fully used for achieving growth and wealth.

It is obvious that the concept of market economy arises from socio-economic legitimacy of the competition involving everyone in the production and consumption of wealth. It raises the question whether the distribution or the redistribution of wealth boost productivity. Therefore, to fulfill this purpose the state must allow and promote resource distribution both efficient and equitable.

Representing the modern stage in economic science, Leon Walras (1874) has reformed the idea that the role of each individual and the state do not oppose each other, but complement each other, each having its scope. According to Walras (1874), the state is responsible for ensuring the general conditions of common existence to all citizens, and the individual must obtain through its work and skills and his own welfare. Walras (1874) underlined that state should balance the rights of the individual with the state functions.

Subsequently, in the evolution of economic thought an important role had John Stuart Mill, who is one of the promoters of the social market economy. Mill (1888) is committed to reforms and even proposes a social-liberal social policy. It shows that a propriety system that ensures increasing material wealth at the expense of freedom is doomed sooner or later to failure.

In the modern stage, John Keynes has revolutionized the entire economic theory by promoting an active state intervention in economy. The advocates of the welfare state that are based on Keynesian solution, propose high public spending to finance important public investments for economic development.

Keynes's followers underline the importance of the salary in the distribution of goods. Securing a job is a first step in improving living conditions. Membership in a union provides individuals the opportunity to participate in decision-making system at the micro level. So, the employment on the one hand provides the foundation for a decent standard of living and on the other hand the socio-economic rights. The Keynes's followers point of view is that the salary is the main channel of distribution of goods in the welfare state, and the essence of the welfare state is creating jobs to ensure a high quality of life for all.

According to the Keynesian model, the welfare state assumes that full employment can be achieved only through stable economic growth. Economic growth is seen as a necessity for fair distribution and for the development of social protection. So, stimulating economic growth is the primary mean of achieving the welfare state. Only by increasing production can be achieved a balance between supply and demand on the labor market and can ensure the financing of a complex social protection system, that meets current social needs.

After the Second World War, have appeared neoliberals, which economic doctrine maintains a limited intervention in the economy in order to establish a legal framework allowing the organization of competition, the harmonious functioning of the price mechanism and curbing abuses of monopolies. Neoliberals have opened the contemporary economic theory, which has spread mainly in Germany. The main drivers of German neoliberals were known as the School of Freiburg. Then it has been named ordo-liberal doctrine, after the magazine Ordo, where were published the basic ideas. Ordo-liberal doctrine has emerged through the collaboration of three specialists: W.Euken, an economist, F.Bohn, a lawyer, and sociologist W.Röpke. The characteristic feature of Neoliberal Freiburg School is that the state role in economy is very well established, but to such an extent as do not control the economic relations between businesses. It means that, the state guarantees the existence of a market economy, ensures the legal and institutional market functioning and provides "public goods" such as: public safety, environmental protection, health, social security. In these circumstances a social state intervention is minimal, because the proper functioning of the economy ensures the wellbeing of individuals. In the same time, in their opinion the state must create equal opportunities to defend and protect the poor.

The neoliberal doctrine promotes the fundamental idea of the theory of free market economy that each individual works more effectively to provide personal welfare. Also, the market mechanisms: the price and profit are those that stimulate the activity of each company and each economic agent is acting in his own interest better than any state authority. The basis of the market economy is private property, which creates the premise act freely in economic life.

The Romanian school of economics, in the interwar period, was also preoccupied with the study of social issues, generically social policy. The term was used by economists and sociologists like: Madgearu, Ionițescu, Tasca, Răduceanu, Bazilescu, Matheescu. As a result of radical political and social changes that took place during the period 1918-1923, the formation of the "Greater Romania" and the country's rapid industrialization have determined the creation of a legal framework, by adopting numerous laws to protect employees. Also, it took place important changes on the organizational plan by creating the Romanian Ministry of Labor in 1920.

During this time, it is noted that George Tasca, representative of liberalism, has published “Romania's social policy in 1940”, where are presented theoretical concepts as: property, rent, wages, trade union organization, work contracts and social security. In his study, Tasca stresses “the importance of capital in the form of individual ownership, because it is the lever to raise the productivity and its individual form is the only pushing to increase this production tool” (Văcarel, 1996).

Subsequently, traditional theories on increasing economic growth and welfare have evolved based on fundamental changes in the economic and social foundations of the modern society. Of particular importance is the comparative analysis on the structural differences of the various social welfare systems. Study on similarities and differences are important for classification, analysis and conceptual synthesis of different systems. Eckstein (1992) in “Comparative Politics, Past and Present”, show that “comparison is not a simple classification, but a method of determination of the theories in the welfare field”.

The socio-economic differences between various countries have led to different models of social welfare. One of the most remarkable attempts to describe the differences between countries regarding social policies was made by Richard Titmuss. He defined three major forms of social welfare models in developed countries:

1) The **conservative model**, which is characteristic of countries like Austria and Germany;

2) The **liberal model** based on economic growth, characteristic of countries like Great Britain, Australia, Canada, USA;

3) The **institutional model** existing in the Nordic countries: Denmark, Finland, Norway, Sweden.

The original concepts were completed and adjusted by Pinker (1979) and Gosta (1990). Both Titmuss (1997) and Gosta (1990) advocate institutional model, it has the ability to create equality and reduce poverty.

Atkinson (1992) analyzes two models of “pure economics”: the centralized economy and the market economy. The analysis is seen through the interdependent relationship between the economic organization and the role of social policy. On one hand, the centralized, socialist enterprises were state property and the right to work was guaranteed and binding. There was no official unemployment, the protection system was based primarily on the system of remuneration. In this type of economy, there were various forms of hidden unemployment (technical unemployment, unpaid mandatory holidays), but no unemployment benefits. Medical services were free, but they were of poor quality.

On the other hand, Atkinson (1992) has shown that there are big differences between different countries economies and the pure market economy model. The most important difference relates to the alarmed extension of unemployment. Another source of problems is the labor market segmentation in the primary sector, which is offering high wages caused by the existence of strong organized trade unions and the secondary market, where immigrants typically have low paid jobs without any form of social insurance and real protection. Limiting social insurance only to those who have jobs and the existence of secondary employment sector, creates social pressures, on ensuring social protection.

Atkinson (1992) suggests a new economic model, symbolically called "the third way", between capitalism and socialism, which is important for both West and East. This “new way” must consider both the economic organization and the social policy design. This suggests the introduction of a "minimum income or basic income", as form of social protection, that will not be tied to employment status and will address those excluded from the social insurance, graduates, and new entrants into the labor market. The major problem is the financing of such basic revenue "through a system of taxes". So, according to Atkinson (1992) the existence of this model of social protection is subject to the proper functioning of economic activity, which will be the sources of financing it.

Also, Professor Anghel Rugină in his book "Principia Oeconomica" formulates the idea of the necessity of “the third revolution” in economic theory and proposes the "social liberalism". The “social liberalism” proposes a society characterized by balance and stability, and for achieving this two objectives are necessary structural reforms. Professor Rugină proposes the creation of "guidance tables" for economic science, which involves seven basic models, which exists as a bridge between classical and modern theory.

Joseph Stiglitz, the winner of the Nobel Prize for economics in 2001, has analyzed the model of "market socialism," which in his vision does not mean any incoherent mixture between the centralized planning and the coordination of market economy, tried by some Eastern European countries in years 80s, nor "utopian third way". Stiglitz (1995) focuses on specific market economy model, where the efficiency of the free market may be reproduced without private property. According to Stiglitz (1995) the model of “market socialism” and competitive market capitalism suffer from the same "mainstreaming proposals ". The author says literally that "market socialism fatal flaw" is that it took too seriously the neoclassical model. Stiglitz (1995) analyzed the issues which make closer or separates the two "pure models" and the current malfunctions of the market economies (capitalist or in transition), drawing the line between reality and utopia.

Regarding the role of the state, Professor Stiglitz (1995) shows that it is more indicated a pragmatic approach, respectively, opting for a public-private alternative, taking into account existing institutional limits. Stiglitz (1995) points out that massive failure of coordination resulting from deficiencies of information on competition, privatization and capital markets lead to the rejection of the idea that private sector activity is higher than the public sector. Stiglitz (1995) believes that there is not a real possibility to separate the economic efficiency of the notion of fairness. Government intervention can improve welfare by simply correcting traditional market failures such as externalities, public goods and monopolies. Economic history offers numerous cases in which both the market and the state have failed. However, empirical evidence suggests that countries with weak governments can be complemented with private sector development (Stiglitz, 1995).

It should not be neglected the fact that the existence of the European Social Model must be base on the relationship of interdependence between the economic growth and the structure of the welfare state. A first interpretation of the relationship between the economy and the social welfare state can be largely negative, where the rate of growth of the national economy is affected by the existence of a too large public sector. However, a number of studies based on comparing the indicators of economic growth and efficiency indicators of social services in various Member States shows that there is not a positive or negative relationship between stable economic growth and social protection. The best example is the Nordic countries pursuing this criterion would be ineffective, but they recorded a high level of protection coupled with a stable economy.

Another type of relationship is based on the quality of services provided by the welfare state that affect the economic behavior of the population. Some of the World Bank’s studies have shown that an extensive system lowers labor discipline and work behavior. This relationship is extended between protective systems on the one side and increasing rates of early retirement and work absences, on the other side.

The relationship between participation in the labor market and social security system is seen differently. Thus, some experts say that a general system of protection of the family has determined the decreased participation of women on the labor market. Again it can be used as counter argument that the Nordic countries have a generous system and are effective in terms of women labor market participation.

A defining element of any system of social welfare is its minimal character of the protection. This coordinate is required by the necessity to combine social protection with economic growth. A high social protection circuit can pull the national economic productive resources that could be used in other areas. It also has a negative effect on the workforce that can not respond positively to the work signals (low elasticity). If social protection is too low, economic growth may suffers and may occur disruptions in the reproduction of labor force, including social pressures. The social protection system has multiple components: the guaranteed minimum wage, unemployment benefits, social assistance and minimum pension. All regulations are correlated with financial resources, including resources needed to stimulate economic growth.

Sapir (2005) shows that an important role for the models of welfare performance analysis has the relation between efficiency and equity. In the Nordic model, the degree of efficiency and equity are high, unlike the Mediterranean model, in which both were low. On the other hand, the liberal model has a high level of efficiency, but is socially inequitable, while continental model has a low efficiency, but has a high degree of fairness. In this respect, the models that are not effective can not cope with the constraints on public finances, due to globalization, technological change and aging populations. It results that the Nordic model and the liberal are more sustainable, while continental model and the Mediterranean should be reformed in the direction of efficiency, growth and employment.

3. The three-dimensional growth based on the Strategy “Europe 2020”

The impact of the recent financial and economic crisis has intensified budgetary consolidation pressure, increasing the likelihood of cuts in social services throughout the European Union. Regardless of the magnitude of the fiscal consolidation efforts and social policy areas concerned, there can be no doubt that all austerity programs are regressive in nature and that option of increasing the budgetary revenues has been exercised much less than budget cuts.

The relatively close link between the economic development and the level of social protection in European Union continues to diminish. Meanwhile, the European social policy remains the Achilles heel of European integration. In reality, there is no uniform European Social Model and nor was there any attempt to rectify a lack of legitimacy of the European integration, through the inclusion of social security systems in the EU's governance system.

It is a well known the fact that the welfare state has become dysfunctional and need to be reformed, modernized or rebuilt. The process of globalization, demographic change and European integration have eroded slowly but surely, the foundation of the welfare state in the Member States. Additionally, the European Social Model erosion was accelerated by economic and social transformation in Eastern Europe. While many citizens of the new Member States wanted an alternative model of western social welfare, received a minimal form of social protection. (Hermann, 2010). Some experts have sounded the alarm that there is even a danger that the welfare state can go bankrupt under the weight of the cost and burden of redistribution.

However, there is a clear distinction between the various models of the welfare state and the European Social Model and the result of efforts to modernize the European social policy will not be the end of the European social model, but involves a clear shift in ensuring the balance between the sources of funding and the eligibility and the legitimacy of social benefits. Michael Krátke (2005) underlines that the European Social Model still has future and he suggests that European left parties could use the European Social Model as a trademark for a new political project.

The increased budgetary austerity measures have left its mark on traditional social protection systems, and though the social policy remains the responsibility of Member States. Therefore, the various European institutions have promoted strongly the flexible labor markets and the policies oriented on demand of the labor market. But, in order to ensure fiscal consolidation was intended to reduce social spending, so that the level of social protection was lowered to the point that there are not even the minimal living expenses covered. Meanwhile, social assistance is granted only to tests based livelihoods (means-tested), and is conditional on fulfilling some obligations.

In general, the reform of social protection systems aims to move from welfare as a factor of social existence to welfare as a tool for people reintegration on the labor market, as quickly as possible. By gradual change from welfare state aid to “welfare through work” has been complemented by flexible labor markets, and the promotion of atypical and often temporary employment. The reforms were supported by strong public campaign that discredited solidarity, arguing instead for "individual responsibility". As a result, some members of society who have no longer a job do not enjoy adequate economic and social security (Hermann, 2010).

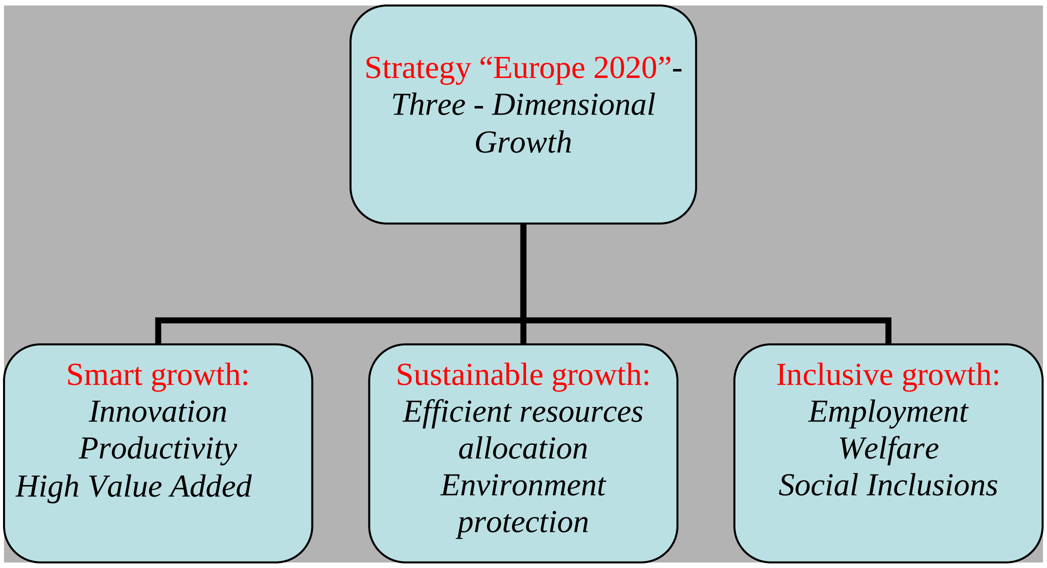
The current financial and economic crisis has revealed the existence of social deficits that have appeared over time and eventually eroded some of the most distinctive features of the European Social Model. However, the crisis has created an opening for a political discourse with alternative ideas to create a European Social Model based on a sustainable economy. In literature, sustainable development is characterized as a level of development that welfare does not diminish over time. Thus, an economy in recession is not sustainable in the long term, and a society where a large mass of people experiencing poverty and social exclusion is not sustainable.

The European Social Model based on sustainable growth covers a wide range of objectives, namely: resource efficiency, ensuring macroeconomic stability and competitiveness, education and continuous training of the workforce, increasing employment and equal opportunities. The European Social Model based on sustainable growth is a pattern of resource use that aims to meet human needs while maintaining environmental protection, so that these needs can be met not only today but for generations to come.

In early March 2010, the European Commission launched the "new strategy for sustainable growth and jobs”, the strategy “Europe 2020”, which replaces the Lisbon Strategy, adopted in 2000. The strategy "Europe 2020 "outlines the new vision of the EU's development model of market economy in the next decade, based on three pillars: **a smart growth**, which is based on the knowledge economy and innovation, **a sustainable growth**, which involves a competitive economy which is allocating resources efficiently, and **inclusive growth**, which assumes full employment and social and territorial cohesion.

The basic criteria underlying the European Social Model are: efficiency, social inclusion and sustainability. These requirements are mandatory and included in the "European Social Agenda". Employment underpins European Social Model and increasing unemployment jeopardize its sustainability. The objectives of the "Europe 2020" can be considered ambitious, but are achievable because are based on the EU's powerful new economic governance, the single market, the EU budget, the foreign policy, the economic and monetary union. Although the disparities between the levels of development and living standards in the Member States, the European Commission considers that the objectives of this Strategy are relevant to all Member States. This Strategy supports Member States to cope with the impact of post-crisis, the intensification of recovery of public finances and the challenges of globalization of the world economy.

Figure 1: The role of the Strategy “Europe 2020”



Source: Author/based on: European Commission (2010). Commission Communication Europe 2020 - A European strategy for smart, sustainable and inclusive growth Brussels, 3.3.2010 COM (2010) 2020 final.

The sovereign debt crisis has highlighted also the interrelationships between the economic policy and the monetary policy, in the Euro area. The crisis has led to the exposure of the interdependence between the economic policy coordination (Strategy “Europe 2020” and the Stability and Growth Pact) and the monetary policy (which is influenced by the need for increased wage flexibility and sustainability of public finances). The impact of the common economic and financial crisis and the sovereign debt crisis has made clear that Member States have analyzed insufficiently the negative repercussions of the economic policies on the monetary policy. Some member states were not prepared to withstand shocks of the elimination of the basic tools: the autonomous monetary policy (issue its own currency) and the exchange rate.

The crisis also led to a recognition of the causes of the negative influences, which should be avoided by coordinating emergency measures taken to avoid insolvency or illiquidity of the Member States. The Strategy “Europe 2020” seems useful as offering tools to solve problems of competitiveness (rooted in factors such as: inflexible labour markets, uncompetitive wages, a too large public sector, unsustainable social welfare systems) and reduced potential growth in Southern Europe Member States. The conditions under which the EU and Member States must address the issues of competitiveness and reduced rates of GDP growth became much more difficult to solve, in the context of the sovereign debt crisis and given that it is necessary that the budgetary reforms, the structural reforms and the liberalization must be carried out at the same time. In this respect, the Strategy “Europe 2020” could help formulate a better structured and coordinated respond, bringing added value to a better economic governance.

4. Conclusions

It should not be neglected that in the past three decades, despite long periods of economic growth in many Member States, the socio-economic inequalities in the European Union have increased. This is why the new strategy “Europe 2020” has established that employment is the most effective tool to solve the growing inequalities and to ensure the protection against social exclusion and poverty. However, the project a "smart, sustainable and inclusive growth", as theorized in “Europe 2020”, seems to have a neoliberal approach to social protection (Scharpf, 2012).

On the other hand, the project of a European Social Model, namely "European Social Space" is acting as a counterweight to the idea of the European Single Market. As a leader, the EU should provide a set of common social policies in order to create a unique model of welfare. In this way, the EU should strengthen its social dimension, pushing the European integration forward. However, this step is still far from being achieved and harmonizing different national welfare models, nowadays it appears unlikely (Ebner, 2014).

In its Communication "Balance the strategy “Europe 2020”, for smart, sustainable and inclusive growth", the European Commission (2014) reviewed the progress towards the objectives of the strategy and noted that the reasons for requiring its objectives are in 2014, as stringent as in 2010. The European Commission (2014) underlines that the EU is on track to meet or approach the goals of education or environment protection and energy, but the situation is different with the objectives of employment, research and development or poverty reduction. Therefore, the European Commision has recommended to focus on the fundamental elements of long-term action that are essential to future economic growth and social welfare.

Translating these objectives at national level has contributed to highlighting some gaps, as certain differences between Member States with the best results and those with poor results and other increasingly greater gaps between different regions of Member State or between neighboring regions of different Member States. Finally, the European Commission (2014) highlights the existence of inequalities exacerbated in the distribution of wealth and income and the active involvement and participation of regions and cities, which are responsible for the implementation of several EU policies, are essential for “Europe 2020” objectives. The European Commission recommends that these challenges must be addressed in the future review and subsequent adjustment of the strategy.

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