

THE WELFARE STATE AND THE CURRENT ECONOMIC CRISIS

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Whether the current economic crisis is a short-term downturn in the global economy or a depression is debatable. Some will take the view that this is a depression that occurs because of the normal functioning of capitalist economies and the current crisis is just the unpleasant part of a Kondratieff wave. A more optimistic view is that the infusion of money into the economy will stimulate the economy and things will return to normal in a short period of time. There are others who believe that the free market is self-correcting and that governmental intervention will only prolong the downturn or make it worse.

However the current economic crisis can be categorized and whatever the solution to the problem, the impact on societies has been and will be substantial. A great deal of human suffering is going on and there is the question of the short-term and long-term impact on populations. The welfare state is needed more so than in good economic times, despite the fact that the tax base supporting it is decreasing.

There are three different reasons that strong welfare institutions and well-funded institutions are needed now, apart from the counter-cyclical argument. The first is that welfare state institutions in the most advanced economies have been decaying in recent decades. Changes in recent decades have worked in ways that undermined welfare state institutions, not just reducing funding of programs but also making eligibility requirements stricter. Those institutions of the welfare state that had once been strong and sources of national pride (such as the National Health Service in the UK) have suffered in recent decades.

A second good reason for having strong welfare state institutions is that political leaders will find that strengthening such institutions will be prudent for them in the months and years to come. Failure to financially support welfare institutions will not be looked upon in a positive way by voters. Certainly, financially supporting such institutions will help alleviate the pressure that governments will face with angry populations. Concessions to the citizenry by expanding welfare state institutions, therefore, are politically sensible because they are popular.

A third reason for having strong welfare state institutions is to make sure that when the economic crisis is over, the populations that emerge to rebuild are healthy and educated. Thus, strengthening human capital now will assist when recovery takes place. Housing, education, and health deficits of a population will be hard to make up in a short period of time. For example, the school lunch program in the USA developed out of the concern military leaders had during World War Two since many of the recruits were considered too scrawny. This aspect of the welfare state in the USA was not designed to make the recruits during World War Two brawnier but was designed to ensure that military leaders in the future would not face the same problem with recruits who were not sufficiently robust for service.

In this downturn, governments will have two major sets of choices to make regarding welfare states. The first is how to fund them and how much to fund them. This will be somewhat tricky since the declining tax base during a downturn will mean that difficult choices will have to be made. However, since it is a concession to stem social unrest, the benefits will become increasingly obvious to political leaders.

The second question is what type of institutions will have to be built or in what way existing institutions will have to be rearranged. There are three types of regimes of welfare states. The liberal one corrects for market failures and works in ways to support free markets, and offers basic needs as a last resort. The conservative one, pioneered by Otto von Bismarck, aims to retain social

and economic structures. The socialist one, associated with social democratic political approaches, attempts to diminish socio-economic differences in the population by giving all members of the society equal access to medical services, educational services, and other social and economic needs. Those advanced economies with socialist welfare regimes also tend to be those with such extensive welfare programs that they seem to offer their citizenry every conceivable medical service apart from breast implants and facelifts. For example, the Danish government's welfare services are so inclusive that it provides orthodontic care to citizens who need it.

The choice of which type of welfare regime a country chooses matters, as does the nature and logic of particular programs within the welfare state. For example, Freddie Mac and Fannie Mae have been frequently blamed for causing the credit crisis in the USA. These US Government-sponsored enterprises are part of the liberal welfare state in the USA, ensuring that people who the private sector may not give credit to (lower-income people) would have access to credit to purchase housing. Alternatives to such institutions would have been to either allow for greater homelessness or to have the government more intimately involved in expanding government-funded housing. In retrospect, the choice taken seems a mistake, since the failing of Freddie Mac and Fannie Mae has sent a much more dangerous and significant ripple-effect through the economy than direct government investments in housing ever could.

The crisis will come to an end someday. Governments should keep this in mind and start planning for the future following this economic downturn by investing in people—especially their health, education, and housing. The USA, among the most developed countries, will be in the most disadvantageous position in this regard since its welfare state is modest. The key question for the future is the status of countries' citizenry after the crisis. Do political leaders want to lead societies in which economic wealth is very unevenly distributed and large percentages of the population suffer from preventable illnesses, inadequate education, and social and economic exclusion? It is

obvious that those countries that choose well-funded welfare institutions and choose wise programs will have an advantage in the post-economic crisis world. They will be the countries that will have populations that will be ready to face the challenges of the future because they will be appropriately vaccinated against preventable diseases, will be adequately educated, and will have straight teeth, to boot.