# *Discussion of Prof. G. Esping-Andersen's paper*

ZACHER

First of all, I would like to thank you very much for your paper and your lecture. I think they both provide us with an entirely new insight into the issues under discussion here. You have led us to the problems from the angle of empirical experience. However, this, of course, entails the provoking question: to what extent can empiricism help us? Moreover, granted that we as the Academy consider our work to be of service to the social teaching of the Church, how much can the teaching of the Church learn from empirical experience? Naturally, it, too, should not do anything that is "against the fact". We cannot advise Church teachers to apply Hegel's old theorem, which states that if the facts do not correspond to the theory, this will only be of harm to the facts. It has been practised too often as it is. Nevertheless, facts *per se* do not already constitute the source of norms. The latter are a combination of values and facts. That is why I tried to integrate your highly stimulating information a little further into the system of the welfare State and to broach the subject of conflicts of values with which we are concerned.

All welfare States "grosso modo" have *three objectives: firstly*, to secure a *minumum standard of living* for all individuals; *secondly*, to achieve *more equality*, the goal of equality tending to be a relative one, so that one could also say *less inequality*, and above all *less dependency*; and, *thirdly*, to provide *security against the so-called vicissitudes of life*, which are generally defined as "social risks" and are checked by social security systems. These objectives are in themselves obscure and contradictory. The social security objective has always contradicted the equality objective; and that also accounts for the first potential crisis of the welfare State that we are able to register.

How are these objectives pursued? Here, the concept of the *liberal welfare State* becomes essential. Yesterday we heard a few remarks about the difference between the welfare State and the social State. In this context, I would say: let us refer to what we want as a *liberal welfare State*. It is based on *two fundamental rules*, both of which are, in substance, an expression of a certain kind of subsidiarity. The *first fundamental rule* is that it is *every individual's own responsibility* to earn an *income* through *work* and in this way *to satisfy his needs and those of his family*. This first rule of subsidiarity is highly important. However, due to the fact that it includes the family, it also sows the seeds for a hopelessly wide array of potential differences, ambiguities and conflicts. Not only do a growing number of individuals live alone, without a family: even where we do find families, they bear very dissimilar features. Then again in most of the families themselves, the individual members hold differing views as to their notion of the family. But above all other people always have different opinions about how the respective *other* families should be. Society as a whole possesses highly varied ideas about the family. And if we make inquiries here, at the Academy, as to what an ideal family should look like, we will come across at least as many ideal models as there are Academy members present. It is so for this reason that we experienced another crisis of the welfare State prior to the current one. It was the crisis brought on by individualization, whereby it was generally felt that one's scope of freedom could be extended more or less as desired at the cost of the welfare State — also, or especially, in terms of marriage and the family.

The *second fundamental rule* governing the liberal welfare State is that the *objectives of the welfare State must be pursued primarily within society and through society* — that is, via market mechanisms, within the sphere of working life and so forth. We could speak of the primacy of the societal realization of the welfare State.

The tasks of the State under the liberal welfare State model are of a twofold nature: either it seeks to avoid the deficiencies resulting from the societal realization of the welfare State, for instance, with respect to providing employment protection in working life, or it compensates the deficiencies that occur in spite of these precautions, as in the case of accidents at work, for example. As a result we obtain a kind of split subsidiarity. The State is expected, on the one hand, to exercise its influence on societal conditions in a protective and balancing way in order to control potential hazards and, on the other, to remedy the losses that occur nevertheless by providing compensation. It is within this framework of subsidiarity that the social State regulates life and — I am very thankful to you, Professor Esping-Andersen, for stating it so clearly — not just working life, but also the lives of families. Moreover, it regulates the diverse areas of need satisfaction: not only the supply of commodities, but — a fact you stressed emphatically for labour market reasons — also, and especially, the supply of services.

This, however, takes us to a vital current predicament of the welfare State. The protection rendered by the welfare State concentrates on *dependent employment* as it emerged in the 19th century. And it is for this very reason that dependent employment has become so interesting that, against all allegations to the contrary, in the typical "Western" welfare States, it constitutes a much more attractive form of work than the self-employed occupation of, say, the small employer. The risks borne by the latter are relatively large, whereas persons in dependent employment enjoy the special protection of the welfare State. Such a predominance of dependent employment is virtually non-existent in developing countries, and it is now again being called into question in post-modern society. However, in the typical "Western" welfare States, the standardization and special protection of paid work harbours a potential crisis. The typical "Western" welfare State regulates working life in its entirety and limits the flexibility of adjustments. Because the welfare State is responsible, on the one hand, for facilitating adjustments in that it "cushions" them socially, it, on the other hand, restricts the readiness to adjust and thus also limits flexibility. Our questions, must be: What should work look like in the light of the values it realizes and applies to? Do we have any alternatives to this concept of work, upon which the welfare State is founded? This has, after all, been a long story — also in the social doctrine of the Church. The Pope's statement on the primacy of work no doubt has something to do with that story.

The role played by the *family* in the welfare State is far less clear. Realities, self-evident truths and normative models are in disarray. Thus it seems reasonable to seek solutions in empiricism. But is it not exceedingly problematic simply to draw conclusions from empirical experience as to what the status of the family *should* look like? Moreover, here our thoughts must be even more value-oriented and evaluative. One cannot earnestly say a two-child family in which both parents work is the most trouble-free, as it were "streamlined" family, it being efficient and causing the welfare State the least amount of difficulty. A Catholic social doctrine must reflect on whether it desires, and may desire, such "patterns". It must do so for the sake of our children. It must above all reflect on this because every conflict concerning the notion of the family is also a conflict concerning the notion of the woman and mother. Here we encounter a great many values and, in particular, conflicts of values that need to be taken into account — not in order to challenge empirical experience, but in order to evaluate it in the light of our value concepts and also to devote honest attention to the conflicts existing with regard to these values.

The same applies again to the satisfaction of needs. Here, too, we come upon questions of value. Should needs be satisfied privately — that is, absolutely privately within the family? Should they be satisfied outside the family through the private sector of the economy? Or should they be satisfied through public services? These questions likewise go hand in hand with both conflicts and concepts of values. Our task, as Academy, is to view the facts in their proper light, but also to confront our value concepts with these facts.

ESPING-ANDERSEN

Well, thank you, those were useful comments. I clearly cannot take up all of them. There was one issue that I think merits a little extra discussion: the role of the welfare state as a guarantor of minimal equality. I do think there has crept into most Western welfare states a perversion of the idea of equality, somewhere in the postwar era. The initial post-war idea was one of equality of opportunity. Gradually this became instead a commitment of equality to all, here and now. The new promise was that everybody should be well-off, in this instance, here and now. This has become a problem for welfare states today; they must renege on this kind of impossible equality, yet they find it very dificult to do so. Equality for all became engrained into the entitlement revolution of the past thirty years.

There is also a second hidden revolution, in the post-war welfare state evolution, that has been particularly marked in continental and Southern Europe. These have become "pensioner" states, rather than welfare states, Italy and Austria are extreme cases of a welfare state that mainly supplies transfer payments, especially pensions, but does little else. To some extent this is due to the use of early retirement as a labour market management tool. To some extent it has to do with extremely luxurious pension benefits. Oddly enough, the three most luxurious pension benefits in the world are concentrated in Greece, Spain and Italy. They have the highest replacement rates of any pension system in the advanced world.

Household budget data reveal that pensioners don't need the money they get. The savings rate among pensioners in Italy, lies around 30% of pensioner household income. They don't need money. As a result, we see an odd kind of redistribution where pensioners are major savers and, at the same time, redistribute money and resources to their children and grand-children. This, of course, reinforces existing inequalities between family types. Rich pensioners are able to redistribute more, and thereby reproduce privilege to their children and their grandchildren, whereas those living on a modest pension have a savings capacity and redistributive ability that is marginal. Clearly, this reinforces class inequalities.

This, I think, is one part of the welfare state that has gone wrong: a mis-allocation of money that could be redirected to the part of the life course where social risks today are concentrated: young families. If you look at poverty data, this is where risks today are buidling up. This is also where the welfare state tends to be very passive. It provides very little to young families in most countries. In some countries, virtually nothing, and this was my problem. I was not trying to be provocative. My aim was to put the dilemmas in sharp contrast. The problem of young child families, in countries like Italy today, is that they lack services in order to square the circle of work and family. With high risks and little support, the response is to reduce fertility, just like populations did in the 1930's.

Clearly my focus is on advanced countries. I have virtually nothing to say about the Third World countries, except that de-industrialization for us, which has triggered off the whole problem, is positive for the Third World. So, the more we buy TVs, cars and Third World textiles, the more we help Third World development, our problem is that we cannot any longer, as we could in the '50s, guarantee unskilled workers on the assembly lines good wages.

GLENDON

My question is about the "new class of losers". I notice missing from your enumeration of the members of that class, one group of people who may not, at first sight, look like losers, namely pensioners. I wonder, though, how you would assess the status of the elderly maybe twenty or twenty-five years from now. At present, they look like winners, in the sense that they are consuming a considerable proportion of the social expenditures in the advanced economies.

Demographers tell us that the *proportion* of dependent people in the North Atlantic countries has hardly changed since the time of *Rerum novarum*. But, the *composition* of that dependent population has changed significantly: a hundred years ago, children predominated; now the elderly are more numerous.

So, here is my question. Do you think that, as the three crises you have identified continue (in the family, the labour market, and the welfare state), the elderly will increasingly be perceived as burdens in all three areas — burdens on hard-pressed family members; burdens on the welfare state; and burdens on the relatively smaller labour force that will have to fund social expenditures? Will we then see a new "class of losers"?

My question is related to concern about the spread of "assisted suicide" and the recent appearance in the United States of court decisions announcing a constitutional "right to die". The concern is that pressure may be mounting for the burdensome elderly to accept someday a "duty to die". Would you care to comment on that?

ESPING-ANDERSEN

Well, I don't know how much I can comment on the duty to die.

GLENDON

Just on the position of the elderly, twenty years from now.

ESPING-ANDERSEN

I think maybe you are both right and wrong at the same time. Sticking to the demographic data, one of the startling things about ageing is the growing size of the "ultra-aged", the 80-plus. They double in size about every twenty years in the advanced counties. The ultra-aged, as we know, impose a very heavy care burden on society, whether it's done within the family or by the welfare state. Families are not capable, at that level of care intensity, to provide optimal quality care; it's just too labor intensive. What happens is, for the lack of public alternatives, that hospitals become the major vehicle, within which the ultra-aged and frail are parked. This is not only horrible from the point of view of the last years of a person's life, but also from the point of view of the family being compelled to put their elderly under those kinds of conditions of care. In addition, it is also extremely expensive. The cost of hospitalization as an alternative, say to care homes, is enormous. In this sense, you're right. There is the possibility here of, let's say, a new class of losers among the aged.

As I was also saying, the aged can be very rich, in at least the countries with good pension systems. So, we have this odd kind of Janus-headed character of the aged as a class. Having raised the problem of loser classes, I find it noticeable how new class labels are emerging in Europe. The Germans have the two-thirds society, the French, a society of "deux vitesses". The Scandinavians talk about the A team and the B team, like football leagues, and even now the C team, which are the truly marginalized. These labels denote, of course, the perception in society of a rebirth of the old lumpen proletarians, of an epoch we thought was long gone.

We should, however, be careful here. If, as Joseph Schumpeter argued, classes are like an omnibus, always full of people, but always of different people, the problem is minor. The problem of low incomes, of working in a bad job, or of single parenthood, is a minor one if it is a fleeting, temporary experience. I think we all have held student jobs. They are not particularly lucrative, and not the kind of life one wants. But, for us they were not prisons. If there's imprisonment, or entrapment, in underprivilege, then our societies today face a major problem. In order to answer this question we need panel data or life histories. Such are unavailable, except for very few countries.

We do know a couple of things however: that in EC Europe, entrapment in unemployment is a real threat. Average duration of unemployment today in the EC area, excluding Britain, Germany and Denmark, can be as much as 36 months. We also know that the U.S. has a very high chance of entrapment in poverty and low incomes. The most recent US data show that, if in any given year you find yourself in poverty, chances are that in the subsequent ten years, at least during five of them, you will also be in poverty. You may jump in and out of poverty, but the chance of returning is very high. In other words, we have a real possible crisis of entrapment in today's society, not so much among elderly, as among the young. And this is why I think, we have to radically shift our attention from the aged to the young.

ARCHER

I was very interested by your comparative figures on private spending and public spending and particularly your Swedish/American comparison where, if I was listening to you correctly, in terms of the net outlay from gross national products, the outlay is just about the same. So it's the means of distribution that differ. But you made a very interesting comment en passant and I would welcome it if you could elaborate on it. You said something to the effect of "but, of course, this is unrelated to the question of distributive justice". Obviously, just from hearing those figures, one would not expect it to be related to distributive justice, because in the free market deal, the absolute outlay may be x, but it will be paid for by y, who are those who can afford to pay for it: whereas in the public sector welfare state deal, the outlay may be exactly the same x, but it will be more levelled or even act counter to those who are best able to afford it. So, is it too gross to draw the conclusion from that, that the out-takings from economic earnings of a country are going to be much the same, so that it is going to have no more drag or boost on the economy, whichever way you do it? But the beneficiaries are going to be a totally different population in the two countries.

ESPING-ANDERSEN

I think I am not equipped to answer the core of your question. But we should keep in mind that in America the U.S. spends exactly twice of what Europe spends on health care. It's now up to thirteen percent of GDP because of a very irrational system. It is of course not said that if Europe were to privatize pensions, it would end up with the kind of system that America has. Just by virtue of the system, American families have to spend too much of their income on health protection. There is neither any equity nor efficiency reason to privatize health care in Europe.

Otherwise your question is difficult to answer, because it clearly depends on what would happen to savings behaviour. Following the logic which I just laid out, I doubt that a shift of costs from one institution to another will induce real savings. You can, of course, change the pension savings system. A Chilean type pension reform will induce a much higher savings rate than a pay-as-you-go system. The Italian system has a negative savings equivalent of a third of the annual public deficit — a heavy negative saver. Clearly, there you could have some growth gains or efficiency gains. But, given all unknowns, it's very difficult to see how the economy would respond as a result.

ZULU

There seems to be an argument that in developed countries a declining birth rate is counterproductive to the economy. We are getting a different argument in developing countries, and that is, that a high birth rate is counterproductive to the economy, because, one, it strains the security network, two, it adds a burden to the welfare state, and three, it stifles production, in that the savings that would be used for investment, are channeled on to welfare. Where do we stand exactly? What would you say the position is in developing countries with a high birthrate?

ESPING-ANDERSEN

This is essentially what underpinned my question about migration to Professor Zubrzycki. Europe could go along until the populations die out, with very low birthrates, such as 1.2 births per woman over her lifetime as in Italy and Spain today. This need not be bad as such. But the immediate problem is the imbalance between young and old, in terms of financing the welfare state, especially pensions, in the future. Italy now has, as first country in the world, an exact ratio of one active contributor to one pensioner. Yet, Sweden has 2.5 for each pensioner. It's not that Italy has more aged than Sweden. The big difference is that Italy has a low age of retirement, and a very low activity rate. Sweden has virtually everybody working: 80% of women work, and early retirement is modest. This results in a more favourable contributor-to-pensioner ratio

Now, some might say that it doesn't matter, because we can just have immigration. Since there is an excess of fertility in large parts of the world, this would be a golden opportunity for all. Yet, immigration is not a win-win solution, because most immigrants would be low-skilled people who would add to the existing unemployment burden. Our unemployed are mainly unskilled or low-skilled people. If we also accepted large numbers of unskilled immigrants, this would lead to a drastic decline, in the low-end wage market. If, instead, we were to prioritize highly-trained, educated immigrants, then we would be robbing the Third World of its development opportunities and that clearly is not a win-win situation from the point of view of developing countries. In other words, for me it is very difficult to see how migration would answer any of the dilemmas we are dealing with. Immigration should be treated as an independent issue.

ZUBRZYCKI

Just a postscript on the issue of equality as a potential problem in the welfare state. I think it is important to make a philosophical distinction, between equality of access and equality of outcomes. What the welfare state legitimately does, is to ensure that everyone, irrespective of gender, race, religion, or whatever, has access to compete for jobs, access to housing, access to health services, and education. Where this idea goes wrong is in providing schemes of affirmative section, that for certain designated groups ensure in advance equality of outcomes. Once this happens, then certain undesiderable consequences follow, above all a backlash in the community, and the whole edifice of the welfare state begings to crumble.

ESPING-ANDERSEN

I couldn't agree more with you. Basically, I believe that one of the less explored problems in terms of welfare state thinking and welfare state research is the constant tension between equity and equality. Equity has to do with norms of fairness (you get what you earned), while equality has to do with a similar distribution of resources. Welfare states responded very aggressively to the demand for more equality in the 1960's, with either affirmative action type approaches (such as in the United States) or heavy redistribution as in Scandinavia. This has increasingly violated norms of equity. The question of equality lies at the core of the legitimacy crisis of the welfare state today. That I fully agree with.

LLACH

I particularly appreciate your effort to include the family in the analysis; this is uncommon among economists. But I have two remarks to present. The first one refers to your pessimism about the potential job creation in the service sector. You mentioned a paper by Baumol written with very special assumptions, thirty years ago. At the time the United States had perhaps 50% of its labour force in the service sector; now the same proportion amounts to 80%. So, the theoretical analysis was interesting, but the forecast was poor, basically because the author overlooked that the service sector also had a potential to increase gradually its productivity. So, your pessimism regarding the potential job creation in the service sector is perhaps unfounded as well.

The second remark concerns the solutions you are suggesting. They may be adequate to a closed economy, but not to an open economy, because they will generate high labour costs and loss of competitiveness.

ESPING-ANDERSEN

Yes, certainly. Also Baumol has done a lot of work on the empirical basis of the cost disease problem. He, and others, inevitably find that there are great sectoral differences in terms of the degree of the disease. However, I do still believe that the problem holds for the labour-intensive, low-qualified end of the service sector, the one that really creates jobs for the group that we are concerned with: namely, the less-skilled workers, youth and immigrants. There it is very difficult to increase productivity without a sacrifice in quality. Certainly, waiters can run quicker, or you can eat in a self-service cafeteria. You can increase productivity, but it's very difficult to do so without sacrificing the servicing quality. This is what people also want, and the more they will insist on quality, that is what creates jobs in that low-end of the economy today. Of course, we know from banking and other sectors of services, that productivity leaps are possible, very big ones even.

As regards the closed economy issue, I'm convinced of the opposite. I think it is inevitable to accept more wage differentiation in our economies in response to global trade. I don't think we have to follow the U.S. low-wage, income polarization model. In fact, the debate is usually pitched at North America versus Europe. This creates an enormous amount of confusion, because the United States is just one case. The other economies that have emulated American deregulation, Britain in particular, are not very convincing in terms of their employment performance. Whatever measure of unemployment, long-term unemployment, youth unemployment, etc. that you choose, Britain scores like continental Europe, not like the United States, despite fifteen years of deregulation of the labour market and of even faster-rising earnings inequalities than the United States over the past fifteen years. Despite that, Britain is not particularly persuasive as far as its employment record is concerned. In other words, deregulation of labour markets is inevitable, and it may even be more positive than negative if it is accompanied not by welfare state dismantling, but by welfare state reorganization. The only way of making deregulation compatible with minimum egalitarian and welfare standards is the reorientation of the welfare state towards what Robert Reich calls a social investment strategy, a strategy that guarantees people that they will not be entrapped in low-paid jobs. This means, essentially, guaranteeing everybody adequate, sellable skills.

TIETMEYER

I could go along with most of your conclusions. But I would like to take up one particular point which you mentioned when you were talking about the reorganisation of the welfare state. You argued that more should be given to families and to young people at the expense of the elderly generation. And you mentioned in this context the question of the saving ratio. I have, of course, a lot of sympathy for such a proposal. From an economic point of view we have to ascertain, however, whether or not a transfer from elderly people to younger families would, on balance, reduce the saving ratio in an economy. In economic terms such a transfer would then be a shift from saving to consumption.

The question is what does that mean for economic development in the long run? Would that not, in the end, harm economic growth? Reducing the saving ratio means reducing the potential for investment. Consider, for example, the experience of one of the biggest countries in the world, the United States. That country has a low saving ratio, relies heavily on the import of capital from all over the world, and is increasing its wealth on the basis of savings from other countries. Would your proposal not mean, in the end, that there is a likelihood that other countries, too, would reduce their saving ratios and would therefore have to rely much more on imports of capital and, as a result, would contribute to increasing inequality between countries? That is the question which I am asking myself. As I said before, I'm inclined to go along with you a fair way. But I am just wondering whether you have considered this implication, which ultimately could end in a vicious circle.

ESPING-ANDERSEN

You are probably right. I wish I could throw the question back to you, and have you answer it, because you are clearly the expert on this. But it does strike me that we could risk a radical decline of the savings ratio, by redistributing to the age group which is least induced to save, least capable of saving. Families with young children usually run into negative savings.

However, as I said earlier, the annual deficit of INPS in Italy now amounts to 30% of the annual total government budget deficit. The pensioners are savers, but the pension system is a dis-saver at the same time, and the two amounts involved are about identical. Moreover, savings don't necessarily have to come from the aged, and they don't necessarily have to come out of pensions. One other way to induce savings is to raise required savings for home purchase, for example, if it is required at least a 50% downpayment in order to qualify for a mortgage loan. This is why, Italy despite its indebted pension system, has one of the highest savings rates in Europe.