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WELFARE FOR THE EUROPEAN UNION IN THE AGE OF GLOBALISATION

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ABSTRACT

The adoption of "welfare systems" was closely bound up with the development of the Industrial Revolution. The onset of the scientific and technological revolution required the introduction of new welfare systems. Mead's proposal of a "social dividend" paid with the accumulation of "public assets" could be a possible answer and should be analysed at different levels, from Municipalities and States to the European level.

Keywords: European Union, Globalisation, Public Assets, Social Dividend, Welfare State.

At the same time as Nazi-fascist armies ranged across Europe, some activists and scholars – contemplating the future of Europe after the war – focused their thoughts and actions on two objectives:

– building a system that would prevent countries from resorting to destructive conflicts and war;

– establishing the conditions to ensure that all citizens could benefit from more human living conditions and essential goods.

In London, William Beveridge founded the *Federal Union Research Institute* to promote European unity, dedicated his first book to peace, and prepared his "plan" to introduce the national health service. At Ventotene, Ernesto Rossi, together with Altiero Spinelli and Eugenio Colorni, wrote *For a Free and United Europe. A Draft Manifesto* and then gave substance to his social ideas with the book *Abolishing Misery*, in which he mentioned having heard about the "Beveridge Plan". In his autobiography, Altiero Spinelli wrote that much of the inspiration for the *Manifesto* came from reading

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texts by British federalists. Books by the *Federal Union* were sent by Luigi Einaudi to his pupil, Ernesto Rossi, who was interned on the island of Ventotene. A little-known link between welfare and European unity which is here intended to pay tribute to their "founding fathers".

Evolution and Crisis of the Welfare State

In Europe, the transition from assistance (charity) – typical of the agricultural economy of the Middle Ages – to a welfare system took place when the Industrial Revolution gained momentum and growing sections of the population became urbanised. "Compulsory primary school" was introduced at the end of the 19th century; in the 1930s there began a "mandatory pension system" – in Italy, the pension institute INPS was created; and immediately after World War II the "national health service" was launched. Welfare thus characterised the European social model that emerged during the post-war reconstruction of Europe where countries also began the unification process. Europe was able to bring about profound changes in its production systems while simultaneously establishing all the instruments necessary to integrate and assist those sections of the population whose life environments had changed dramatically: from the fields to the factories, from the countryside to the city. The first joint European institution – the ECSC (European Coal and Steel Community) – not only facilitated the restructuring of the sector but also assured help to the workers involved: an example is the programme to provide residential homes for the industry's workers.

The experience of European countries was emulated, albeit belatedly, by the United States with Roosevelt's *New Deal* programmes, Johnson's *Great Society* and, more recently, with Obama's *Healthcare Plan*. In recent decades, some former Third World countries have seen rapid development and growing incomes and, as happened in Europe after the war, this initially resulted in a strong accumulation of private savings which helped ensure education, health care, pensions and housing. Only now are these countries beginning to think of the need to switch to state systems that protect all sections of the population.

In Europe, the need to finance the welfare state has led to a significant increase in total public spending, rising from around 20-30% of GDP to as much as 50% in some countries. Until the 1980s, increasing expenditure was backed by a corresponding increase in tax revenues – especially those typical of the industrial sector such as taxes on corporate income and the direct taxation on employment income – which was facilitated, of course, by the higher incomes that people were earning. However, in more recent

times, countries have found it increasingly difficult to secure the resources necessary to fund the welfare state due partly to the slowing rate of income growth but particularly to the emergence of markets that tend to evade control by national states. With the end of the bipolarity in the world order, the Reagan-Thatcher doctrine of self-regulation by the international market became established, of which the free movement of capital – not included in the Bretton Woods system – was a cornerstone.

In this new context, it became more difficult for countries to tax unearned income because capital was "mobile". In fact, tax competition emerged, and many countries drastically reduced both the marginal income tax rate and the inheritance tax, while tax on employment income – a "fixed" income – remained unchanged. To cover the lost revenue, countries were forced into debt to maintain their levels of welfare: in some countries, such as Italy, the debt grew from 30% in the 1960s to the current 130% of GDP. In addition, the globalisation process required increasing public resources to protect employees in the difficult phases of economic cycles. At the same time, income distribution became more unequal – as shown by the Atkinson and Piketty study – because capital could, at least partly, avoid taxation and accumulate new resources.

The profound demographic change in European countries, with the higher proportion of adults and the increasing average age, has undermined the pension schemes based on intergenerational solidarity: since the reduced number of young people are no longer able to finance the pensions with their contributions, it has been necessary to increase the proportion resulting from those contributions. At the same time, the increase in the average age tends to impose strain on the health system, since older people require more treatment with the new drugs and technologies made possible by scientific progress.

Welfare in the Era of the Scientific and Technological Revolution

The increasing rate of innovation in technology, particularly that relating to the digital revolution, has led to structural changes in production/manufacturing systems which have involved large numbers of employees, from factories (with robots) to offices (with computers).

Production methods based on science and technology are expanding and replacing the production typical of the industrial revolutions. Working becomes flexible and, in many cases, new businesses are a combination of capital and work (knowledge), leaning more towards the latter. The risks in economic activity tend increasingly to fall on employees (ever more "self-employed") rather than on capital.

This evolution confirms the analysis of James Meade [1] who, over thirty years ago, foresaw the emerging of a "discriminating labour-capital partnership" and dwelt on the need to minimize the risk borne by the worker.

In the post-industrial production period, the current "need" is to overcome the difficulty of young people in entering the labour market. They are burdened by the precariousness of the jobs offered, largely due to the effects of globalization, which requires a continuous adaptation of production activities, especially in the activities ranging from purely manual labour to skilled jobs which can be accessed after long apprenticeships. Therefore, the risks that the new context imposes on young workers must be minimized: insurance and health coverage separate from employment is required, supported instead by public contributions; salaries received from unstable, occasional and part-time jobs must be supplemented; the entrepreneurial risk for self-employed and start-up businesses must be reduced.

Today this "welfare" is basically provided by family solidarity and obviously discriminates against those young people whose families are unable to support them fully. It is also necessary to reflect on the fact that, ultimately, the possibility of counting on such solidarity will diminish owing to the erosion of household savings. Interpersonal solidarity must therefore evolve, as happened in the past with the assistance from public systems. In his work *Agathotopia*, i.e. the "good place where to live", James Meade examines the problem and proposes a "social dividend" to be allocated to citizens after having dealt with the "discriminating labour-capital partnership".

In the initial phase – as happened with all the welfare systems introduced in the past – it is necessary to find ways to ease this transition: it can be said that the immediate need is for a "social contribution" that helps "labour market entry".

Even if countries, through joint international action starting with the European Union, manage once again to find the financial resources from taxation on unearned income – in any case necessary for reasons of social equity – it will be increasingly difficult to cover the growing costs of a new welfare system to facilitate job placement for young people while also boosting the health system for the elderly. The route of increasing debt is precluded because it would only aggravate the already precarious situation of the young people who, instead of having a "dowry" for entering the job market would be burdened by higher charges on the debt that they must currently bear.

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[1] James Meade's analysis and proposals were developed in two books: *Agathopia: The Economics of Partnership*, Aberdeen University Press, 1989, and *Liberty, Equality and Efficiency*, New York University Press, NY, 1995.

The only remedy is to try to accumulate a national "asset" which allows, according to Meade's project, payment of a tax-free social dividend for "the promotion of equality, the alleviation of risk bearing, the improvement of incentives for low earners, and the simplification of the welfare state".

The difficulty with realizing social reform projects lies in the transition period. In our case, this means switching from national debt to the creation of a national asset. The first step to take is to draw up an inventory of the assets and liabilities at the various levels of government, from local municipalities to regions, from the state to the European Union and the world, specifically including the *res nullius* which can instead become "public assets". The second step is to elevate *res nullius* assets that, assigned to "public funds" (as happened in the case of Norway), create the conditions for obtaining income to be used for the "social dividend".

From *Res Nullius* to *Res Communes Omnium*

Towards the end of the 1960s, oil was unexpectedly discovered in the North Sea. Norway suddenly found itself with considerable capital: instead of immediately distributing this wealth (by, for instance, reducing taxes), it was given to a "public fund" that would distribute only part of the income produced (up to a maximum of 4%) to the current generation, maintain the wealth intact and then distribute a "social dividend" to future generations. The Norwegian North Sea thus became a *res* owned by all Norwegian citizens.

The most powerful means for creating a public asset is the exploitation of environmental goods – increasingly rare and therefore more valuable – which must change from being *res nullius* to a common property.

Another significant way to create public assets is research funded by public authorities, the exploitation of which by private operators must include – if successful – sharing the benefits with citizens. More generally, all the projects supported by public resources must then contribute to the "social dividend", thereby at least partly reimbursing the contributions received.

Furthermore, the need for public assets to support the most vulnerable citizens is already partly covered by the system of Non Profit Foundations. These play a particularly significant role in the US thanks to tax legislation which encourages such donations, but they are also important in many European countries in other forms, albeit with different historical backgrounds.

A Multi-Level System of Government

Unlike the absolute sovereign nation-state phase when initiatives referred back to the state – as shown by the names of all the Italian national institutes for pensions and work-related insurance, INPS, INA, INAIL and so on – a comprehensive system is needed that resumes the important role played in the past by local communities and municipalities – particularly in welfare assistance – while also identifying areas and competences at the level of the European Union and international institutions. At the global level, for instance, there is the "common ownership" of the oceans – which was established by the UN convention on the Law of the Sea and grants deep seabed mining rights to a worldwide authority – or of space, where the overcrowding of satellites and orbital stations will soon result in the need for "licences". As regards municipalities, a substantial amount of real estate has already been accumulated. However, for instance, the income from development rights on land use, which often covered current expenses, should be channelled into special asset funds to the benefit not only of the present generation but also the future ones.

Regarding welfare, the national level is destined to retain a prominent role since it has to provide essential public goods such as education, healthcare and pensions. This is also the level, particularly in some countries, burdened by most of the "public debt". Therefore, the short-term priority is to reduce such debt in order to alleviate the burden on it, thereby freeing up resources to fund the public goods offered.

The EU does not have a problem of accumulated debt and can therefore more rapidly implement Meade's proposals. This is also because, unlike the earlier European Economic Community the aim of which was competition, the EU's basis – by adopting the Lisbon Treaty which incorporates formulations contained in the draft European Constitution – is the social market economy.

European financing of research and infrastructures (particularly in the energy sector) will tend to grow and can assign the Union "ownership rights" to be allocated to a fund that can contribute to financing the job placement income of young people. There are also many initiatives funded – as part of the Juncker Plan – by the European Investment Bank that can at least partially contribute to forming the public assets.

It also means expanding the Erasmus programmes to include community service and traineeships for an Erasmus of employment – which is under discussion in the European Parliament – and help to mitigate the risk for young people's business ventures.

If the need to establish a "national asset" to provide the "social dividend" becomes an objective for the new phase in the economy and employment, this will open the way to economic, social and political research to identify the possible areas, introduce a "creative" competition among the various state levels and test innovative projects.