
Book Review: *The Welfare State Revisited*

Book Review

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Edited by *José Antonio Ocampo and Joseph E. Stiglitz*

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The Welfare State Revisited is a book edited by José Antonio Ocampo and Joseph E. Stiglitz, both Co-Presidents of the Initiative for Policy Dialogue at Columbia University. Joseph E. Stiglitz is also a winner of the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel, 2001, for proving that asymmetric information can provide the key to understanding many observed market phenomena, including unemployment and credit rationing.

This book recounts the relevant debates regarding welfare, bringing together various contributors who support the need for a stronger welfare state, which is capable of dealing with the challenges of the 21st century. These include the increasing inequality, demographic and technological changes; the new features of labour markets; and the economic, budgetary and fiscal constraints, which were all pivotal for the world's agenda which comprises the Sustainable Development Goals (SDGs) that were approved by the United Nations General Assembly in 2015.

The first part of the book, comprising seven chapters, is devoted to the analysis of the conceptual issues that support the principles and philosophy of the welfare state, whereas the second part, with eight chapters, focusses on specific cases that reflect the experiences of the European Union, Scandinavia, Latin America, the USA and India.

In this context, the redesign of the welfare state has to address the criticism of those who claim that the welfare state reduces incentives, stimulates a dependency mentality and is not financially sustainable. On the contrary, the countries with the strongest welfare states have proved to have managed the crisis better and to have higher living standards. Accordingly, welfare states still constitute part of the solution of the problems of the 21st century. Indeed, their existence is centred on social justice, as well as on both economic and political objectives, just as back in the 19th and 20th centuries, with the cases of Bismarck's social security programme and in other countries' social security systems, respectively. Therefore, it is very important to counteract ideological shifts, starting with the Thatcher–Reagan era



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in the 1980s, through to the austerity policies implemented after the 2008 crisis, especially in certain European countries.

Starting with Part I, Chapter 1, *The Welfare State in the Twenty-First Century*, by Joseph Stiglitz, states that the major defence of the welfare state is ethical – as the desire for solidarity and social conscience is the basis of adequate social programmes. Consequently, arguments against the welfare state are erroneous, and the importance of the system has indeed increased with the successive changes in the world, which have contributed to increasing economic performance. Indeed, pervasive market failures show that markets are frequently inefficient and that consequently governments are required to carry out a more active role, guaranteeing a strong competition, ensuring that firms do not exploit workers and providing an insurance against important risks, such as unemployment, disability and insufficient retirement income.

Chapter 2, *Adapting Labor and Social Protection Systems to Twenty-First-Century Capitalism*, by Sandra Polaski, brings analytical clarity and focus to relevant issues concerning employment and social protection in the specific case of the USA, where social and labour protection systems, which were constructed over the period of the 20th century, have eroded in terms of coverage and adequacy. This was one of the causes that led to the stagnation of incomes for middle- and lower-income groups and, consequently, inequality and a reduction in both household consumption and investment, especially after the last financial crisis. In addition, changes to those systems had the effect of transferring economic risks from firms and investors to households and workers. As a consequence, there is a need for specific policy objectives and a framework of principles to guide choices among policy alternatives. Three approaches are evaluated which take into consideration efficacy, equity, costs and unintended consequences, namely:

- (1) the idea to establish a universal basic income (UBI), which would provide a uniform social welfare payment to every individual in a country, with no income thresholds or other eligibility requirements;
- (2) to create a new category of work status, which is situated between that of being an employee and an independent contractor and;
- (3) to reduce payroll-based taxes and contributions to lower the overall cost of labour.

Chapter 3, *The Welfare State in the Twenty-First Century: Latest Trends in Social Protection*, by Isabel Ortiz, presents the global consensus regarding the need to expand social protection systems, mainly because of their impact in reducing poverty and inequality. This chapter emphasises the redistributive role of this public policy, as it involves:

- direct cash transfers from national budgets to citizens;
- additional transfers from employers to workers in the case of contributory public schemes and;
- transfers within the schemes, which redistribute income from high earners to low earners.

The big problem is that these redistributive characteristics of social security systems have been weakened in several countries with the introduction of individual accounts (which is very well described in Chapter 12, with the case of Chile), pension privatisation and other reforms, which have been implemented since the 1980s. Unfortunately, pressures continue to be exerted on social security, ranging from austerity cuts through to reductions in employer contributions, which have all eroded the achievements of the post-war welfare state model (as highlighted in Chapter 8 with regards the European welfare state). A relevant issue is the

way that the aging crisis is presented as an opportunity to generate jobs in the care sector and the “grey” economy.

Chapter 4, *Supporting Equal Opportunities Through Laws and Policies: Global Progress and Persisting Challenges*, by Jody Heymann and Aleta Sprague, argues that countries’ laws and policies can play a pivotal role in creating the foundation for equal opportunities in health care, education, work and well-being, from birth through to old age. The information provided by globally comparative policy data is a relevant tool for assessing different approaches to reducing inequality and to identifying what actually works.

Chapter 5, *The Sustainable Development Goals, Domestic Resource Mobilization, and the Poor*, by Nora Lustig, stresses the idea that achieving the new SDGs, which were established in 2015 by the United Nations General Assembly and intended to be achieved by the year 2030, will depend partially on the ability of governments to improve their tax collection and tax enforcement systems. Nevertheless, the demand for investment in infrastructure and public services must be balanced against the competing need to protect those low-income households, which may otherwise have ended up worse off as a result of misaligned tax and transfer policies. Household surveys from 25 countries are analysed in this context.

Chapter 6, *Intra-Household Inequality and Overall Inequality*, by Ravi Kanbur, explores the relationship between inequality within and between households, and overall inequality, providing interesting perspectives on inequality and the policies required to reduce it.

Chapter 7, *Human Capital, Inequality, and Growth*, by Torben M. Andersen, discusses the distinction between passive versus active distribution policies. Active policies involve education and labour market policies, which determine the level and distribution of the qualifications and skills, which are crucial to reduce inequality. However, unfortunately there has been an increase in inequality in many countries for decades now, which has been accentuated by the 2008 financial crisis, where globalisation and technological changes are cited as the main causes.

Part II begins with Chapter 8, *The EU Welfare State: Past, Present, and Future*, by Elva Bova and Ernst Stetter. This chapter describes the different social models that were created in the European countries during the 1950s and 1960s to address the social risks of European economies at that time. These models were identified as being a major pillar of the European socio-economic identity. In addition, the major transformations which took place during the 1990s are also discussed – as a reaction to both evolving economic forces and demographic trends and to shifts in the paradigm for economic policy. Indeed, these changes were part of the expansion of the neoclassical paradigm, which implied a reduction of the role of the state and of collective bargaining, as well as reforms designed to liberalise the labour market. Furthermore, this chapter also presents evidence of the austerity measures which were implemented in response to the 2008 global financial crisis, which entailed a significant retrenchment of welfare, which mainly affected its volume and involved the proposal of new strategies to enhance and protect the social system.

Chapter 9, *Visible Costs and Hidden Gains*, by Kalle Moene, presents a very interesting view about welfare, which highlights the social and economic gains of welfare spending, rather than dwell on its economic costs. The denial of the existence of these related benefits – which is not in line with Adam Smith, who emphasised the real gains of social policies – could well block the onset of social programmes designed to increase productivity, balance power and provide a head start for embarking on a good path for the development of poor countries. Indeed, many European countries (including Scandinavia) introduced and expanded their welfare systems after the crisis of the 1930s, at a time when they were actually poorer than many developing countries are nowadays.

Chapter 10, *Social Protection Systems in Latin America: Toward Universalism and Redistribution*, by José Antonio Ocampo and Natalie Gómez-Arteaga, as well as Chapter 11, *Social Protection in Latin America: Some Challenges for Reducing Inequality*, by Ana Sojo, both analyse social indicators in Latin America (18 countries) and recognise the significant improvement that has been achieved in this region. This progress is attributed to the construction of stronger and innovative welfare states (especially with the reversal of pension privatisation in both Argentina and Bolivia). Universal coverage of social services should be essential to guarantee more equal societies.

Chapter 12, *Do Competitive Markets of Individual Savings Accounts and Health Insurance Work as Part of the Welfare State?*, by Andras Uthoff, addresses the situation of Chile – which introduced a compulsory individual savings accounts system and individual health insurance markets in 1981. This chapter argues that these changes do not represent a true reform of social security and emphasises that the adoption of a market solution towards social security has proven to be extremely wrong, and that this has hindered achieving the degree of solidarity that is required to provide affordable coverage for those who suffer from the risks and burdens of inequality. Therefore, it is posited that radical changes from its current framework are needed and that Chile must demonstrate this change to the rest of the world.

Chapter 13, *Innovations in Protecting the Old: Mostly Social Insurance and Some Assets*, by Teresa Ghilarducci, critically describes the evolution of the American pensions system, as this has failed to deliver security to workers. The reason for this erosion of security is the transformation of employer-based pensions schemes based on the principles of social insurance to a system based on “do-it-yourself” financial contributions, based on ideological commitments to the building of individual assets. Accordingly, this financially based system results in an incomplete coverage, as investments can underperform, and the payments are lump sums, rather than lifelong annuities, which causes poverty and inequality. A “guaranteed retirement account” is suggested to help mitigate inequality regarding retirement time, assets, tax breaks and old-age poverty, which would have the effect of stabilising the economy over business cycles in relation to 401(k)-type plans and individual retirement accounts.

Chapter 14, *Universal Basic Income and the Welfare State*, by Richard McGahey, presents the concept of UBI (already described in Chapter 2), highlighting the economics associated with different versions of this idea in the context of three types of welfare states.

Finally, Chapter 15, *Employment Guarantee in the Age of Precarity: The Case of India’s NREGA*, by Amit Basole and Arjun Jayadev, concludes that supporting and expanding the Mahatma Gandhi National Rural Employment Guarantee Act constitutes a relevant step towards assuring security and dignity for India’s workers.

The book *The Welfare State Revisited* is essential reading regarding how the welfare state should be redesigned, strengthened and rolled out, both in developed and developing countries, as it represents the major institutional framework to confront and resolve the increasing inequalities that have been generated by the functioning of markets during the current era of globalisation. The book stresses that there is an urgent need to rehabilitate the vital importance of the welfare state.

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