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## **WHETHER THE SOCIAL EXPENDITURES ARE ENOUGH FOR HAPPINESS?**

### **INTRODUCTION**

Welfare is one of the most researched and controversial issue of the interdisciplinary researches. It is not accidental, because its conceptualization and measurement present some difficulties. During the evolution of welfare researches many indicators have been established in attempt to capture this problem in an adequate way. A revolutionary new approach states that surveying the physical needs and the psychological status of a person should play an important role in the frame of welfare researches. Another point of view states that the surrounding environment plays an important role as well. Hence the examination of the direct and indirect effect institutional environment is inevitable. The aim of this study is to examine the performance of European welfare states and take a new look at the influential factors of welfare.

### **1. CHAPTER THE EVOLUTION OF THE WELFARE MENTALITY**

In the modern sense the emergence of the institutional background of the welfare society has been preceded by theoretical development dating back hundreds of years. Aristotle underlines that „wealth is evidently not the good we are seeking, for it is merely useful and for the sake of something else” (Greve, 2008, p.53.). On one hand the economic theory can be divided into two approaches. The normative economics using mathematically formalized models seeks to capture the optimal performance of the economy. On the other hand the positive approach based on empirical studies seeks to adequately describe the real world by ignoring some ethical perspectives (Bekker, 2000). Moreover the question may arise how can the optimum point be determined or rather how can human decision process be described without any ethical factors.

With regards to this three methods can be mentioned. With the development of the welfare economics that has been evidentially used to determine the maximal point of welfare to catch the proper factors of welfare. This conception drove some economists and non economists to explore these factors that conduce to the maximal social welfare. Adam Smith, Jeremy Bentham, Alfred Marshal and Arthur Cecil Pigou belong to the first generation that is based on initial incentives by using welfare functions in attempt to determine the welfare.

From the second generation Leon Walras, Vilfredo Pareto can be highlighted, thanks to their work Arrow and Debreu established the two fundamental theorems of the welfare economics for instance. However if we aim to be comprehensive we should complete this list with a third generation whose purpose is to reveal such coefficients like individual values, freedom and happiness. The influential people of this group are Amartya Sen and Ruut Veenhoven, who is a professor of social conditions for human happiness at Erasmus University Rotterdam, and encourages this issue.

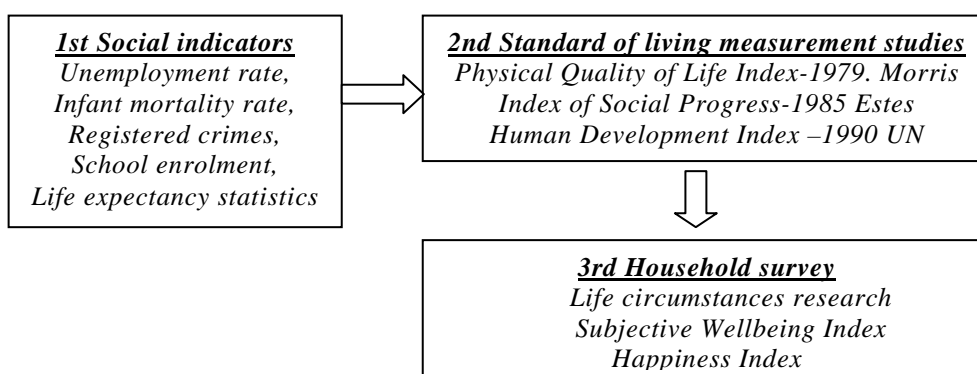
The classical economics most influential economics, Adam Smith pointed out that the welfare can be materialized by individual aspiration. He states that the society can reach its maximum if the government doesn't intervene the economic process. The welfare function is one of the most applied tool in the hand of the classical researches. This method suffers from some pitfalls. For instance it doesn't reflect the social preferences and value choice. In order to avoid this problem, in most cases welfare is identified with consumption (Sharle, 2008, p.20.). According to the utilitarian economic theory the social welfare can be calculated by adding or using the mean calculation of the individual welfare. Each member of the society has the same weight, so the social welfare is can not be improved by redistribution. The more increased the welfare of the winners, the more decreased the welfare of the losers of this process (Scharle 2008; 20old., Varian, 2005). On the other hand the Rawlsian welfare function revealed that the more the social welfare arises the poorest welfare increases. And finally the Bernoulli-Nash welfare function, which states that the social welfare can be designed if the individual welfare is multiplied.

Vilfredo Pareto is often referred to as the forefather of new welfare economics. His welfare function consists of the aggregate of the utility of the individual welfare. According to Pareto the previous theories that all individuals work for the same goal doesn't mean that they succeed rather when national income is given one can reach a bigger proportion of it while others receive the smaller so in reality social welfare doesn't increase (Samuels et. al., 2003). On the other hand this theory leaves some questions open such as whether the individual utility can be measured or not. In order to dissolve this, he supposed that ranking the utilities is enough.

In the last two decades the welfare researches were conducted in three directions (theoretical, practical and methodological). In the theoretical field historicity has played an important role. This problem is the main theme of Douglas North's impressive book „History matters“. But how can History serve the researches? The answer came from an unambiguous recognition. The economic policy can learn from its later faults, so this experience can be used efficiently and beneficially for today's welfare. (Kettunen, Petersen, 2011) The empirical studies not only observe the development of the welfare states by using statistical data, but analyze the spill over effect (Pierson, 2000).

As a result of the intensive methodological development a lot of solutions were published that in an attempt to summarize the significant factors of the welfare (Drawing 1.). The first generation of the indicators are confined only analyzing social conditions. The second generation tries to broaden its horizon and involve such factors like standard of living, education or social progress. Last but not least the third generation seeks to map those circumstances which can influence both material and physical welfare

**Drawing 1. Evolution of Welfare measurement**



Source: Own edition according to Midgley, 1999; p. 13-14. és Daly, 2011 p. 39.

„On Ethics and Economics” Amartya Sen (Sen, 1987) highlighted an important relationship which prevail in the classical economics. Self-interested behaviour is based on three main presumptions, the self-centred welfare, the self-welfare goals and the self-goal choice. Self-centred welfare states that the individual is independent from the others, doesn't feel sympathy and is only interested in his or her own consumption. The self-centred goals mean that the main purpose is reaching the maximum point of welfare with closing out the interests of others. The self-goal choice is when one's behaviour is directed by one's interests.

According to Daly (Daly 2011) the human need can be separated into four main aspects such as psychological, safety belongings, appreciation and the self-fulfilments. The listed factors are not necessarily inner, endogenous, or influenced by human nature. Consequently the government is only able to press social welfare in an indirect way. Nevertheless the safety, such as family, housing, includes the success of the other factors. Hence if these two factors are not ensured the others can be undermined, so thus the external intervention is inevitable. (Daly, 2011)

Table 1 summarizes the concept of welfare as the response and solutions for the social problems.

**1 Table The interdisciplinary approach of the welfare**

<u>Scholarship</u>	<u>The core meanings of welfare</u>	<u>Focus of scholarship on welfare</u>
Neo-classical Economics	Welfare as preference satisfaction	Individuals' resource endowments, exchanges in markets and their impact on preference satisfaction.
Political Philosophy/Political Science	Welfare as a political ideal and object of political/state organisation	Values, ethics, political ideals, citizenship, the welfare state
Social Policy/Social Work/Sociology	Welfare as residing in responses to range of social problems	Need, poverty and deprivation, social contributions, different forms of social response to need and social problems.

Source: Daly 2011, p.16; 25

The institutional framework of the welfare is nothing more the state itself. In the concept of the welfare state appears the seeking for the social welfare such as the highest material and psychical welfare of the society which can be provided by the state (Tomka, 2008). The period between 1945 to 1973 has been known as the golden age for the welfare state. In the western countries due to the tremendous increase and development broaden social provision was typical. After all, the first and second oil crisis broke this unparalleled process that came to a halt and still has been continuing.

## 2. CHAPTER WELFARE THEORIES IN PRACTICE

Striving after welfare has played an important role in people's life. Social consciousness and thinking was the part of primitive communities in ancient history. According to sources the ancient Sumers had a well-established social system. More than four thousand years ago the famous Code of Hammurabi' also included social features. The fact that the Athens State aided its citizens when the grain corn price increased and took the soldiers' orphans up that were killed in war demonstrates its high social sensitivity (Macarov; 1995). Meanwhile religious, political based aid agencies appeared, nevertheless the church was the main provider institution, but they were not able to universally render social services (Tomka; 2008). However it has acted as a part of charity hand by hand with several civil organizations. In the middle ages the guilds were the first institutions, that engaged themselves in social provision. (Honvári, 2000). In 1896 the COS (Charity Organisation Society) was established in England, which was a civil initiative, that undertook around 640 social charges (Macarov, 1995).

In the modern sense the emergence of the institutional background of the welfare state was predated by an intensive theoretical development. Many different approaches have been proposed to solve this issue. In the 18<sup>th</sup> century, Adam Smith, the major representative of the classical economics claimed that the welfare could be realized at an individual level, because they strive, and social welfare was realized as a result of these.

Many scientist attempted to work out a narrative formulate of the welfare (Lambert, 2001; Ison et.al. 2002) Midgley (1999) in his impressive book summarized the evolution of the welfare methodology which distinguished three main steps.

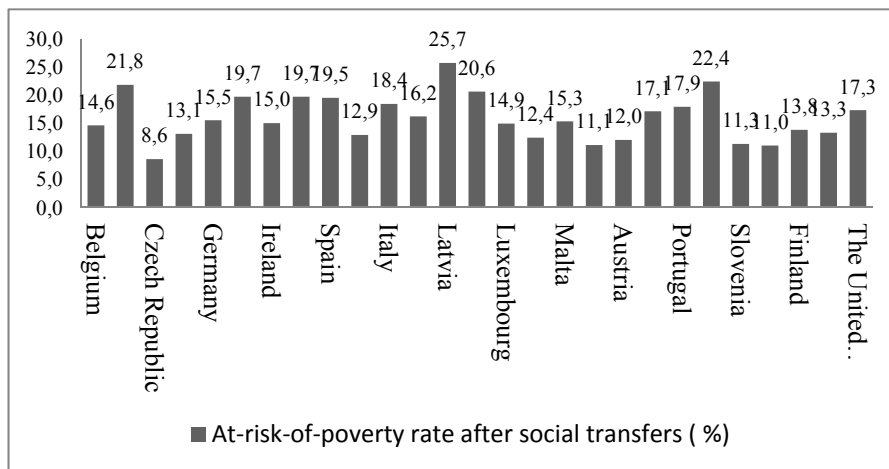
Due to this evolution the welfare researches has pervade the scientific interest, and a lot of theories came into being which focused on not only self and common welfare were more defined and its practical adaptation and its spin-over effects have been observed.

However one had had to wait the mature, practical implication of the welfare theories till the 19<sup>th</sup> century, when the Bismarckian welfare policy was introduced, and it was known as the beginning of the real welfare state. Nevertheless the real origin came from Archbishop Temple who distinguished welfare state (United Kingdom) and warfare state (Germany) during the Second World War. According to Tomka (Tomka, 2008) the meaning of welfare state is sometimes identified with the high consumption level countries or with the high standard of living countries. In fact under the name of welfare state one can understand such a social sensitive state by estimating the social need and seeks to fulfil it (Tomka, 2008).

Gosta Esping-Andersen was the first, who attempted to categorize the western European countries into three groups according to its social contributions in his influential book, "The Three Worlds of Welfare Capitalism". In the conservative welfare regimes work was based on insurance, self contribution, and the protection of the employees. The social

democratic regimes seek to prevail at universality. The liberal regimes attempt to help the most poorest. André Sapir is the second who worked out another typology that has some similarity with the former system (Artner, 2011). He examined four cluster partitions in the dimension of social expenditures, state intervention in the labour market, equity and efficiency. First the Nordic countries (such as Denmark, Finland, Sweden and the Netherlands) where is a high level of social protection, and the supports are usually universal and state interventions are very active. Second is the Anglo-Saxon countries (United Kingdom, Ireland) where the individual responsibility bears the main role. The provision is narrow and the working age population partakes in most of it. The third category is the Continental countries (Austria, Belgium, France, Germany and Luxembourg) in which the main source of its provision are both employers' and employees' contributions. The high level of pensions and the unemployment benefits sign the high rate of the social expenditures inside the government budget. Fourth is the Mediterranean group (Greece, Italy, Portugal and Spanish) where the income related subsidies are available only for a narrow segment of the society. Put them all together Sapir highlighted that only the Scandinavian and the Anglo-Saxon group are efficient and the Scandinavian and the Continental group are equitable. Consequently, the ideal welfare states are the Scandinavian countries (Sapir, 2008; Scharle 2008). The Sapirian typology was constrained only on the EU 15 countries, thus one can arise the question what about the new member states? Sapir responded this in 2005, when he classified Hungary to the conservative group, Poland and Slovakia to the Mediterranean, Estonia, Lithuania, Latvia to the liberal, and Czech Republic and Slovenia to the Scandinavian model (Artner, 2011). Nevertheless link it with the recent welfare researches I would like to prove that the efficiency and equity is not enough for happiness just a tool in the hand of the government to reach it. The 2nd Drawing attempts to illustrate the government efficiency in the field of poverty.

**Drawing 2. The government efficiency in the field of poverty**



Source: own edition according to EUROSTAT

social transfers in 2009 whereas Latvia, Greece, and Bulgaria hardly by average 10-20%. On the other hand it validates the Sapirian typology, which states that the Scandinavian countries is the leading group and the Mediterranean group lags back.

**Table 2. The material and the psychological welfare**

EU27 countries	HDI	SWB	Happiness Index	
	2009	1995-2007	Year of survey	Percentage who has answered that one is very happy
Belgium	0,88	3,4	na.	na.
Bulgaria	0,766	-1,09	2006	11.0
<b>Czech Republic</b>	<b>0,863</b>	<b>1,66</b>	<b>na.</b>	<b>na.</b>
<b>Denmark</b>	<b>0,89</b>	<b>4,2</b>	<b>na.</b>	<b>na.</b>
Germany	0,9	1,92	2006	19.9
Estonia	0,828	-0,36	na.	na.
Ireland	0,905	4,12	na.	na.
Greece	0,863	1,45	na.	na.
Spain	0,874	2,16	2007	13.7
France	0,88	2,5	2006	36.4
Italy	0,87	2,06	2005	18.5
Cyprus	0,837	2,96	2006	36.7
Latvia	0,798	-0,75	na.	na.
Lithuania	0,802	-0,7	na.	na.
Luxembourg	0,863	3,61	na.	na.
Hungary	0,811	0,36	na.	na.
Malta	0,827	3,61	na.	na.
<b>The Netherlands</b>	<b>0,905</b>	<b>3,77</b>	<b>2006</b>	<b>41.9</b>
Austria	0,879	3,68	na.	na.
Poland	0,807	1,66	2005	22.1
Portugal	0,805	2,01	na.	na.
Romania	0,778	-0,88	2005	7.3
<b>Slovenia</b>	<b>0,87</b>	<b>1,77</b>	<b>2005</b>	<b>18.1</b>
Slovakia	0,829	0,41	na.	na.
<b>Finland</b>	<b>0,87</b>	<b>3,24</b>	<b>2005</b>	<b>29.6</b>
<b>Sweden</b>	<b>0,898</b>	<b>3,58</b>	<b>2006</b>	<b>43.1</b>
The United Kingdom	0,86	3,76	2006	50.8

(The countries in bold belong to the Scandinavian model)

Source: own edition according to World Value Service; UNDP

Most member states of the European Union belong to the high developed countries, except Bulgaria that stands in the second best (developed country) position. On the other hand the Subjective Wellbeing Index shows that just the old member states of the Nordic model claim that they fully satisfied with their own wealth status. Finally the Happiness Index highlights that the social conditions can not be defined as a whole function of social expenditures because this indicator shows a big volatility among The EU countries. This sort of database has proved that a lot of factors can play an important role in the field of real wellbeing and real happiness. Last but not least this conclusion can inspire the researchers to look for the missing elements of a fuller life.

## SUMMARY

The welfare of the member states has always played an important role within the EU. However keeping the welfare is challenging enough and consolidating economic stability only puts more pressure on them as according to Sapir two thirds of the member states and 90% of the Euro Zone belong to the inefficient group. The main problem is that economic policy and social policy decisions are made at member states level, although its spin-over effect is born by the whole Community. He prefers a dual decision making process in which national policies could be harmonized at an EU level (Sapir, 2005). Today's fast developing world and globalization is starting to resolve the welfare maximalisation within the national framework. Economic integrations and institutions are attempting to achieve the redistribution and overcome social inequality. So The Eu is faced with the opportunity to improve communication among its member states using the methods above. And incorporating these methods could lead back to prosperity and a happier European Union.

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