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WELFARE STATES: ACHIEVEMENTS AND THREATS

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Welfare States

Achievements and Threats

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Abstract: The traditionally, and wrongly, imagined vulnerabilities of the welfare state are economic. The true threats are demographic and political.

The most frequently imagined threat is that the welfare-state package reduces the level and growth of GDP. It does not, according to broad historical patterns and non-experimental panel econometrics. Large-budget welfare states achieve a host of social improvements without any clear loss of GDP. This Element elaborates on how this “free lunch” is gained in practice.

Other threats to the welfare state are more real, however. Two demographic-political clouds loom on the horizon in the twenty-first century, though neither cloud reveals an economic flaw specific to the welfare state. One cloud is the rise of anti-immigrant backlash.

If combined with heavy refugee inflows, this could destroy future public support for universalist welfare-state programs, even though they seem to remain economically sound. The other, and more certainly rain-bearing, cloud is that population aging poses a serious problem for financing old age, either publicly or privately. Pension deficits threaten to crowd out more productive social spending. Only a few countries have faced this issue very well.

Keywords: social spending, welfare state, fiscal redistribution, economic history, public pensions

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