WELFARE STATE CHALLENGES AND THE CONCEPT OF BASIC INCOME

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Abstract

It is commonly believed that welfare state is the concept according to which the country protects its citizens from the life's risks, such as senility, sickness or unemployment. Its introduction contributed to achieving prosperity by European countries but also, as time went by, to increasing budgetary spending. Due to the accelerating rate of socio-economic changes, the new questions have arisen – first one about the validity of assumptions from the mid-twentieth century and the second – about the effectiveness of the welfare state. On the one hand, there are voices expressing the need for the social system adjustments to the contemporary realities, while on the other hand, the idea of deregulation and complete state's drawback from the social area is present. This article presents the most important challenges of EU welfare states and new proposal of a change in the ideology of welfare states which is basic income.

Keywords: *welfare state, social security, basic income*

1. INTRODUCTION

The origins of welfare states date back to the late 1800s. Governments began to take over actions concerning social protection, initially accompanied by a significant cooperation of civil society organizations, but as time went by more and more independently. The basis of the welfare state doctrine was formed in the 1930s, constituting both the alternative to the new social solutions proposed by the Soviet Union and a contraposition against capitalistic, liberal country from the turn of 19th and 20th century (as part of the New Deal, USA introduced social welfare system for workers in the form of guaranteed minimum wage, pensions and insurances). The time of welfare state's highest growth dates back to the 1950s. and 1960s., when social instruments were used in response to social and economic effects of the second world war. The idea of a social market economy appeared first in Federal Republic of Germany (where was also fully implemented) and was recognized by the other Western Europe countries. Its primary aim was to harmonize the social and economic objectives, mainly by using macroeconomic policy to ensure full employment and social justice. In the following years (1960s. and 1970s.) it was an answer to the social climate characterized by a widespread belief in the effectiveness of public intervention and distrust towards the market, economic incentives and private enterprises (theoretical justification for the increasing state's activity was offered by Keynes' concept, Backhouse, 2012).

The system solutions and tools applied in order to implement the idea of welfare state differ among countries. It is caused by different conditions, as well as social, cultural, and economic basis. One of the typologies (also accepted in this chapter) includes (Księżopolski, 1999)[1]:

- Scandinavian model (in which social entitlements stem from the citizenship, and the general programs of income guarantee are to a large extent of the supplying nature),

- Continental model (in which social entitlements are mainly the result of employment, and their basis is a system of compulsory labour insurance),

[1]In this chapter European countries were categorized as follows: Scandinavian (Sweden, Finland and Denmark), Continental (France, Germany, Austria, Belgium, Netherlands, Luxembourg), Mediterranean (Greece, Spain, Portugal, Italy), Anglo-Saxon (Great Britain and Ireland) and new EU member states. This classification is auxiliary only and possible differences between countries in one group are not important for the analysis (such as the case of the Netherlands, which solutions resemble these from Scandinavian model or a group of 12 new members of the EU, which covers countries with varied history of social policy, like Malta and post-communist Central and Eastern Europe countries).

- Anglo-Saxon model (the basis of which is the assumption that social entitlements stem from deprivation, not from the fact of being employed or having the citizenship),

- Southern model.

Notwithstanding the differences in solutions adopted by European countries, social policy is treated as an integral part of the European economic system and societies present a strong attachment to its traditions. On the other hand, increasing level of redistribution has led to the growth of the budgets and made difficult to maintain their balance. In recent years, fiscal problems have been compounded by the effects of ageing of the population. Another problem is low efficiency of social policy which is reflected in increasing income disproportions among societies, growing number of persons at risk of poverty or social exclusion and difficult situation on labour market. An answer to these challenges can be a guaranteed (basic) income. It is an income unconditionally granted to all members of a society on individual basis, without means test or work requirement. According to its proponents, basic income can have a positive impact on public finances, help with improving social cohesion and competitiveness of economies but first of all it will simplify the system making it more equitable.

The aim of this article is to identify the challenges faced by European countries in the area of social policy and show the need for changes in its assumptions. A paper also provides the idea and arguments for introduction a basic income. The analysis is based on OECD and EUROSTAT data as well as on the theoretical considerations of guaranteed income supporters. This chapter is organized as follows: first section assesses the scale of the social expenditure in EU countries, second part identifies the challenges faced by the welfare state in the area of social policy. The last part presents the arguments for a radical change of the social policy principles and introducing the universal guaranteed income.

2. THE LEVEL OF SOCIAL EXPENDITURE IN EU

The level of public expenditure differs among countries. OECD estimates for 2012 show that countries that spend the most are: Denmark (59.4% of GDP), France (56.6% of GDP), Belgium (54.9% of GDP) and Greece (54.8% of GDP). Continental states spend a little less than the Nordic countries (except from Germany and Luxembourg), and the average level of expenditure in the Mediterranean countries is similar to the size of expenditure in continental Europe. In recent years, most countries have increased their spending. The largest increase in 2012 as compared to 1990 (more than 5 percentage points) was observed in Cyprus (9.9), Finland (8.3), the UK (7.1), France (7), Portugal (5.6), Greece (5.2) and Malta (5.1). In the period 1990-2012 budget expenditure decreased most considerably in Slovakia (11.2 percentage points), Bulgaria (9.9), Sweden (8.9), Czech Republic (8.4) and Hungary (7.2). Statistics indicate that countries with lowest level of expenditure in EU are Bulgaria, Romania, Slovakia and the Baltic States (with an average of 37%)

The variance among countries with regards to the expenditures as a share of GDP is mainly explained by political differences concerning the role of government in providing social protection[2]. This public involvement in social issues rapidly increased in subsequent years and in most countries reached their maximum level the mid-90s (Fig. 2).

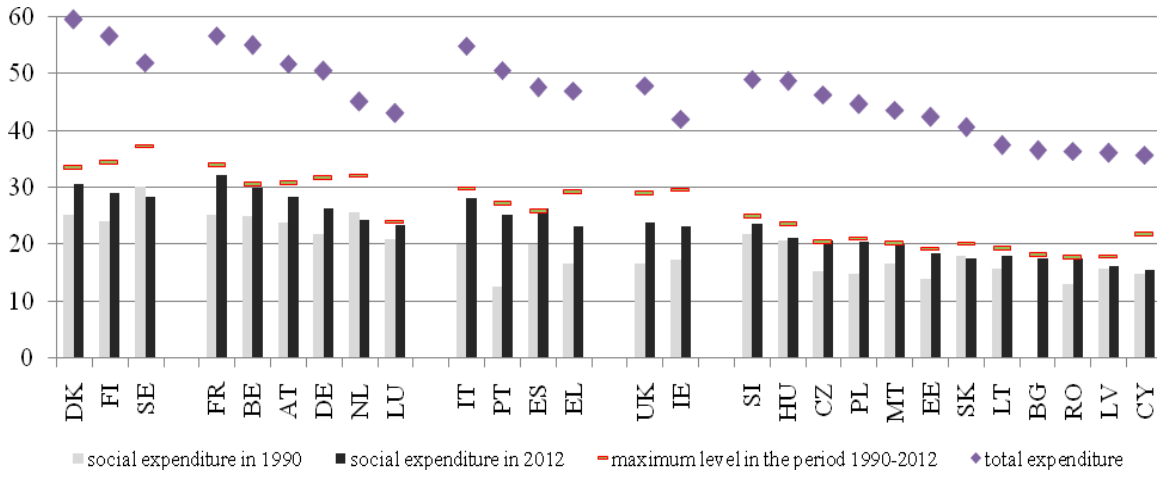
Social spending (including expenditure on health) therefore forms half of the total budget expenditure (when government spending on social protection is excluded, expenditures range between 20% and 30% of GDP in all countries). The Nordic countries spend almost 52% of total expenditure on social purposes, the Mediterranean countries - 51.3% and the Anglo-Saxon - 47.7%. The smallest part of expenditure allocated for this purpose is spent by the new EU member states (45%), while the largest – by continental countries (55%). Thus, for several years the countries of the Nordic model have no longer been the most social states (the exception is the Netherlands, where social spending is “only” 45%, compare Fig. 2). Statistics indicate that recent years have seen a significant increase in the scale of redistribution. Except from Sweden, the Netherlands and Slovakia, social spending in 2012

[2] Schuknecht and Tanzi (2000) argue that the changes in public spending in OECD countries in the 90s almost completely corresponded to the changes in social spending (and interest payments).

increased compared to 1990, and in most countries this growth exceeded 5 percentage points (the largest increase took place in Portugal - by 12.7 percentage points, in Italy - 8.2, in Greece and Spain - 6.5, in the UK - 7.2 and in France - by 7 percentage points). In many countries social spending reached its peak in the 1980s and 1990s, including in Sweden (38.2% of GDP), Finland (34.5% of GDP), the Netherlands (32.3% of GDP) and Ireland. These countries experienced serious problems in public finance sector and society was no longer indifferent to increasing tax burden, so they decided to undertake reforms and significantly reduce the social benefits[3]. Simultaneously, many other countries strengthened their redistributive functions and continued expansionary fiscal policy (particularly in the subsequent periods of economic slowdown – at first during the oil crisis in the mid-1970s, then in early 1980s and in mid 1990s). As a result, the scope of social protection expanded and value of benefits per capita significantly increased.

Figure 1. Social spending and public expenditure (% of GDP) in EU countries

(1990 and 2012, for new EU countries in 1995 and 2012)



Source: own elaboration, based on OECD (2013)

On average, in the EU27, old age and survivors benefits accounted for 45% of total social benefits and were the leading item of social protection spending in almost all member states. Their share in social protection benefits was highest in Poland and Italy (61% each) and lowest in Ireland (23%) and Luxembourg (36%). Sickness, health care and disability benefits accounted for 37% of total social benefits. They represented the largest share of social protection benefits in Germany, Ireland, Luxembourg and the Netherlands, and the second largest in all the other member states. The share of these benefits in total spending ranged from 27% in Cyprus to 48% in Ireland. Family benefits accounted for 8% of total social benefits on average in the EU27 in 2010, unemployment benefits for 6% and housing and social exclusion benefits for 4%. The share of family benefits in the total ranged from 4% in the Netherlands and Poland to 18% in Luxembourg. Unemployment benefits varied between 2% of the total in Poland and 14% in Spain, and housing and social exclusion benefits between less than 1% in Italy and 12% in Cyprus (EUROSTAT, 2013).

[3] Belgium, Ireland and the Netherlands had high levels of public spending in the 1980s and they successfully reduced it by substantial amounts. Ambitious and late reformers were Finland, Sweden and Spain. See: (Schuknecht, Tanzi, 2005).

3. SOCIO-ECONOMIC CHALLENGES FOR THE EUROPEAN SOCIAL MODEL

EU countries present a strong attachment to the traditions of the welfare state and social policy is treated as an integral part of the European economic system. At the EU level, the actions are taken to coordinate social policy and develop a common position on this issue. In official documents, it is often stressed that the European social model is based on good economic results, high level of social welfare, education and social dialogue (Księżopolski, 2007). Further strategic documents determined the ideas and areas of country's activity in social sphere. Until recently, the main objectives were defined in the Lisbon strategy (including e.g the fight against social poverty, prevention from isolation and social exclusion through the implementation of a motivating vocational policy and full employment, the increase of workers' involvement in implementing changes that affect them, the improvement of working conditions, particularly in the area of health and safety at work, the reform of pension and health care aids, and elderly care). Nowadays, the socio-economic aims in EU are contained in 'Europe 2020'. In accordance with its provisions, the EU development policy is focused on overcoming the recession and its effects on the EU economy and the transition into a more 'green' and innovative union, with a high level of employment and social cohesion. The EU development policy was defined as a 'sustainable social market economy' (Europe 2020). The specificity and importance of social policy are thus constantly stressed in the official positions, which indicates a commitment to the tradition of the welfare state and the recognition of its place in the economic system of the EU.

It cannot be denied that principle of social market economy was one of the most important factors that contributed to the welfare in European countries. Amazing example of the success in this area are Scandinavian countries. They show that despite the expanded social security system it is also possible to achieve very good socio-economic results (such as high level of competitiveness, low poverty rates, high GDP per capita or strong budgetary position). De Grauwe and Polan (2001) explain why countries with well-developed social security systems do not have to face a trade-off between social spending and competitiveness and why the forces of globalization do not necessarily put their systems of social security at risk. The first explanation could be the causality from competitiveness to social spending, according to which highly competitive countries generate extra income. The latter in turn leads to a higher demand for social insurance which in democratic societies will force governments to provide it. In this sense, strong competitiveness rewards nations to pay for more generous social services. The second explanation is the causality which goes from social spending towards competitiveness. They argued that the competitiveness of a nation depends on the absence of prolonged social conflicts, the quality of government and domestic institutions. All these affect the quality of human capital, which is improved by a well-functioning system of social services. Such a system makes it possible for the workers to feel less insecure, while a sense of belonging to the system leads to stable societies with a strong sense of cohesion. In addition, a well-functioning system of social services creates a 'risk-taking' social capital (starting new risky projects, people know that failure will not condemn them to poverty) and leads to an improvement of the productivity of a nation. Of course, certain conditions must be fulfilled. The efficiency in providing social services by the governments is a very important factor. In countries where governments are efficient, the taxes paid by employers and employees are transformed into social services the value of which exceeds the value of these taxes. In such countries workers and employers will feel satisfied and it will be likely that productivity is positively affected. Conversely, in countries with inefficient governments the taxes are transformed into social services with low value and the result could be frustration and lack of motivation. The conclusion is that the countries that manage to organize this transformation successfully are likely to gain in terms of competitiveness. What's more, the process of globalization puts pressure on nations to be competitive and forces the government to improve the efficiency of their institutions[4]. Such an improvement allows providing more valuable collective services, which in turn improve the productivity. One may agree with De Grauwe and Polan that countries which want to be competitive are forced to increase the efficiency of their services in the social sphere (and

[4] Bonaglia, de Macedo, and Bussolo claim for instance, that increases in import openness reduce government corruption and improve government governance (Bonaglia et. al, 2001).

Scandinavian countries pretty well manage that). However, in most EU countries the effectiveness of social policy tools is low and the solutions are not adequate to modern conditions. A fundamental question arises therefore – how far can the social model be improved, because it appeared in completely different circumstances.

Nowadays, welfare states in Europe face three main challenges.

a. Budgetary possibilities of the welfare state funding.

The first concerns the possibility of the welfare state funding after the financial crisis and in the face of ageing population. Many countries had struggled with rising debt for a long time[5] mainly because of growing public spending[6], but only the financial and economic crisis showed the scale of the problem (in the opinion of many economists, the main source of debt crisis was not the economic collapse but the increasing burden on social spending). The first signs of socio-economic change appeared in the late 1970s., when it became difficult to maintain full employment by using existing methods. As time went by, another serious problem came up – an ageing population. Slower population growth and lengthening life expectancy resulted in an increase of non-wage labour costs. In order to finance the welfare system without destabilizing the budget, it was necessary to raise tax burden. Consequently, this contributed to the slowdown of economic growth and to the rise of unemployment. The last decade brought the work intensification on the scale and impact of ongoing social processes on the budget. Estimates and projections contained in the last Ageing Report (2012) are not optimistic (see table 1). It is expected that there will be more Europeans in 2060 (517 million, compared with 502 million in 2010), however, the population will be much older (30 per cent of Europeans will be at the age of 65 or more). The proportion of people at working age (15 - 64 years) will fall from 67 per cent down to 56 per cent, and there will be only two persons at working age per one pensioner (currently there are four people). The fiscal impact of ageing is projected to be substantial in almost all EU member states, with effects becoming apparent already during the next decade. The current projection results indeed confirm, overall, that the ageing of population is posing a major challenge for public finance sustainability, as identified in previous projection exercises. They also show that age-related spending in 2010 was higher than projected in the Ageing Report 2009, reflecting the crisis (compare two last columns in table 1). Ageing Report shows, that strictly-age-related public expenditure in the EU is projected to increase on average by 4.1 percentage points of GDP by 2060. Most of the projected increase in public spending over the period 2010-2060 will be on pensions (+1.5 p.p. of GDP), long-term care (+1.5 p.p. of GDP) and health care (+1.1 p.p. of GDP). The strictly-age-related increase in public spending in the reference scenario will be very significant in Belgium, Cyprus, Luxembourg, Malta, the Netherlands, Slovenia and Slovakia with a projected increase of 7 p.p. of GDP or more. For a second group of countries – the Czech Republic, Germany, Ireland, Spain, Lithuania, Hungary, Austria, Romania and Finland - this increase is more limited (ranging from 4 p.p. to 7 p.p. of GDP) and for the rest of the countries - the increase will be more moderate.

[5] In 1970. average level of public debt in European countries amounted 35% of GDP, in 1980. – 50% of GDP, in 1990. - 63% of GDP and in 2012 – 84% of GDP.

[6] One of the most important factors affecting the level of public debt are borrowing needs. The other two are snow-ball effect, i.e. the difference between the real interest rate and GDP growth (this factor reflects the extent to which economic growth contributes to debt reduction or interest payments cause its growth, and vice versa) and stock-flow adjustments, i.e. net accumulation of financial assets, changes in the value of the debt arising from its valuation (depreciation/appreciation of the currency) and statistical discrepancies.

Table 1. Projected age-related expenditure, level (in 2010) and change 2010-2020 and 2010-2060 (percentage points of GDP), part 1.

Country	Pensions			Health care					Long-term care				
				Reference scenario			Risk scenario		Reference scenario			Risk scenario	
	2010	2010 -2020	2010 -2060	2010	2010 -2020	2010 -2060	2010 -2020	2010 -2060	2010	2010 -2020	2010 -2060	2010 -2020	2010 -2060
BE	11.0	2.1	5.6	6.3	0.1	0.4	0.2	0.8	2.3	0.4	2.7	0.5	3.5
BG	9.9	-0.7	1.1	4.3	0.2	0.5	0.5	1.1	0.5	0.0	0.3	0.0	0.4
CZ	9.1	-0.4	2.7	6.9	0.4	1.7	0.7	2.4	0.8	0.1	0.7	0.1	1.0
DK	10.1	0.7	-0.6	7.4	0.4	0.9	0.5	1.5	4.5	0.3	3.5	0.3	3.5
DE	10.8	0.1	2.6	8.0	0.6	1.4	0.9	2.0	1.4	0.3	1.7	0.3	1.8
EE	8.9	-1.2	-1.1	5.2	0.2	1.1	0.5	1.8	0.5	0.0	0.3	0.1	0.5
IE	7.5	1.4	4.1	7.3	0.0	1.1	0.1	1.7	1.1	0.2	1.5	0.2	2.1
EL	13.6	0.2	1.0	6.5	-0.1	0.9	-0.1	1.2	1.4	0.2	1.2	0.2	1.8
ES	10.1	0.5	3.6	6.5	0.0	1.3	0.2	1.9	0.8	0.0	0.7	0.1	0.8
FR	14.6	-0.2	0.5	8.0	0.4	1.4	0.7	2.1	2.2	0.4	2.1	0.4	2.2
IT	15.3	-0.8	-0.9	6.6	0.0	0.6	0.1	1.0	1.9	0.1	0.9	0.1	0.9
CY	7.6	1.9	8.7	2.6	0.1	0.4	0.1	0.5	0.2	0.0	0.1	0.0	0.1
LV	9.7	-2.5	-3.8	3.7	0.1	0.5	0.3	1.1	0.7	0.1	0.4	0.1	0.4
LT	8.6	-1.1	3.5	4.9	0.3	0.7	0.5	1.3	1.2	0.1	1.1	0.3	3.2
LU	9.2	1.6	9.4	3.8	-0.1	0.7	0.1	1.0	1.0	0.3	2.1	0.3	2.1
HU	11.9	-0.4	2.8	4.9	0.2	1.1	0.3	1.6	0.8	0.1	0.6	0.1	1.0
MT	10.4	0.2	5.5	5.4	0.8	2.9	1.0	3.6	0.7	0.1	0.9	0.3	3.2
NL	6.8	0.6	3.6	7.0	0.5	1.0	0.7	1.5	3.8	0.6	4.1	0.6	4.1
AT	14.1	1.0	2.0	7.4	0.5	1.6	0.8	2.2	1.6	0.2	1.2	0.3	2.3
PL	11.8	-0.9	-2.2	4.9	0.4	1.9	0.7	2.6	0.7	0.1	1.0	0.2	1.9
PT	12.5	1.0	0.2	7.2	-0.4	1.1	-0.4	1.6	0.3	0.0	0.3	0.1	1.0
RO	9.8	-0.6	3.7	3.7	0.0	1.0	0.2	1.4	0.6	0.1	1.1	0.1	1.5
SI	11.2	1.0	7.1	6.1	0.3	1.1	0.5	1.7	1.4	0.3	1.6	0.3	1.6
SK	8.0	0.6	5.2	6.2	0.6	2.1	0.9	3.0	0.3	0.0	0.4	0.1	1.9
FI	12.0	1.9	3.2	6.0	0.4	1.0	0.6	1.5	2.5	0.6	2.6	0.6	2.9
SE	9.6	0.0	0.6	7.5	0.2	0.7	0.4	1.2	3.9	0.2	2.5	0.2	2.5
UK	7.7	-0.7	1.5	7.2	0.3	1.1	0.5	1.8	2.0	0.2	0.7	0.2	0.7
EU	11.3	-0.1	1.5	7.1	0.3	1.1	0.5	1.7	1.8	0.2	1.5	0.3	1.7

Table 2. Projected age-related expenditure, level (in 2010) and change 2010-2020 and 2010-2060 (percentage points of GDP), part 2.

Country	Education			Unemployment benefits			Total age-related items	
							2012 AR*	2009 AR*
	2010	2010 -2020	2010 -2060	2010	2010 -2020	2010 -2060	Change 2010-2060	
BE	5.7	0.0	0.5	2.1	-0.1	-0.1	9.1	6.6
BG	3.5	-0.1	0.2	0.4	-0.1	-0.2	2.0	3.2
CZ	3.4	0.0	0.2	0.4	-0.1	-0.1	5.2	6.3
DK	7.6	0.0	-0.2	0.7	0.0	0.0	3.6	2.2
DE	3.9	-0.5	-0.2	1.0	-0.3	-0.3	5.2	5.1
EE	5.2	0.0	0.0	0.6	-0.1	-0.2	0.0	-0.1
IE	6.3	0.8	0.0	2.6	0.5	-1.3	5.4	8.7
EL	3.9	-0.2	0.1	0.6	0.0	-0.2	2.9	16.0
ES	4.2	-0.1	-0.5	2.0	0.5	-1.1	3.9	8.3
FR	5.0	-0.2	-0.4	1.7	-0.3	-0.6	3.1	2.2
IT	4.1	-0.4	-0.5	0.7	-0.3	-0.3	-0.1	1.6
CY	6.7	-0.9	-0.7	0.5	0.0	-0.1	8.4	10.7
LV	4.4	-0.3	-0.6	0.7	0.1	-0.3	-3.8	1.3
LT	4.4	-0.6	-0.5	0.4	0.0	-0.2	4.5	6.0
LU	3.2	-0.3	-0.1	0.6	-0.1	-0.1	12.0	18.2
HU	4.3	-0.3	-0.4	0.4	0.0	-0.1	4.0	4.0
MT	5.1	-0.9	-1.1	0.4	0.0	0.0	8.2	9.2
NL	5.3	-0.3	-0.1	1.6	-0.2	-0.3	8.2	9.4
AT	4.9	-0.6	-0.4	0.8	-0.1	-0.1	4.4	3.3
PL	3.9	-0.6	-0.5	0.2	-0.1	-0.1	0.1	-1.1
PT	4.7	-0.8	-1.1	1.2	0.1	-0.4	0.1	2.9
RO	3.5	-0.3	-0.1	0.5	-0.2	-0.3	5.4	8.5
SI	4.7	0.1	0.5	0.3	0.1	0.0	10.3	12.7
SK	3.1	-0.3	-0.1	0.2	-0.1	-0.1	7.5	5.5
FI	5.9	0.0	0.2	1.6	-0.3	-0.3	6.7	5.9
SE	6.3	-0.2	0.0	0.6	0.0	0.0	3.8	2.7
UK	5.0	-0.1	0.0	0.3	0.0	0.0	3.3	4.8
EU	4.6	-0.3	-0.1	1.1	-0.1	-0.3	3.7	4.6

Source: The 2012 Ageing Report Economic and budgetary projections for the 27 EU Member States (2010-2060) European Economy 2/2012 (provisional version)

b. Ensuring competitiveness in a globalized world.

As indicated in part 1, the level of expenditures in EU countries is high and social spending create them to the greatest extent. Meanwhile, numerous empirical studies confirm a negative correlation between the economic growth rate and the increase in spending, for example Fölster i Henrekson (1999), Heitger (2001), Fic (2005), Afonso (2005). Tanzi and Howell (1996), Rebelo (1991) and Turnovsky (2000) prove also that the proper orientation (the structure of the budget) is equally important for economic growth as the level of expenditure. The expenditure favorable to economic growth is one that creates facilities to support private business and is complementary to private spending at the same time. According to Kneller et al. (1999), these conditions are met by the expenditure on education, health, research and development, infrastructure and public safety. Cotis (2005) convinces (based on his research results on the economic growth in OECD countries in the 90s), that about 20% of the whole budget should be allocated for the development of expenditure such as on infrastructure, research and development, education. He proves that permanent growth in spending on research and development by 0.1% per year increases the economic growth rate by around 0.2%. Meanwhile, it's very difficult to allocate more money for development purposes when the budget is overloaded by social spending.

Another argument for reducing governmental intervention through public spending is the ongoing process of globalization. Due to high mobility of capital it is very easy to invest in countries with lower taxes and more stable economies. As a result, countries with high tax burden, unsustainable public finances and unpredictable tax system are less attractive on the global market. Those who call on change of European social model emphasize that it doesn't meet the requirements of the free market and contributes to the loss of competitiveness by European countries. As Tanzi (2005) argues, the theoretical justification for governmental intervention through public spending decreases as markets develop and become more efficient in performing various tasks, and in allowing individuals to satisfy their various needs directly. Nowadays, public intervention is more likely to require efficient regulations than public spending. Meanwhile, most countries have exceeded the optimal level of expenditure and higher public spending does not always translate into the rise of welfare (even if there is a connection, it is not a material one). Although Europe has a strong position on the world economic map, the results are below the world average. The ongoing process of globalization causes that EU is at risk of competition from countries with low production costs such as China and India, as well as from countries with high levels of innovation, such as the United States.

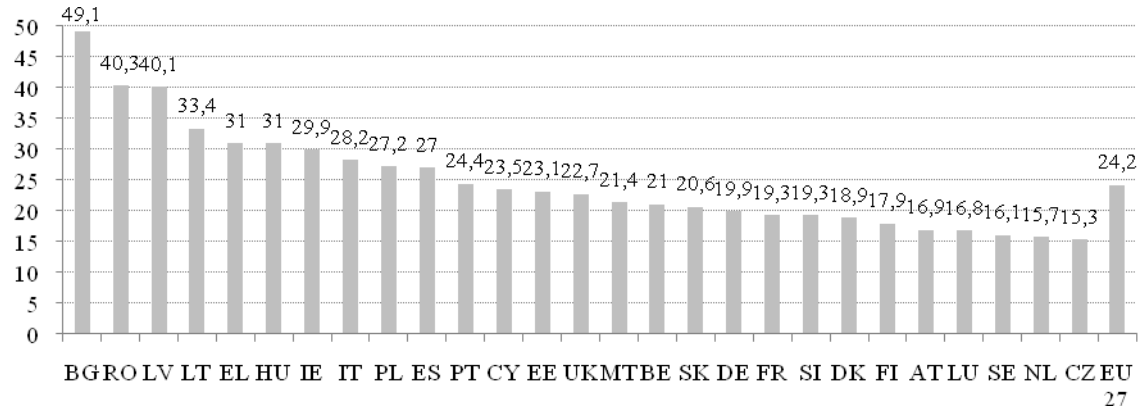
c. Effectiveness of the welfare state.

The subject of the lively discussion is also the effectiveness of the welfare state. The economic priority and strategic objective of social policy pursued through social transfers is social cohesion and the reduction of poverty. However, more EU countries have been struggling with a very difficult situation on the labour market - the average unemployment rate in May 2013 was 11% (with the highest level - 27% - in Spain)[7]. Additionally, approximately a quarter of the entire society is at risk of poverty[8] (data from 2011, Fig. 3). Furthermore, the risk of poverty percentage increased between 2008-2011 in the vast majority of countries (18 of them noted the poverty increase with more than one percentage point, the greatest increase was in Ireland - 11 percentage points), and only three countries improved their situation.

[7] For the comparison, the U.S. unemployment rate in May 2013 was 7.6%, in Japan 4.1%,

[8] According to the EUROSTAT methodology, persons at risk of poverty are those who live in households where available income is lower than the poverty borderline (this borderline is the level of 60% of median of average income for the given country).

Figure 2. The percentage of persons at risk of poverty or social exclusion in Europe (for the total population)



Source: EUROSTAT (2013)

Increasing income disproportions among the societies reflect declining effectiveness of social policy. Despite numerous declarations, determining further social objectives and often additional funds at EU level, the proportion of those at risk of poverty has continued to increase. On the other hand, the assets of the richest have been continuously growing, which in turn leads to the polarization of society. Obviously, there are significant differences in terms of solutions and socio-economic results among EU countries, therefore, conclusions cannot be generalized. On the other hand, all countries face more or less challenging tasks and at EU level the problem of social policy' effectiveness is significant. Many countries have introduced measures that support their welfare system like the pension reforms (extension of retirement age), limiting the availability of benefits or greater professional activation of the community. These activities focus on either the system improvement or on its deregulation.

4. OTHER CONTEMPORARY SOCIO-ECONOMIC PROBLEMS AND THE IDEA OF BASIC INCOME

Offe (1996), van Parjis (2012), Murray (2006) and other advocates of radical changes in the assumptions of contemporary welfare state emphasize that it was create in entirely different socio-economic conditions and had to accomplish different objectives. Last twenty years have been a period of great social and economic changes which have formed new objectives of the social policy. Besides general challenges arising from budgetary difficulties, globalization process and low efficiency of social policy, they point out the other phenomena:

- decreasing revenue from direct taxes, including social contributions. The reason is a low economic activity and growing employment in the shadow economy, mainly because of high tax burdens. The second one - unfair solutions in the tax system which provide the possibility of tax evasion to the richest group of individuals (they often earn most on speculative transactions or numerous tax releases) and preferences to large companies. Consequently, the budget is directly supplied mainly by the inflows from those employed under employment contracts and small and medium-sized enterprises. In turn, this influences the budgetary situation and increases selectivity in the allocation of benefits and limitations of social welfare, despite the existing social needs;

- market segmentation - a small number of employees are well-paid specialists who are offered a high quality of benefits, while the remaining others are often called the underemployed. These underemployed workers work below their qualifications, receive low salary, avail themselves of the minimum standard of public services and have access to cheap and lower grade consumer goods;

- progressing process of replacing people with machines, and overproduction. As a result of industrialisation, automation and rationalisation, less and less manpower is needed to supply society with the necessary products and services. For the first time in history overproduction, overabundance and oversupply of goods have become a genuine problem at least in the so-called First World. The result is also a squandering of resources which is not acceptable in ecological terms;

- changes in employment methods (towards flexible forms) – outsourcing and part-time type of employment become more and more popular. There is a demand for highly educated specialists on the labour market, however, they are relatively small group and create a closed market sector;

- the gradual privatization of public services (the transfer to private companies and NGOs tasks previously performed by the public sector, e.g. in the fields of education and health care), as well as the citizens' withdrawal into a private sector;

- the increase in the number of inactive people in their working age, who are dependent on the public assistance (due to the structural reasons);

- structural unemployment and difficulties in maintaining continuous employment, which is an obstacle for developing a decent pension;

- the progressive loss of credibility in the area of regulatory policy, mainly because of the pluralism of interests and values as well as the nature of regulatory policy that encourage the implementation of particular interests.

They argue that existing instruments don't deal with these challenges. The state is required to provide higher benefits from ever-decreasing resources for an ever-increasing number of people in the need. People become impoverished not only in material terms but they also participate to an ever-diminishing extent in social life. Their proposition which can help solve these problems and radically change the ideology of the modern welfare state is the idea of a basic income (Basic Income Guarantee - BIG) [9].

A basic income is an income unconditionally granted to all members of a society on an individual basis, without means test or work requirement[10]. It is a form of minimum income guarantee that is unconditional in three distinct senses:

(1) individual: the right to it and its level is independent of household composition;

(2) universal: it is paid irrespective of any income from other sources, which can therefore be added to the basis it provides;

[9] In Poland, the concept of a guaranteed income is almost unknown. Only few economists consider this ideology and the notable one is professor Richard Schafenberg from the University of Warsaw (Szarfenberg, 2004). In other countries, the concept of a guaranteed income has been developing for at least 10 years. The idea found its place in academic discourse and in the public debates. In United States, Canada, Australia, New Zealand and Japan there are many academics, civil society organizations, politicians and others promoting and discussing this idea (for example, the U.S. Basic Income Guarantee Network - USBIG). One state in the U.S., Alaska, has already introduced a partial basic income. The first country in the world that has passed a law on basic income is Brazil (since 2004). In Europe, Germany has a strong basic income movement, with dozens of active groups, media attention in newspapers and TV talk shows, lectures and discussions. In April 2012, Switzerland formally signed initiative called '*In favor of the unconditional basic income*'. A petition led by the youth section of the Social Democrats has gained more than 120,000 signatures in support of a minimum disposal household income of $2,800 (2500 Swiss francs) per month for every legal adult resident. As a result, Swiss will vote on unconditional minimum wage in 2014 (http://rt.com/business/swiss-vote-universal-wage-420/)
In 2013, also at the EU level there were taken actions for civic initiative aiming at establishing basic income (*Unconditional Basic Income - Exploring a pathway towards emancipatory welfare conditions in the EU*). Its purpose is to begin the officially discussion (according to Art 156 TFEU) going to explore the Unconditional Basic Income as a tool that can improve social security systems.
The first Polish politician who proposed a basic income in Poland was R. Kalisz (Polish Press Agency, 9.09.2013 r.). Unfortunately, the idea has not been taken up widely by media.

[10] Definition adopted by the Basic Income Earth Network (BIEN), www.basicincome.org

(3) free of counterpart: it is paid without requiring the performance of any work or the willingness to accept a job if offered[11].

BIG can be implemented instead of increased checks and even more complicated forms of redistribution by a complex welfare state system. It will simplify the system and will make it a fair one. As Offe argues (1996), in many countries the legitimacy crisis is already visible. It is forced by the processes of social change, which inevitably leads to the reinterpretation of the role and importance of the state. This proves that the universal grant is the best, non-revolutionary way to solve social and economic problems, a way to establish independence of individuals and to maintain a certain elementary social cohesion. Importantly, the arguments associated with a guaranteed income are not related to the rejection of the model of the capitalist economy. On the contrary - capitalism is the necessary concept within this theory and it can be improved through the provision of income security for the citizens. According to Murphy (2004), arguments about the ethical politics of a BIG go generally together with:

- communitarian (basic income is commended as best reflecting common values),

- liberal (arguments for a basic income center on its neutrality),

- republican (basic income brings a society closer to an exemplification of civic virtues such as justice or solidarity),

- libertarian (basic income as an efficient expander of opportunity)

- utilitarian or welfare-based (some argue that overall well-being will be advanced by basic income).

One of the most important questions that arise in discussions on the concept of BIG are the financial possibilities and conditions for their implementation. On the revenue side, changes in the tax system are desired. Taxes would need to be levied to a greater extent or almost exclusively on consumption, profits, property and added value. Work would need to be freed entirely from the burden of taxation. A different tax system would mean the consumption of resources bearing the main burden of taxation (those who consume a great deal, and hence also squander a great deal of resources, would not only be returning to the taxman the basic income paid to them but would also be funding the bulk of public sector activity). Depending on the country, today's value of their social spending would allow for the financing the basic income at different levels. For example, in 1997, Garfinkel (Columbia University) and Huang (Rutgers University), using 1994 government data calculated that the U.S. could afford an annual BIG of $4000 per adult, $2175 per child, and $8000 per senior by eliminating 115 federal welfare programs, abolishing the income tax personal exemption, and taxing BIG benefits. In 2004, Clark (St. John's University) estimated the U.S. could afford a BIG at the 2002 poverty level of $9359 for an adult and $3500 for a child by eliminating some federal welfare programs and by replacing the individual income tax rates with a flat tax of 35% (Sheahen, 2006, Garfinkle 2003)[12]. There are simulations of costs related to BIG implementation for other countries available. They all show that in order to ensure minimum subsistence for all citizens there is not much higher need for funds than those obtained in the current system. Financial options thus do exist, and the obstacles for BIG are

[11] The main issues which create differences of opinion among BIG supporters are: should the benefit be completely independent from the income and be paid to all, or rather should it supplement the income to a certain minimum? Should it replace the existing benefits system or should it only complement this mechanism? Should all civil adults and children be entitled to the same amount (and if so, in what way should the money be passed to children - either by parents, or perhaps through placing the entitlement in a specific fund, where all the collated funds would be paid out upon reaching the age of 18 for the specified purposes, such as further education, establishing own company, property purchase).

[12] In Poland, in 2010, social spending per capita (not including health expenditures) were 1,770 euros, or about 620 PLN per month. Guaranteed income set at a thousand a month for every year would cost about 460 billion PLN, more than one third of GDP. If the grant was to pay only for adults, the current level of social expenditure (excluding expenditure on health) would be sufficient to cover the grant in the amount of 750 PLN per month (in September 2012 minimum income per head ranged from 815 PLN on 5 person families to 1038 PLN for single person families). To this amount we should add saved funds due to the elimination of welfare state social security and social insurance system or liquidation of tax benefits.

related primarily to the deep rooted ideology and commitment to the concept of an economy based on compulsory labor.

The advantages of basic income schemes compared with present social benefits have been frequently highlighted by the literature on the matter (see for instance, Van Parijs, 1992; Atkinson, 1995, Offe, 1996; Fitzpatrick, 1999); some of them are the following:

- simplification of redistribution system and equal distribution of income;

- deregulation of the labour market and providing each employee with an appropriate negotiation position in contacts with the employer (the legal restrictions which impede employing and dismissing workers will disappear, which will increase the market capacity and employment);

- elimination of "fear of insecurity" due to the resignation from job or job loss;

- decrease of hired labour's significance and interest growth in one's own business;

- return of interest in rural and small town life and help in the nature exploration reduction;

- confirmation of the social rights as human rights (formerly, the life base was the land, now it should be the income);

- budget savings.

Basic income could certainly simplify the social system, decrease (or even eliminate) its administrative costs and change the approach to work at home. A significant number of people could choose staying at home and do the same things that previously were done and funded by the state (childcare, elderly care). The interest in economic activity and social organizations could increase (the conduct of which will be less risky). Another positive result could be return to the community, which can increase social participation in making social decisions and creating social welfare. Everyone could decide about his fate - one would negotiate the conditions or abandon formal employment and seek his purpose in life, without worrying about the basic means of livelihood. The BIG proponents oppose the opinion that the guaranteed income will substantially decrease the number of people willing to work which consequently lead to the fall in GDP. In their point of view well-paid specialists will not be willing to abandon the workplace (or even at least temporary lose the earnings for the guaranteed income) because they are used to the high life standards and they are often repaying different types of loans. Most will benefit the least well-off, especially the unemployed and many of them really won't work full-time for a low salary, selecting only BIG or supplementing it by ad hoc working. Even if the vast majority will decide not to work, the rules of free market will have an effect – increase in salaries will encourage to take up work again and bring the equilibrium[13]. On the other hand, the faith in full employment is only a pipe dream nowadays, and globalization effectively exclude a large number of people from the labour market (they just can't find a work). BIG could effectively influence the labour market trough improving competitiveness of economies and social cohesion. Most of all, BIG would change the perception of the state's and person's role in the economy. By its unconditional nature it would be not an act of mercy towards a 'fallen citizen' but an instrument of individual freedom.

5. CONCLUSION

Welfare state is an important element of European economic system, however, the socio-economic changes force governments to the revision of its assumptions and solutions. Welfare state generates huge costs, which leads to the increase in public spending. In many countries tax charges are so high

[13] Whether people will be willing to work, will depend on the proper calculation of the grant and tax. Murray, for example, proposes the following solution: every American who has reached the age of 21 years, receives an annual grant of $ 10 000. If the salary or other income does not exceed the annual amount of $ 25 000, the grant remains unchanged. People whose income is between 25 000 and $ 50 000 would pay a special tax (eg 20%) of the amount which is the difference between their wages and the amount of the threshold amount ($ 25 000). Those who earn more than $ 50 000 per year, won't receive grant at all. (Murray, 2006).

that governments have to finance the social spending another way, e.g. through debt or inflation. Consequently, the higher interest payments, inflation and taxes, the stronger factors weakening individual activity and competitiveness of the economy. The crisis of the welfare state is also exacerbated with long-term and cumulative effects of aging society and process of globalization that forces countries to changes. In addition, the debate about the effectiveness of the welfare state applies to the conflict between equality and efficiency. The current solutions incline the beneficiary to seek privileges and identify undue advantages. As a result, 'dependency culture' and the acquired helplessness is developing, while the stimulus for economic activity has weakened (Hausner, 2006).

Undoubtedly, the reform of social services sector and social security system present a great challenge. The main difficulties are lack of models and agreement on the changes, beliefs of the social services beneficiaries in their social rights and the long duration of the reforms. To ensure the effectiveness of changes it is necessary to take into account the social justice, economic efficiency and political feasibility. In contemporary conditions, the idea of basic income may be the solution of most welfare state' problems. Its implementation may have a positive influence on public spending and will improve social cohesion (it will be a great empowerment tool for low-paid workers). Furthermore, BIG may improve the competitiveness of economies (as the result of deregulation of the labour market) and can help to increase economic activities. Unfortunately, deliberations on basic income are considered to be controversial or utopian idea, therefore in many countries there is no place for it or the discussion is still in its infancy. Nevertheless, the main BIG supporters (Atkinson, Ackerman, Jordan, Paine, Murray, Offe, Standing, Van Parijs) do not belong to the marginal authors but occupy an important place in the mainstream debate about society. It is worthwhile to consider their comments and observations, and take up this interesting topic in discussions about the future of the European welfare state.

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