

# AN URGENT CALL TO SAFEGUARD THE WELFARE STATE IN EUROPE

By: Clemens Martin Auer

## OPINION PIECE

**Summary:** The development of the modern welfare state is a prerequisite for allowing people to share in the progress of science and medicine through public healthcare systems. Yet modern welfare states are coming under tremendous pressure in the permacrisis. A debate must now ensue on how to safeguard sustainable funding for solidarity and healthcare systems. The democratic debate demands that a balance be struck between the various types of constantly growing governmental functions and the public spending associated with them, on the one hand, and ways of raising the financial resources needed to pay for them, on the other.

**Keywords:** *Welfare State, Solidarity, Permacrisis, Health Financing*

### Introduction

One of the most important achievements in the political history of Europe is the development of the modern welfare state. It is also a prerequisite for allowing people to share in the enormous scientific progress made in medicine through well-developed public healthcare systems. But this does not necessarily happen as a matter of course. Modern welfare states are coming under tremendous pressure in the permacrisis we face in politics, the economy, society and the climate. This situation poses a political challenge extending far beyond the usual debate on healthcare policy.

The great strides which have been made in enforcing justice are embodied in the codes of social law passed by parliaments over the past century. The welfare state in the European/western tradition establishes social justice in the form of programs

that provide social security and stability not as appellative charity but as codified law. Basically speaking, these are social rights, claimable rights and benefits in the major areas of healthcare, old age, family, education and unemployment. The code of social law provides a central lever for, in theory at least, providing equity of access and a fair share in the overall economic performance of a society and for combating poverty.

### The evolution of the state's role in economy and society

In *Capital in the Twenty-First Century*,<sup>1</sup> Thomas Piketty lucidly presents these developments: The state's (active) role in the economy and society can be measured by examining historical time series of the ratio of total taxes to national income. This ratio amounted to less than 10% in comparable states in the West between 1870 and 1910. It then increased

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Safeguarding Europe's soul – a people-centred welfare state

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steadily and, by the mid-1950s at the latest, rose to between 35 and 55%. The traditional welfare states of continental Europe have since stabilised at plus/minus 50% over the past 40 years or so, whereas the United States has tended to be at around 30% and the United Kingdom at about 40%. Piketty's thesis is that until the end of World War I all of these states confined themselves to performing "regalian" governmental functions (military, police, courts, foreign policy, general administration, and small amounts of investment in schools and infrastructure). The rise seen since then in Europe, from a ratio of tax revenues to national income of 10% to now 50%, is attributable mostly to the growing public spending on health and (to an increasing extent with ageing populations) on pensions as well as for education (schools and universities), as opposed to on unemployment benefits, or other forms of transfer payments (families, children, social assistance, etc.)

The level of the tax revenues to national income ratio is thus a political expression of the voted for and democratically desired and thus legitimised redistribution of wealth and income assets of a national economy, in favour of social participation and with an eye to creating social justice.

Many political parties can therefore lay claim to having brought about a historically unprecedented quality of freedom and justice in society. For instance, in a welfare state in continental Europe, the majority of people need not be afraid of endangering his or her social and economic existence as the result of a serious illness and the costs associated with it.

That is an expression of maximum integration having been achieved socially and politically. Important corrective mechanisms of the code of social law and the social market economy interlock here, forming the foundations of a modern understanding of social justice. In this context, the humane principle applies that those unable or no longer able to take part in the achievements of a society have a legal and not just a moral right to governmental assistance.

## Newly arising governmental functions and the effect on social justice

It is against this backdrop of a basically positive balance of justice that today's challenges begin. If it is true that the form of codified solidarity described here is democratically desired, in other words, that the current level of the tax to national income ratio expresses this politically agreed desire for social justice, then the *newly arising* governmental functions, namely, to stabilise the financial and capital markets and to overcome the ecological crisis, cannot be squeezed into the current range of this ratio. Or put another way, if this level of tax to national income ratio enabled by solidarity is funded primarily through taxes on income from work/employment and consumption, the government revenues required in the financial and ecological crisis cannot be covered from these government revenues as well without undermining the stability of social justice.

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Add to this the statistical fact that the average income from work has stagnated in Western countries from a general, not an individual standpoint. At the low part of the range, average income has even declined in some cases. At the same time, wealth from capital income has increased rapidly.

Thus, a previously unscrutinised axiom casts doubt on one unwritten "social contract" of society. There was a general belief in Europe after 1945 that the next generation would see economic and social improvements in their lives. However, for those born after 1980, this generational prospect of a better life no longer seems to apply. They are coming too late to the party at the agora of democracy in terms

of economic and prosperity policy\*. This unequal share in income distribution, the questioning of this "social contract" and the dynamically unfolding ecological crisis, are rapidly laying the groundwork for growing political destabilisation.

## Addressing the challenges faced by solidarity systems

These observed and interlinking challenges must matter to the people responsible for European health systems; in fact, they must not overlook this metatrend (changes that drive other changes) and must clearly point out what is at stake here and do so in a timely manner. Regardless of all the scientific and technological progress that has been made in the health sector, the healthcare system needs stable funding. The solidarity system requires stable funding and must not come under pressure in the permacrisis we face, especially in light of the financial resources required to overcome the environmental and climate crisis. Social tranquillity and thus the stability of democracies based on the rule of law depend on the stability of the solidarity system. In sum, a successful healthcare system largely relies on a solid funding base from the solidarity system.

Attention must therefore be focused on the funding of the healthcare system to ensure it is sustainable and sufficient. In a nutshell, the essential sources of money for National Health Systems and Social Insurance Systems are income-based taxes (wage and income taxes) on work as well as consumption taxes (value-added taxes). The tax rates on work and income are already very high in most European Union countries and are deeply interwoven with issues of the global competitiveness of national economies and wealth formation among the broader population.

Social contributions, especially in countries with social insurance, are split between employer and employee contributions. The former is part of the employers' non-wage labour costs and thus have direct effects on the quality

\* Several studies have confirmed this fact, beginning with those of the OECD. Most recently, for example, see Lukas Sustala.<sup>2</sup>

of a business location for companies, whether in industry or in the multifaceted service sector.

That means there are upward economic limits to exhausting the tax and contribution rates on labour, with increased challenges with revenue raising as populations age. The same holds true for the level of consumption taxes, which are highly regressive in their effect on wealth distribution policy, affecting people in lower income brackets much more strongly than those in higher brackets. The limitations of these two basic forms are therefore clear, especially also as they pertain to revenue and taxation levied on work, in times when income from work is stagnating or in some cases declining. Wealth-based taxes are limited by their negative effect on the economic maintenance of economic and production assets. Taxes on capital market transactions, for their part, require far-ranging global harmonisation, which though well justified will be difficult to achieve.

Various forms of out-of-pocket-payments for benefits from healthcare providers or medications are widely spread models for funding healthcare systems. The recent groundbreaking studies by the WHO Regional Office for Europe<sup>3</sup> have shown the “catastrophic effects” in several European countries on access to healthcare benefits and on economic burdens, especially for the chronically ill. From the standpoint of fairness, deductibles are therefore the worst way of all for (co)funding the healthcare system.

These findings open the way to urgently required discussions on fundamental policy on funding the European solidarity and healthcare systems. On the one hand, the motive for this debate must be guided by the knowledge (and the principles deriving from it) that solidarity safeguarded by legal policy is the only outstandingly positive feature of Europe in the world and prerequisite for social and political tranquillity in Europe. On the other hand, one must not politically dodge the fact that the ageing of the European population and scientific progress, plus

the power of innovation in the sector, are creating life-extending effects and thus also costs.

### Conclusion: Is mission-oriented public funding the way forward?

There is neither room nor opportunity here to provide final answers to these challenges. All potential solutions must be carefully examined to determine their socio-economic effects and their ramifications on wealth distribution policy. The thrust in raising these additional needed revenues could well be in “mission-oriented” forms of public funding. To echo Marianna Mazzucato’s theory,<sup>4</sup> this means that governments and legislators must cover precisely targeted healthcare, innovations and the costs arising from them in a participatory manner.

“Mission-oriented” forms of taxation can be developed on this basis on all types of (economic) behaviour that make people ill, indeed that in some cases kill people. Initial examples of these types of taxation already exist. Best known are taxes on tobacco and alcohol as well as carbon taxation. Less widespread are taxes on sugar, (trans)fats, salt or other ingredients in unhealthy foods.

New types of taxation could be levied on types of production and economic activity that cause illness and have negative effects on the environment, for instance, taxes on certain forms of soil depletion, environmental pollution or the use of non-renewable resources.

In this “mission orientation”, we must encourage the political behaviour and willingness of finance ministers to earmark specific types of taxation so that politically agreed missions can in fact be taken up and carried out. Healthcare spending is at the forefront in this context.

The limitations on these “negative consumption and behavioural taxes” always lie in their regressive effect, which is detrimental to wealth distribution policy for lower income groups. In addition, these taxes should be shaped to shift the burden of payment to companies rather than individuals. This is especially

important in the context of dramatically rising wealth of billionaires and many companies – which have skyrocketed during COVID-19 – while the incomes of ordinary people stagnate or even go down. An innovation drive is therefore needed to sound out new taxes to safeguard the solidarity and healthcare systems in a sustainable manner.

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The intent of this article was not to provide final answers. Its intent was to appeal to those individuals who have responsibilities in this area to begin the debate on how to safeguard sustainable funding for well-developed solidarity and healthcare systems. This appeal is highly political, because the democratic debate demands that a balance be struck between the various types of constantly growing governmental functions and the public spending associated with them, on the one hand, and ways of raising the financial resources needed to pay for them, on the other. The healthcare sector is certainly called upon to enter into this debate. If the people responsible for this sector do not want to have decisions made over their heads on what future forms of funding will be, they must initiate this debate themselves.

### References

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