

# “The end of the welfare state:

## The view of the economist”

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# End of welfare state: fact, illusion or desire?

Dutch King Willem-Alexander declares the end of the welfare state



Youngest monarch in Europe says people must take responsibility for their own future and create their own social and financial safety nets

# What is the welfare state ?

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- Political system based on the premise that the government (not others) has the responsibility for the well being of its citizens, by ensuring that a minimum standard of living is within everyone's reach. This commitment is translated into provision of:
  - ❖ universal medical care,
  - ❖ insurance against disability, sickness, and unemployment,
  - ❖ family allowances for income supplement,
  - ❖ old age pensions
  - ❖ and universal education.

# Is it necessary ?

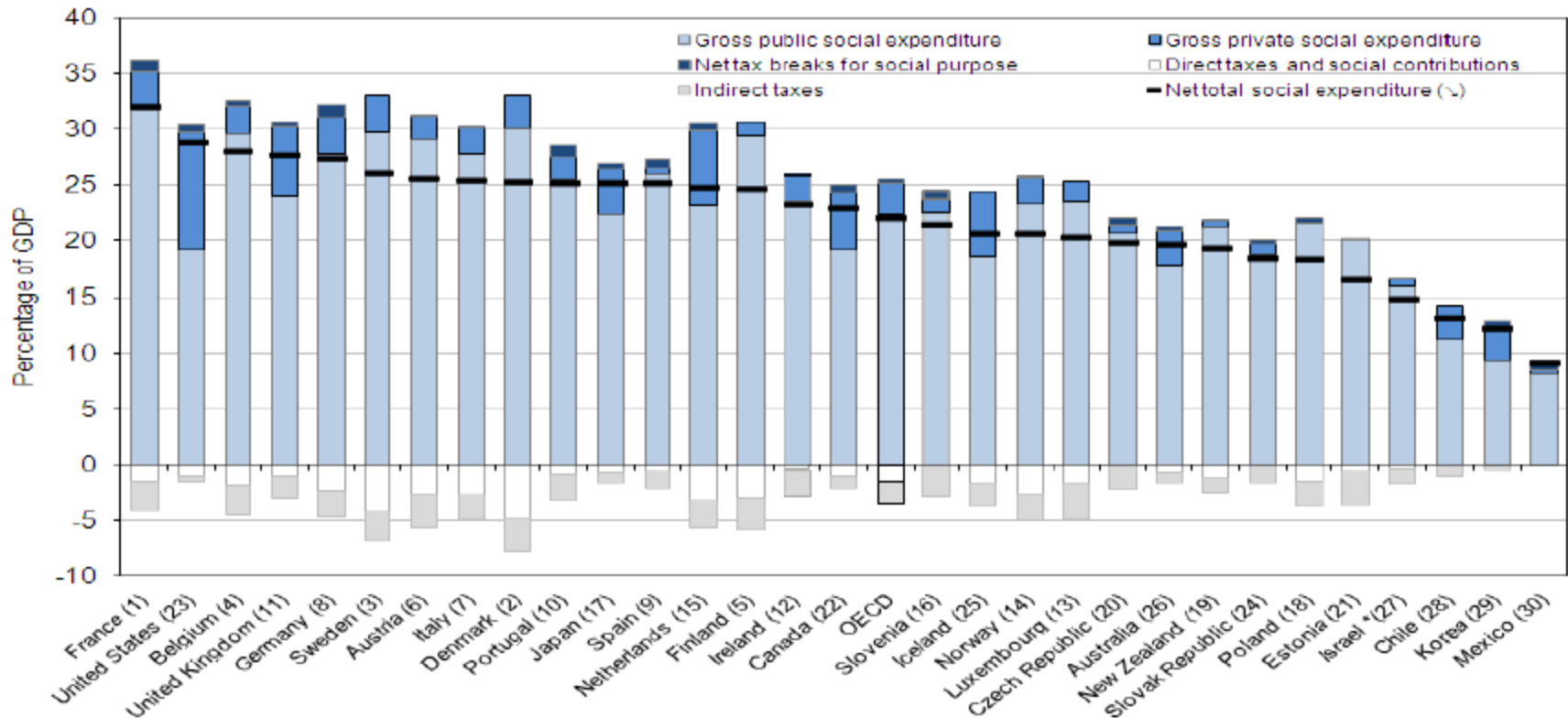
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- There are many causes of inefficiency and market failures
  - ❖ Uncertainty
  - ❖ Derived demand for services
  - ❖ Asymmetry of information - “Lemon”
  - ❖ Externalities
  - ❖ Barriers in markets
  - ❖ Economies of scale
  - ❖ Heterogeneity
- Which may lead to suboptimal equilibriums and loss of social welfare
- Which justifies the Government intervention as an inevitable saviour.

# The net cost of this endeavour is significant

## 7 In most OECD countries net total social spending is around 20-25% of GDP

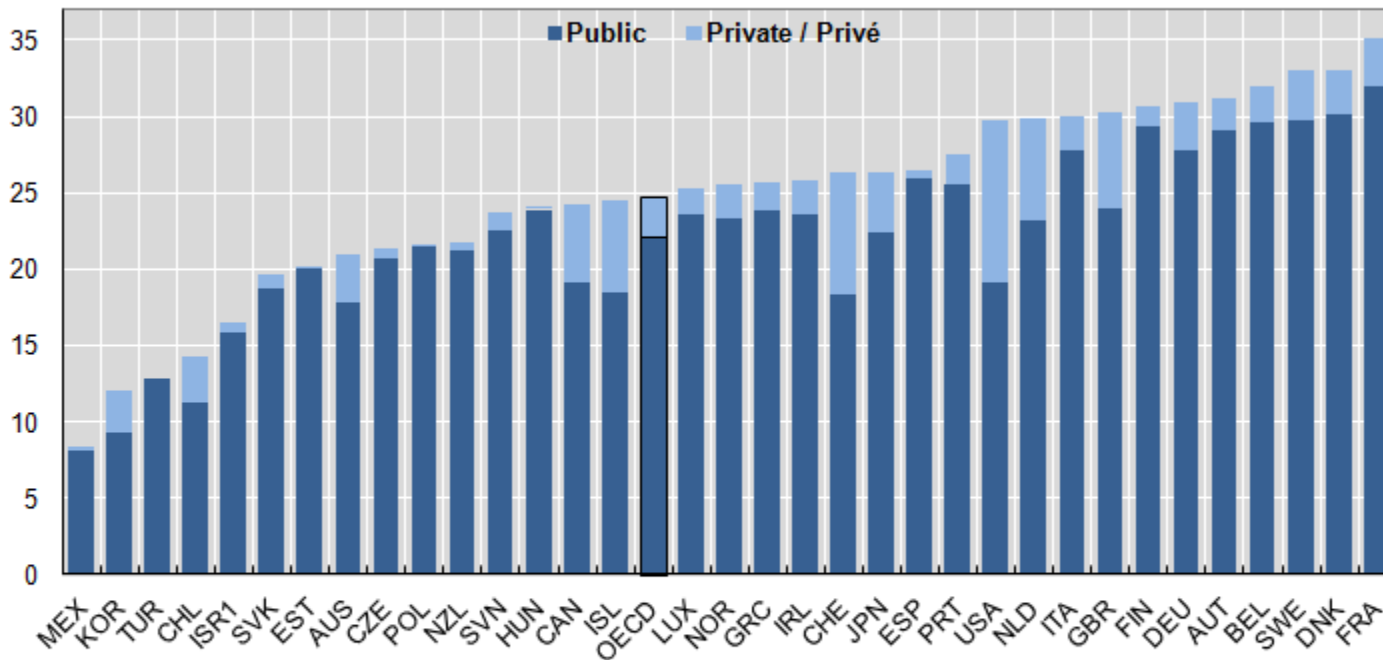
From gross public to total net social spending, in % of GDP at market prices, 2009



\*: Information on data for Israel: <http://dx.doi.org/10.1787/888932315602>

# And is publicly funded

Public and private social expenditure in percentage of GDP in 2009\*  
Dépenses sociales publiques et privées en pourcentage du PIB en 2009\*



\* 2008 for Switzerland.

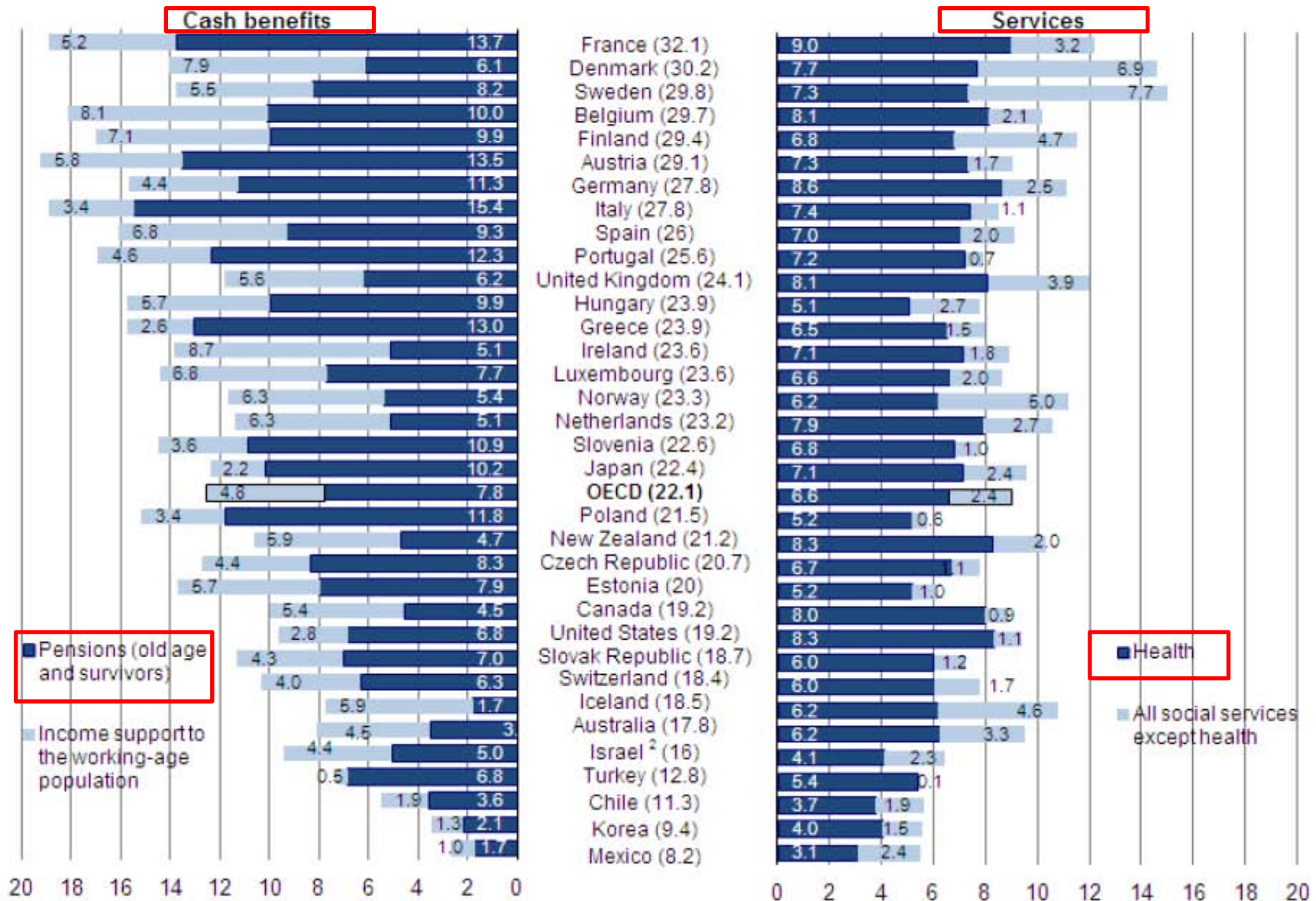
Note : 1. Data for Israel refer to public expenditure only. Information on data for Israel: <http://dx.doi.org/10.1787/888932315602>

Source: OECD Social Expenditure Database (SOCX) via [www.oecd.org/els/social/expenditure](http://www.oecd.org/els/social/expenditure)



## 4 Pensions and health are the main items of public social spending

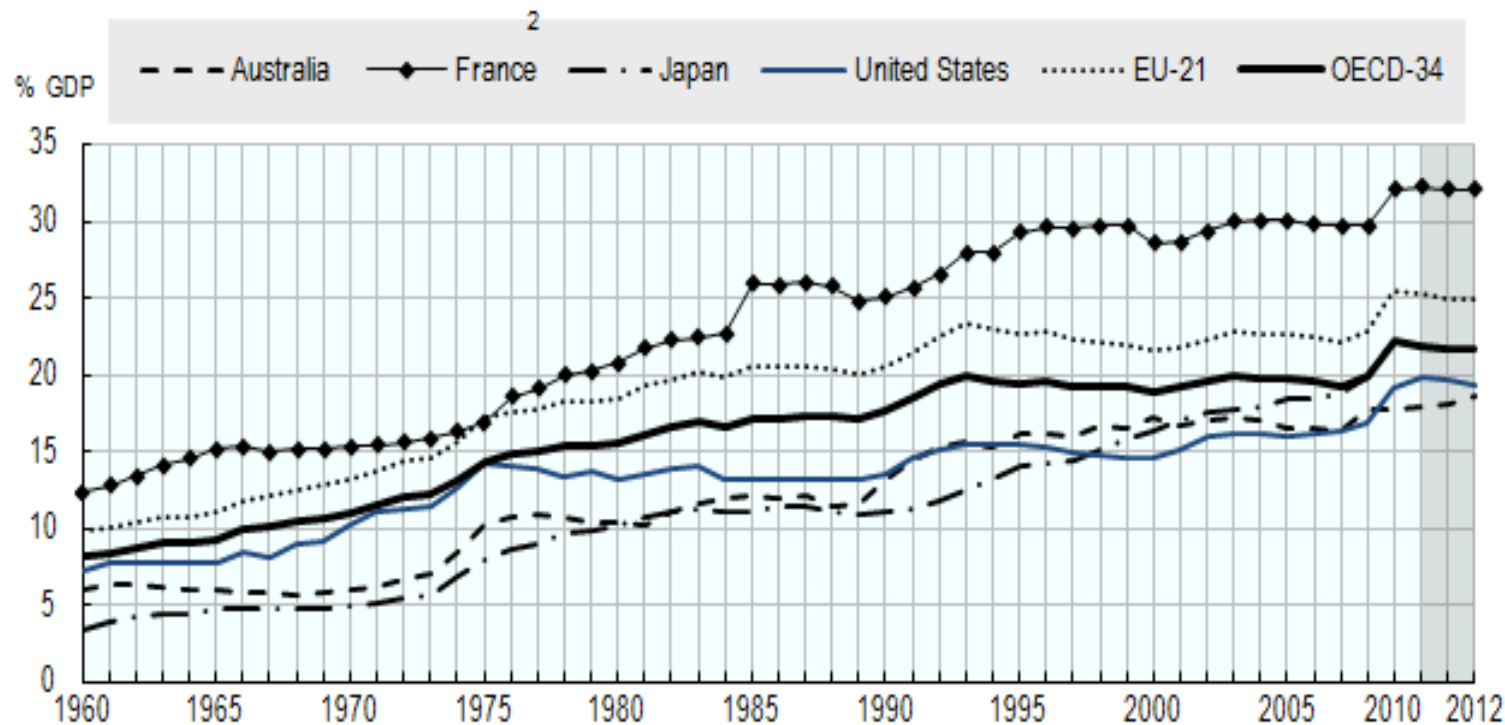
Public social expenditure by broad social policy area, in percentage of GDP, in 2009<sup>1</sup>



# Costs are increasing by more than 10% per decade

## Public social spending in selected OECD countries, in percentage of GDP<sup>1</sup>, 1960-2012

Social spending aggregates based on detailed data for 1960-2009; national aggregates for 2010-2011 and estimates for 2012



Source : OECD (2012), OECD Social Expenditure database, ([www.oecd.org/els/social/expenditure](http://www.oecd.org/els/social/expenditure)).



## .. And Therefore challenges

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- ❖ Economic, fiscal, monetary, debt, credit trends
- ❖ Demographic trends and population aging
- ❖ Labour market employment and wage trends
- ❖ Cross boarder mobility of individuals
- ❖ Social trends and household synthesis
- ❖ Immigration trends and EU enlargement
- ❖ Globalisation, competition, mobility of firms
- ❖ Cost of welfare services and moral hazard
- ❖ Inefficiency and wastage of resources


# ECONOMY



# Economics and economics of welfare

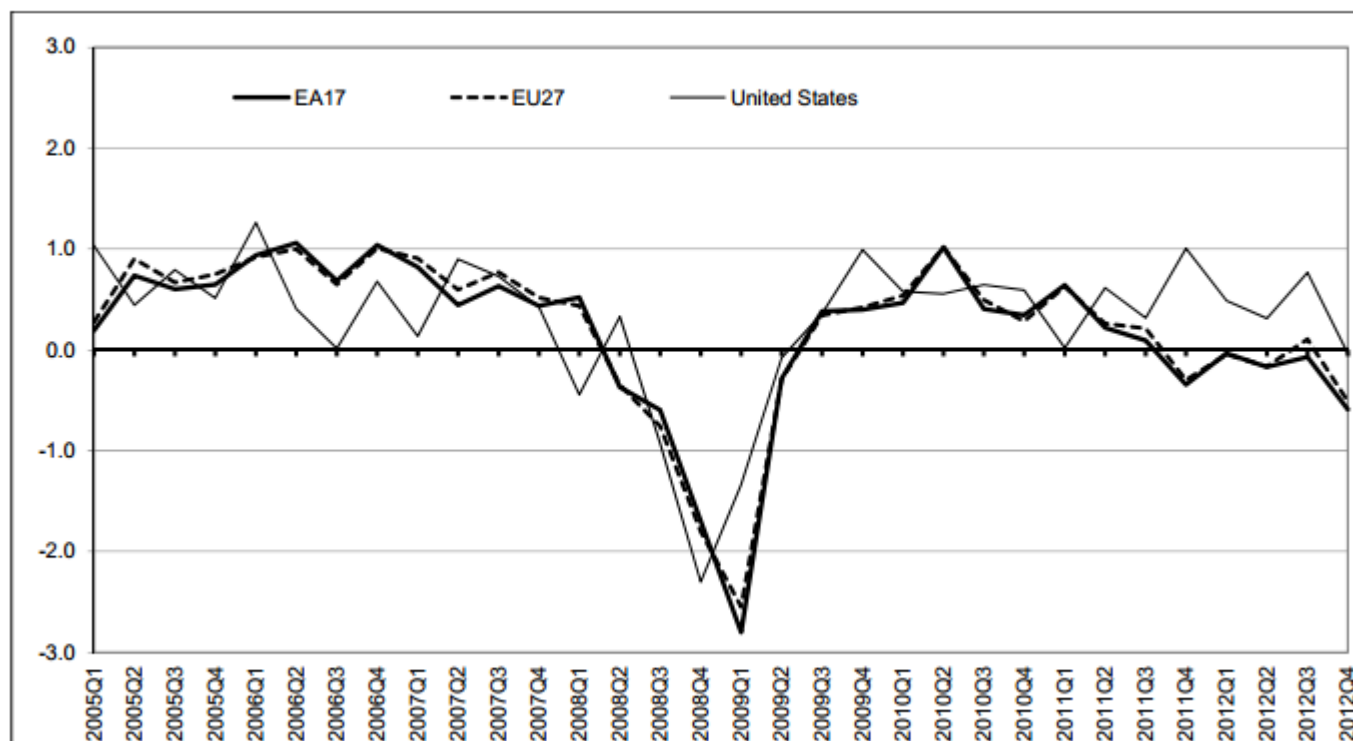
Figure 1.10. **Social spending increased least in countries most affected by the crisis**  
 Percentage changes in real public social spending and real GDP, 2007/08 to 2012/13



Note: See notes to Figure 1.9. Estimates for 2007-08 and 2012-13 are averaged over two-year periods to allow for the different years in which the crisis began across countries and to limit the effect of year-on-year fluctuations.  
 Source: OECD (2013), OECD Social Expenditure Database (SOCX), preliminary data, [www.oecd.org/social/expenditure.htm](http://www.oecd.org/social/expenditure.htm).  
 StatLink  <http://dx.doi.org/10.1787/888932966048>

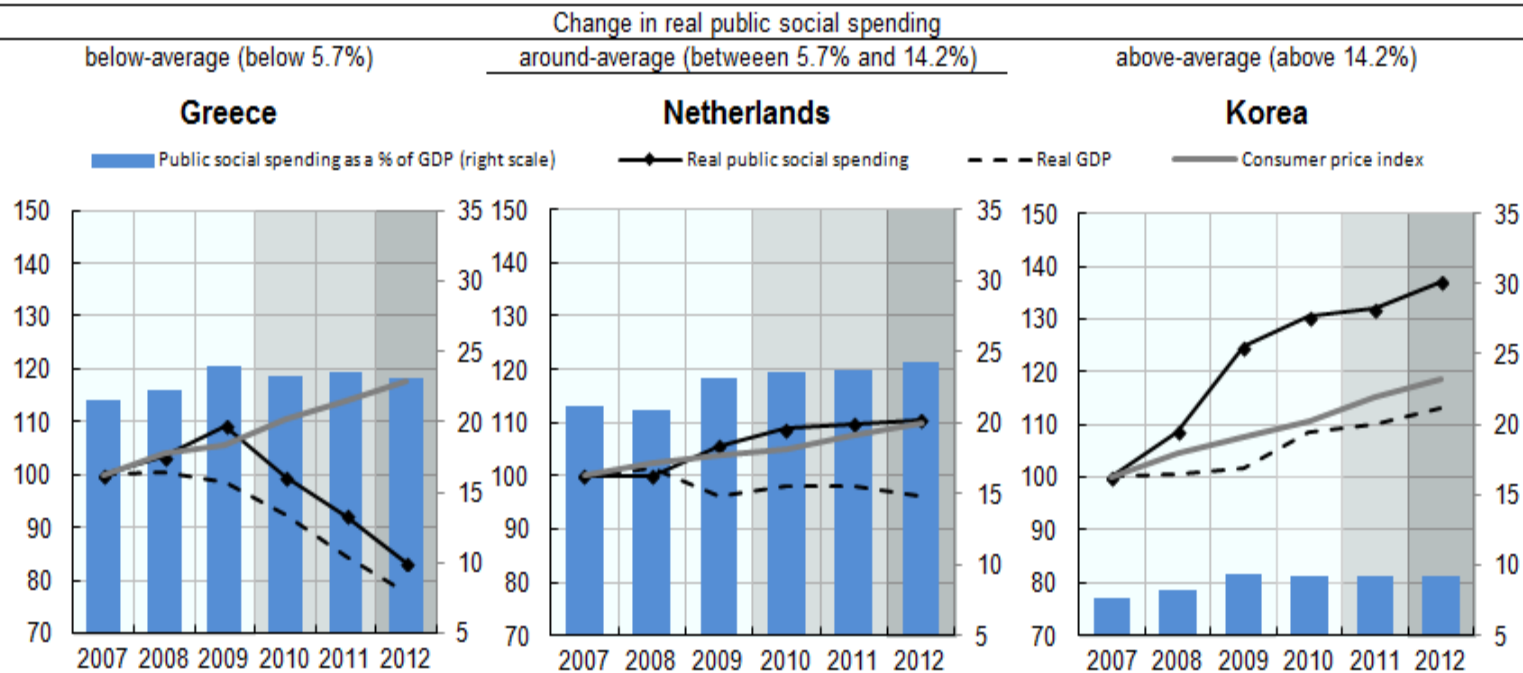
24/2013 - 14 February 2013

**EU27, euro area and United States GDP growth rates**  
 % change over the previous quarter



**Chart 2. In most countries, real public social spending is now at least 6% higher than in 2007/8**

Real public social spending, and real GDP and CPI (Index 100 in 2007, left scale) and public social spending in % of GDP (right scale), 2007-12, by level of change between 2007/08 and 2011/12



		Change in real public social spending		
		below-average (below 5.7%)	around-average (between 5.7% and 14.2%)	above-average (above 14.2%)
Change in real GDP	above-average (above 3.6%)	-	Canada Mexico	Poland Sweden <b>Australia</b> Chile Israel <b>Korea</b> Norway Switzerland
	around-average (between -4.9% and 3.6%)	Germany	Austria Belgium Denmark Finland	France Luxembourg <b>Netherlands</b> Slovak Republic New Zealand United States
	below-average (below -4.9%)	<b>Greece</b> Hungary Iceland	Italy Portugal	Czech Republic Estonia Ireland
			Spain Slovenia United Kingdom	-

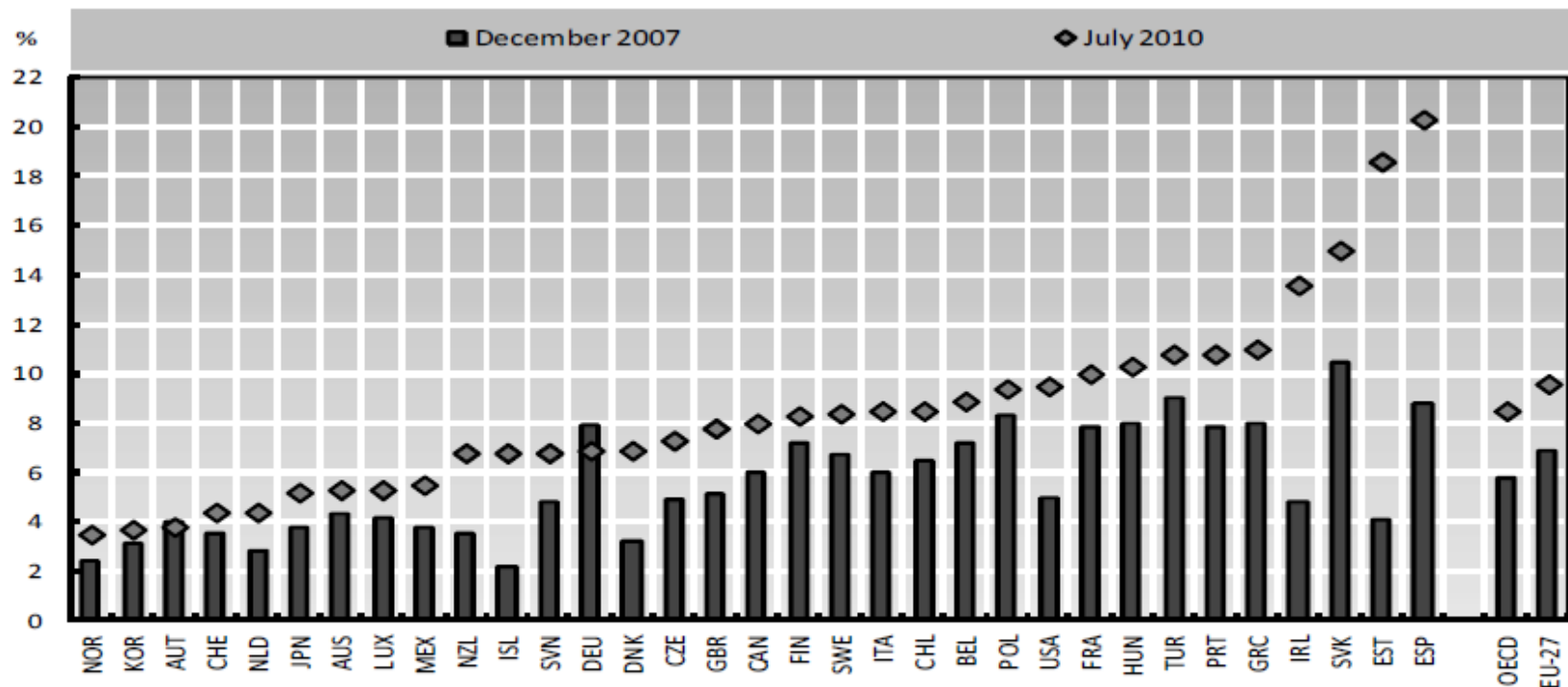


# LABOUR MARKETS



# Unemployment rates increased

OECD harmonised unemployment rates, in percentage of labour force, December 2007 to July 2010



Note: All data are seasonally adjusted. March 2010 for Greece; April 2010 for Turkey; May 2010 for the United Kingdom; June 2010 for Chile, Estonia, Mexico, Norway and the Netherlands; and 2010 Q2 for Iceland, New Zealand and Switzerland (OECD harmonised unemployment rate data are not available on a monthly basis for the last three of these countries).

Source: OECD Labour Force Statistics database ([www.oecd.org/employment](http://www.oecd.org/employment)).

# Changing patterns- 33% increase in part time

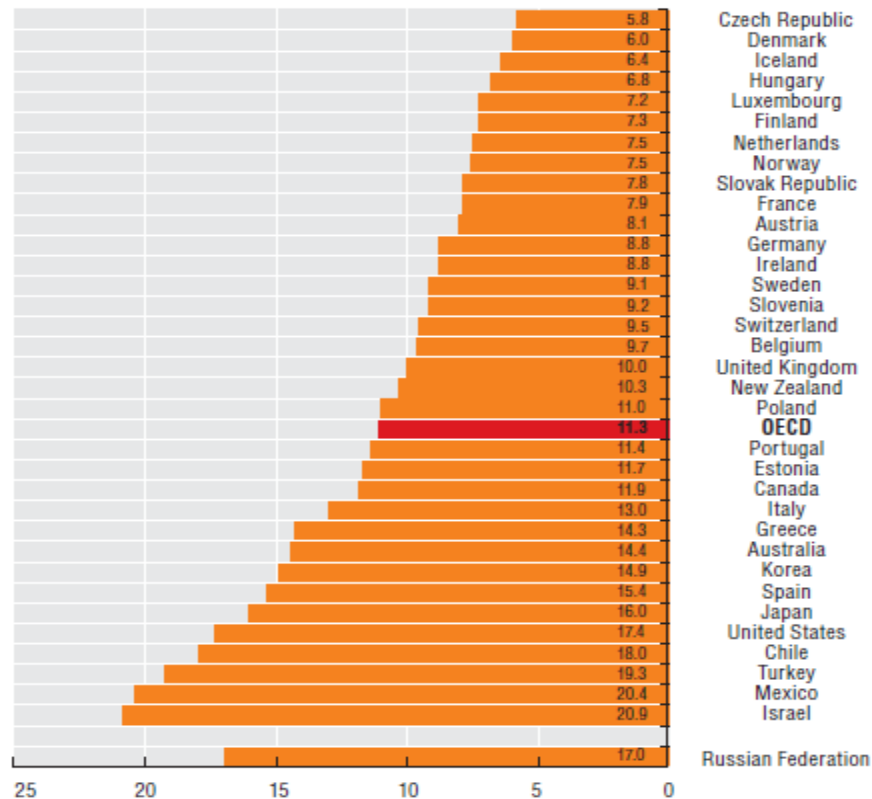
Table 2: Types of Work (in %)					
Category \ Year	2000	2005	2007	2009	2011
<i>Persons empl. part-time</i>	18.9	22.0	22.1	23.4	25.1
<i>By Gender</i>					
Men	5.5	7.6	7.5	8.6	9.8
Women	37.4	40.5	40.6	41.5	43.4
<i>Persons on contracts with limited duration</i>	9.1	8.9	8.6	8.2	9.0

Source: Eurostat

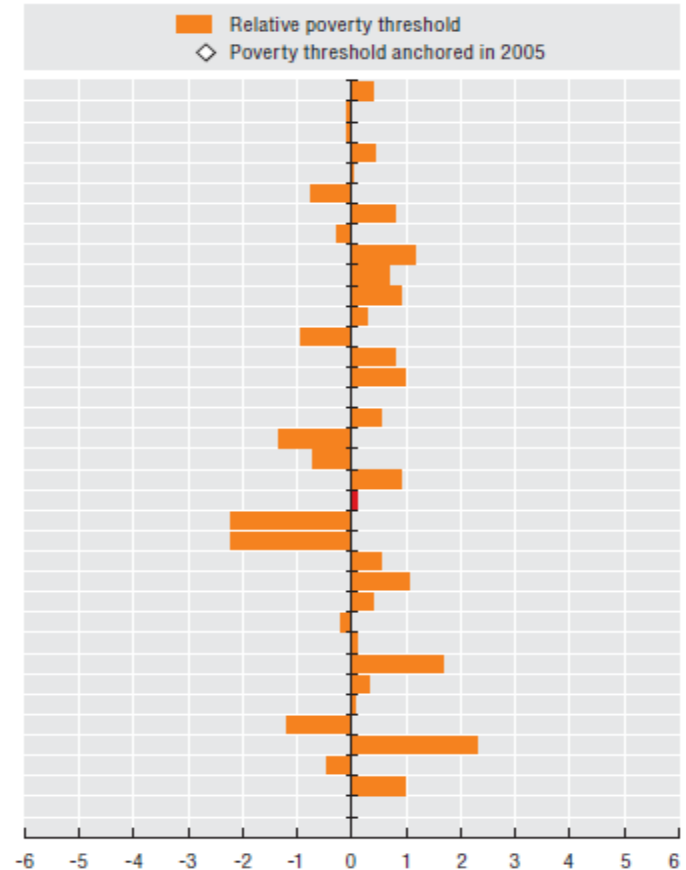
# Inequality and poverty is increasing

## 5.3. Large differences in levels of relative poverty and the evolution of poverty differs if the threshold is “anchored” at the time of the crisis

Panel A. Percentage of persons living with less than 50% of median equivalised household income, in 2010



Panel B. Percentage point changes in relative and “anchored” poverty rates between 2007 and 2010



# SOCIAL TRENDS

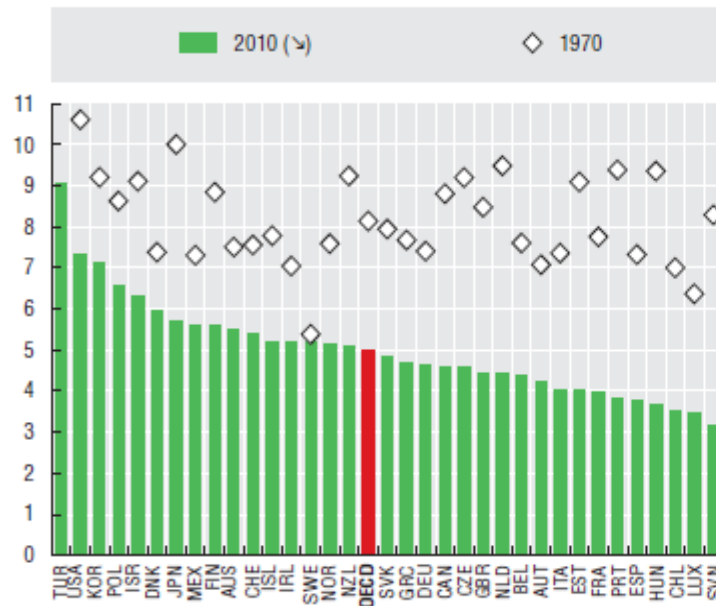




# Single person household societies

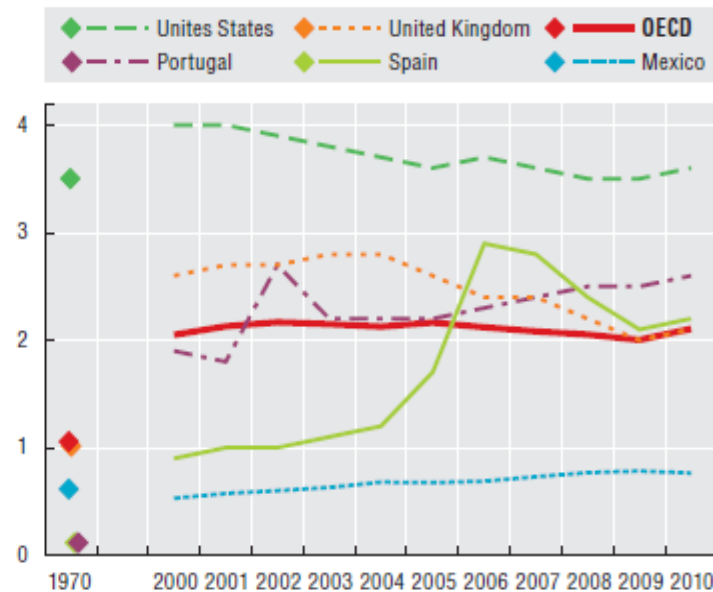
## 3.9. Marriage rates have decreased in the last four decades

Number of marriages formed each year as a ratio to 1 000 people (crude marriage rate) in 1970 and 2010



## 3.10. Divorces slightly picked up during the crisis in some countries

Number of divorces per 1 000 population (crude divorce rate), selected countries, 1970 and 2000-10

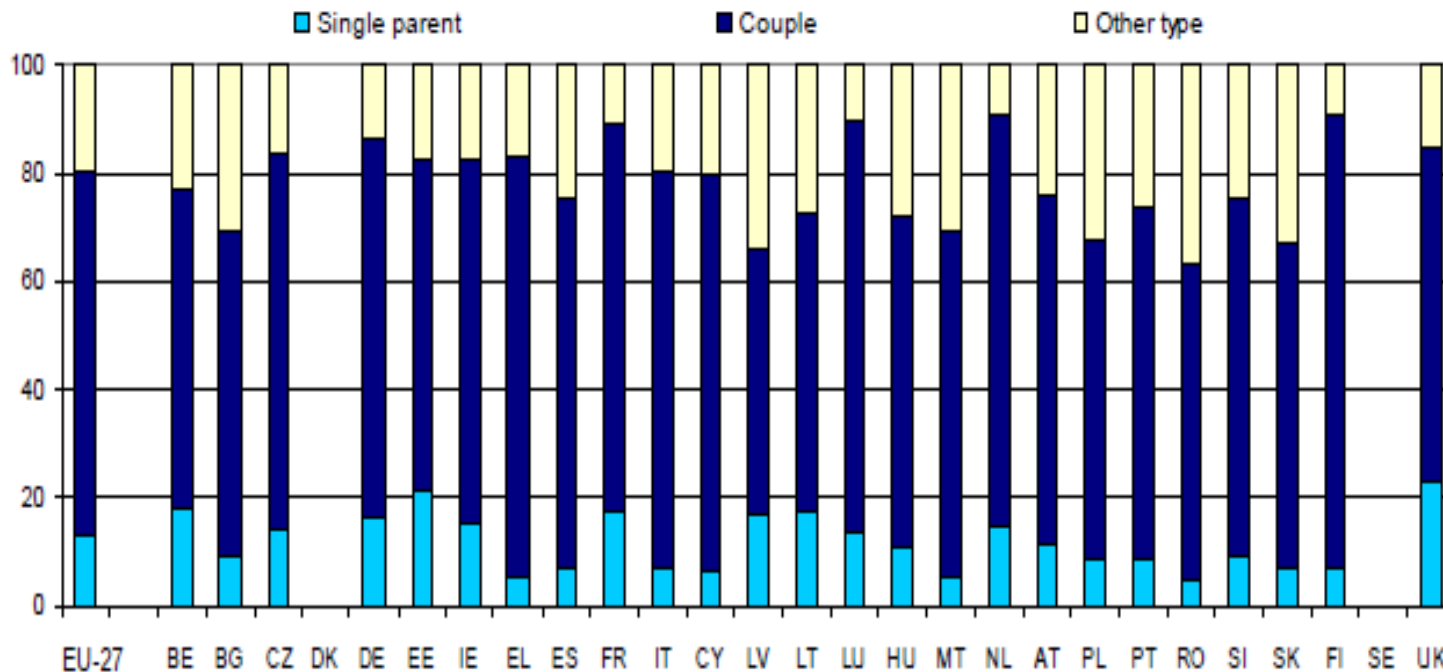


Source: Gallup World Poll ([www.gallup.com](http://www.gallup.com)), OECD Family Database as in September 2013 ([www.oecd.org/social/family/database](http://www.oecd.org/social/family/database)), UN Demographic Yearbook 2011.

StatLink <http://dx.doi.org/10.1787/888932966333>

# Single person families increase

Graph I.7.4: Households with children by type (single parent, couple, other), 2009 (% of all households with children)



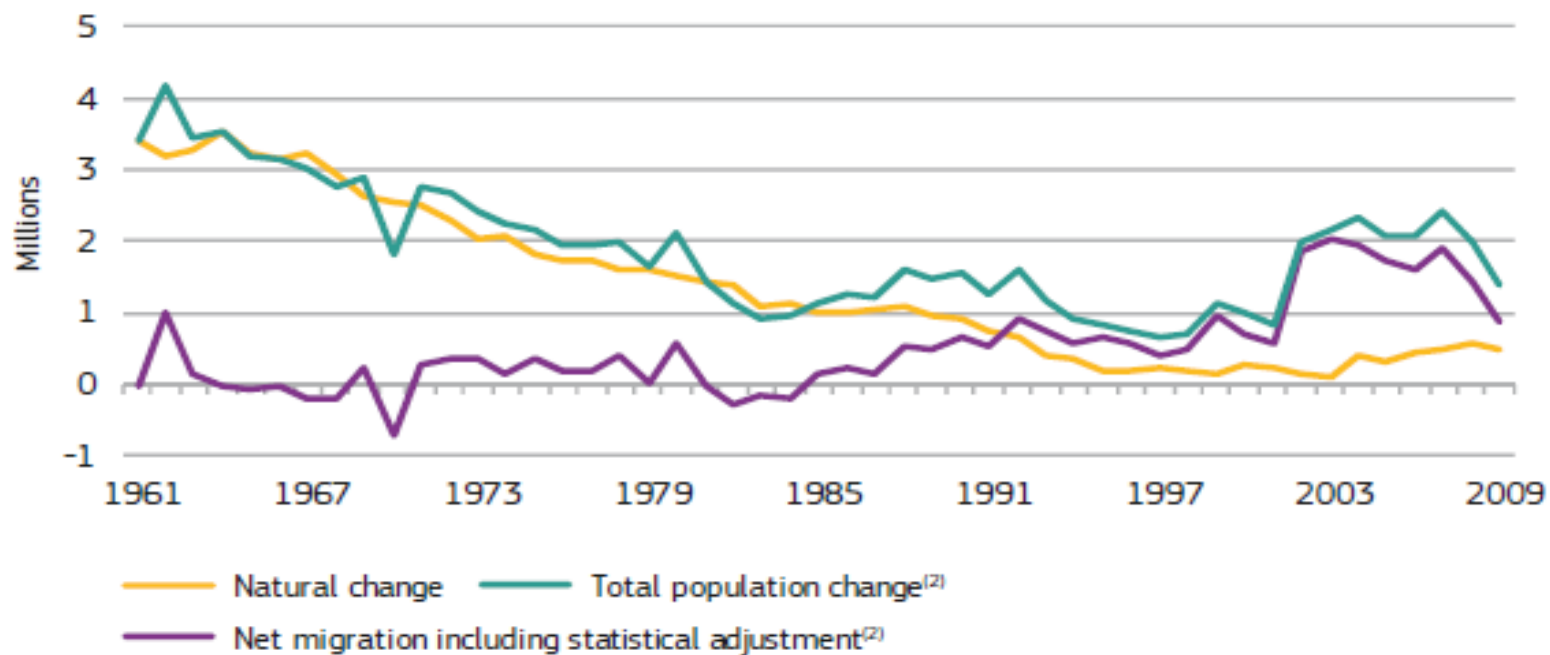
No data available for Denmark and Sweden

Source: Eurostat (online data codes: lfst\_hhnhtych)

# IMIGRATION



Figure 1.6: Demographic balance, EU-27<sup>(1)</sup>

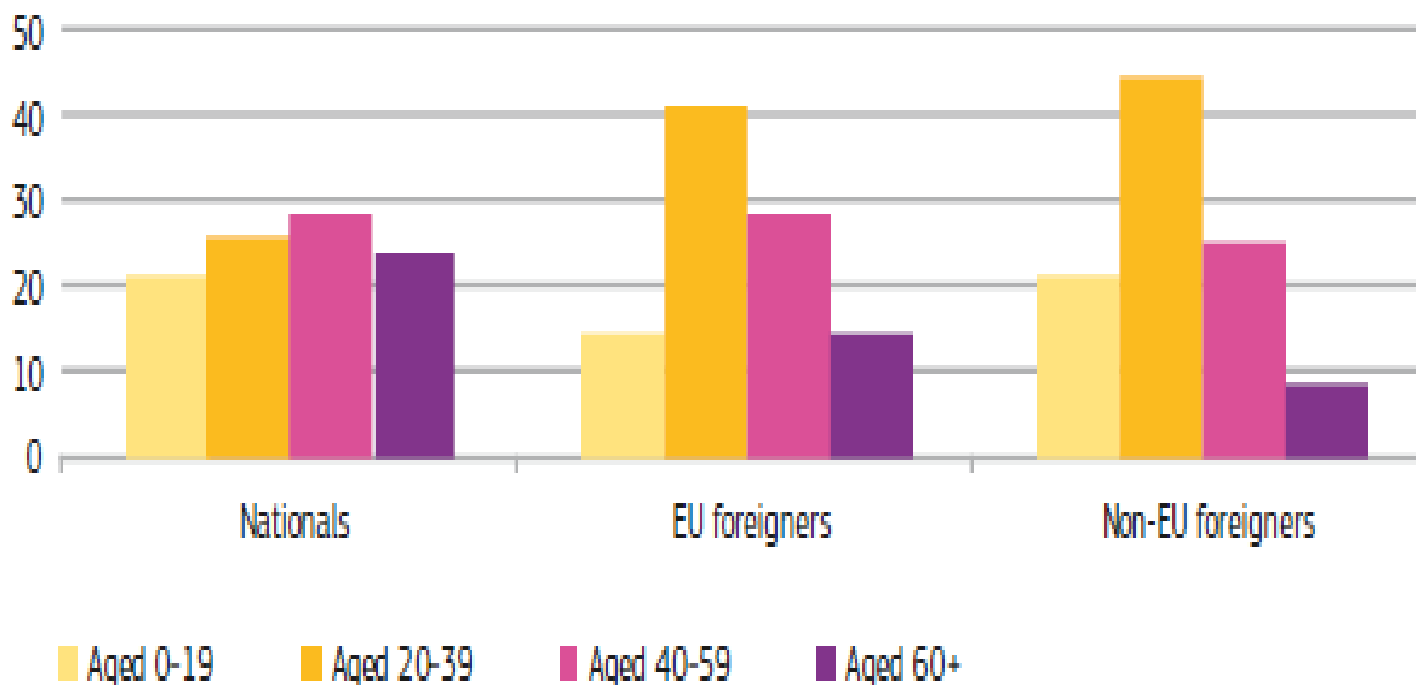


Source: Eurostat (online data code: demo\_gind).

(1) Break in series, 1998.

(2) Provisional, 2008 and 2009.

Figure 2.4: Age distribution of nationals and non-nationals (EU and other), EU-27, 2010 (%)



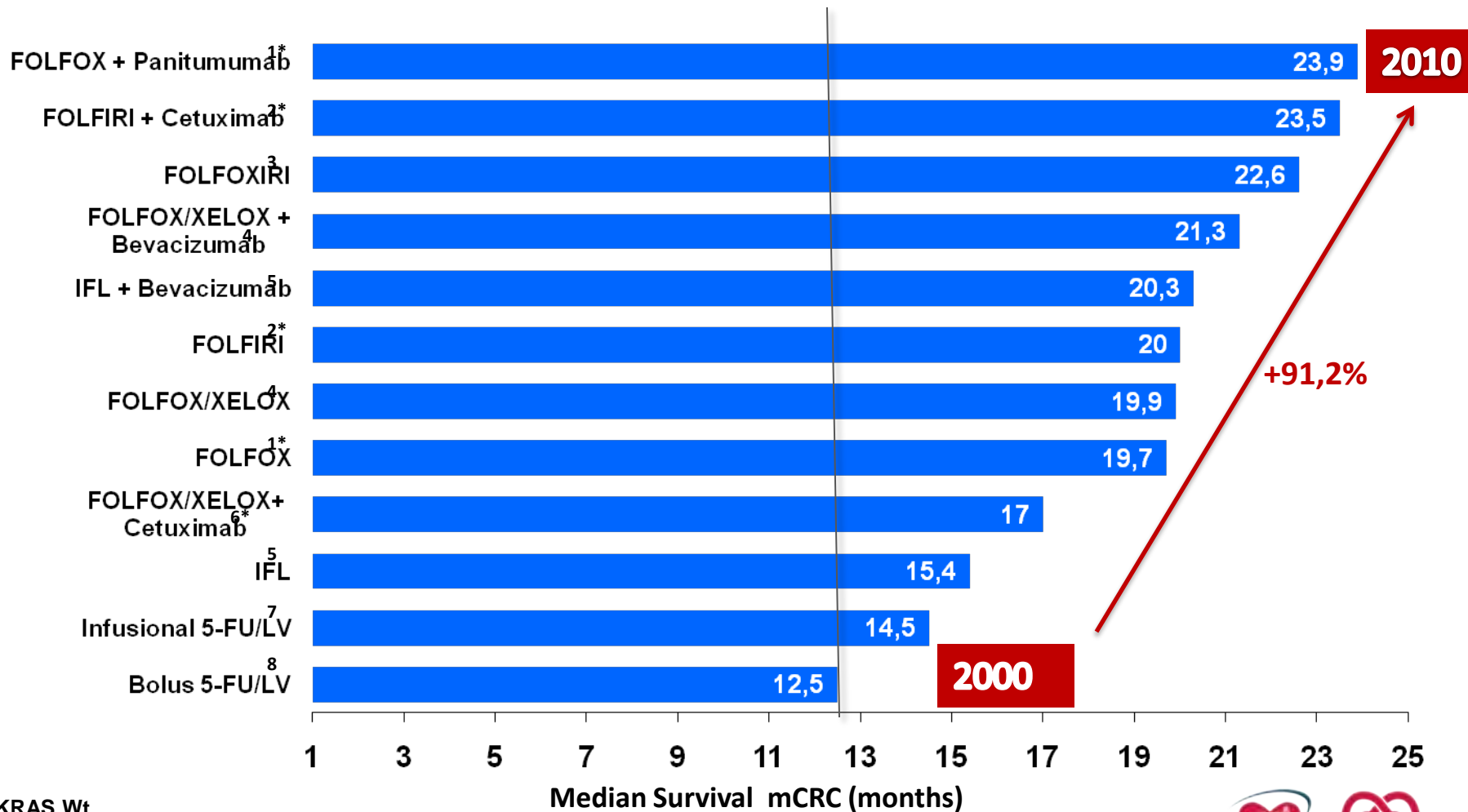
Source: Eurostat (online data code: migr\_pop1ctz).



# COST OF SERVICES



# Mean survival in metastatic colorectal cancer



\*KRAS Wt

1.Siena S, et al. ASCO-GI 2010. 2.Van Cutsem E, et al. ASCO-GI 2010; 3.Falcone A, et al. JCO 2007; 4.Saltz LB, et al. JCO 2008; 5.Hurwitz HI, et al. NEJM 2004; 6. Maughan T. et al. ASCO GI 2010 7.De Gramont A, et al. JCO 2000; 8.Saltz LB, et al. NEJM 2000;

[www.escardio.org/EHRA](http://www.escardio.org/EHRA)

\* 2 survival  
\* 466 cost !!!!

VOLUME 25 · NUMBER 2 · JANUARY 10 2007

JOURNAL OF CLINICAL ONCOLOGY

REVIEW ARTICLE

Cost of Cancer Care: Issues and Implications

Neal J. Meropol and Kevin A. Schulman

**Table 4.** Cost of Colorectal Cancer Treatment

Regimen	Cost per 6 Months (\$)
FU/LV daily for 5 days, monthly	96
Infusional FU/LV every 2 weeks	352
Capecitabine for 14 days, every 3 weeks	11,648
Irinotecan every 3 weeks	30,100
Irinotecan weekly for 4 weeks, every 6 weeks	21,500
FOLFIRI every 2 weeks	23,572
FOLFOX every 2 weeks	29,989
Bevacizumab (alone) every 2 weeks	23,897
Cetuximab monotherapy weekly	52,131
Panitumumab	44,720



NOTE. Only drug costs included. Costs based upon average sales price for 70 kg patient with body surface area 1.7 m<sup>2</sup>. Wholesale acquisition costs were used for panitumumab, as average sales price was not available at the time of publication.

Abbreviations: FU, fluorouracil; LV, leucovorin; FOLFIRI, irinotecan, LV, and infusional fluorouracil for 46 hours; FOLFOX, oxaliplatin, LV, infusional FU for 46 hours.

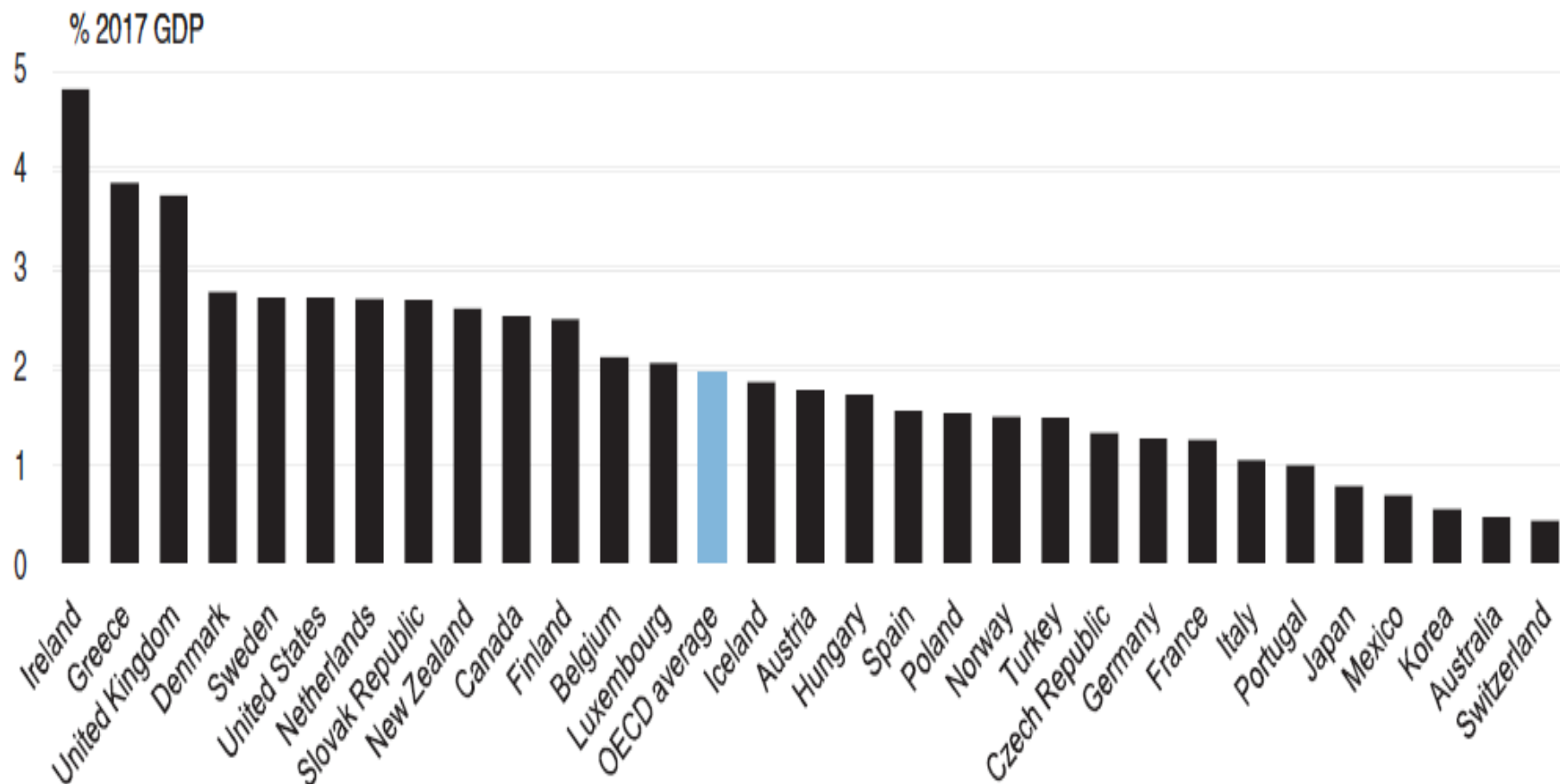


# INEFFICIENCY



# Inefficiency in health care

## C. Potential savings in public spending<sup>3</sup>



3. Potential savings represent the difference between a no-reform scenario and a scenario where countries would become as efficient as the best performing countries.

Source: OECD Health Data 2009; OECD calculations.

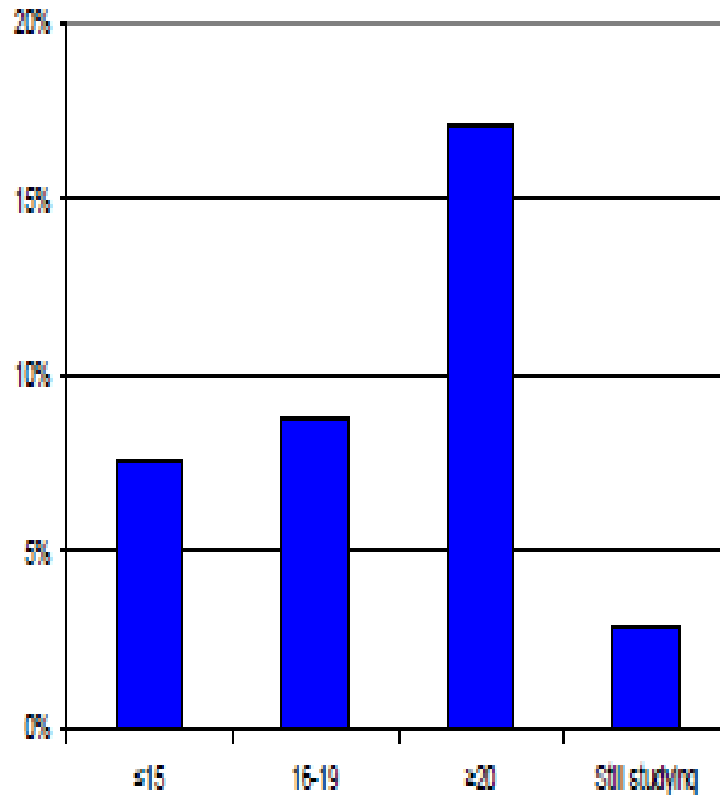


# MOBILITY



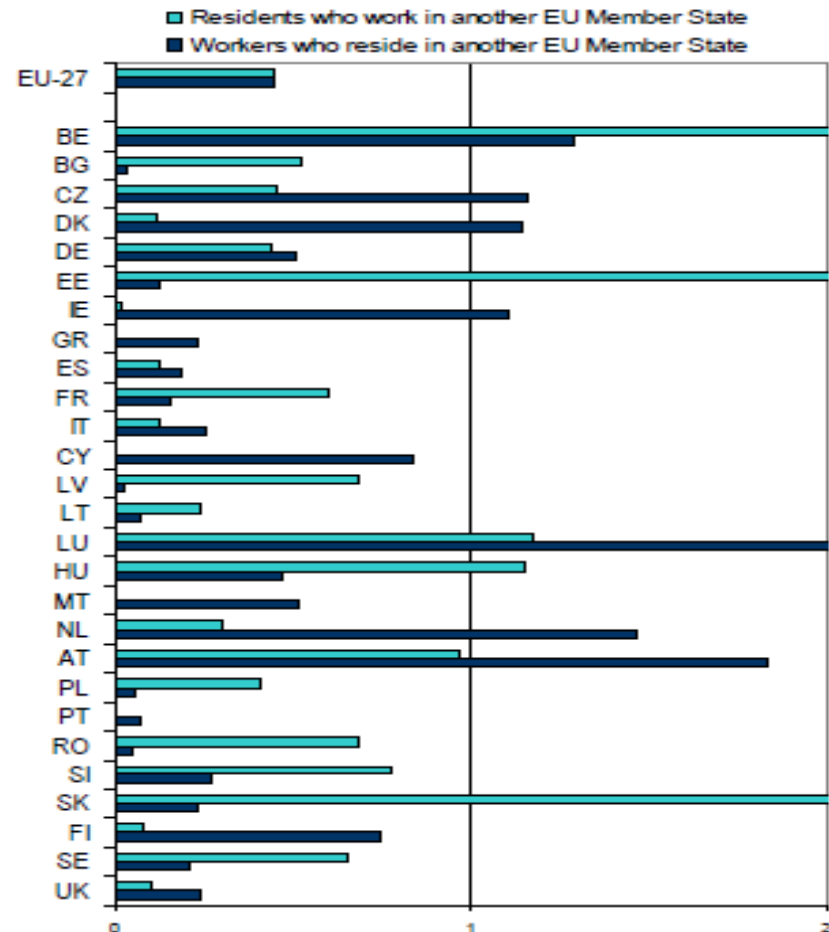
# Mobility stretches systems

Graph II.3.2: EU nationals who have lived and worked abroad in the past by group of age at end of full-time education, EU-27, 2009 (%)



Source: Eurobarometer, EBS 337

Graph II.4.1: Workers residing in another EU Member State and residents working in another EU Member State, among workers, 2009 (%)



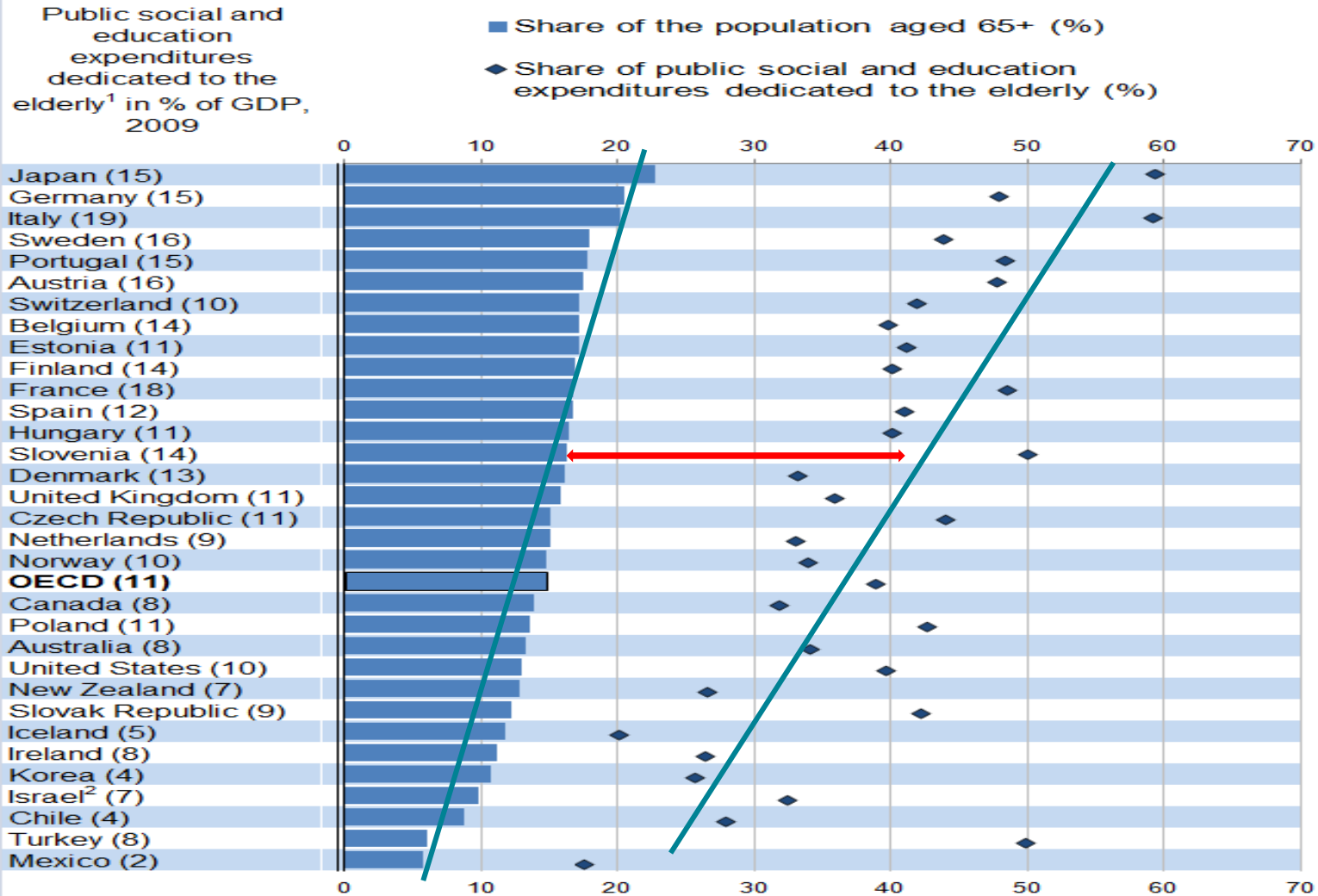
Values that fall outside the Graph are Belgium 2 %; Estonia 2.7 %; Luxembourg 37.1 %; Slovakia 5.5 %.  
Source: Eurostat, EU Labour Force Survey

# DEMOGRAPHICS



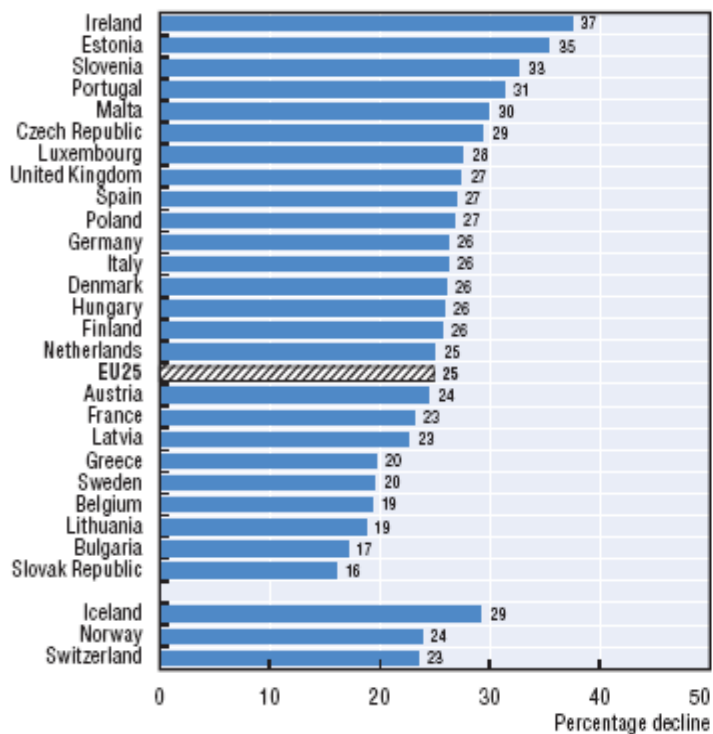
**Chart 5. Most social spending goes to the elderly**

Share of public social spending, including education, towards the population aged 65 and over

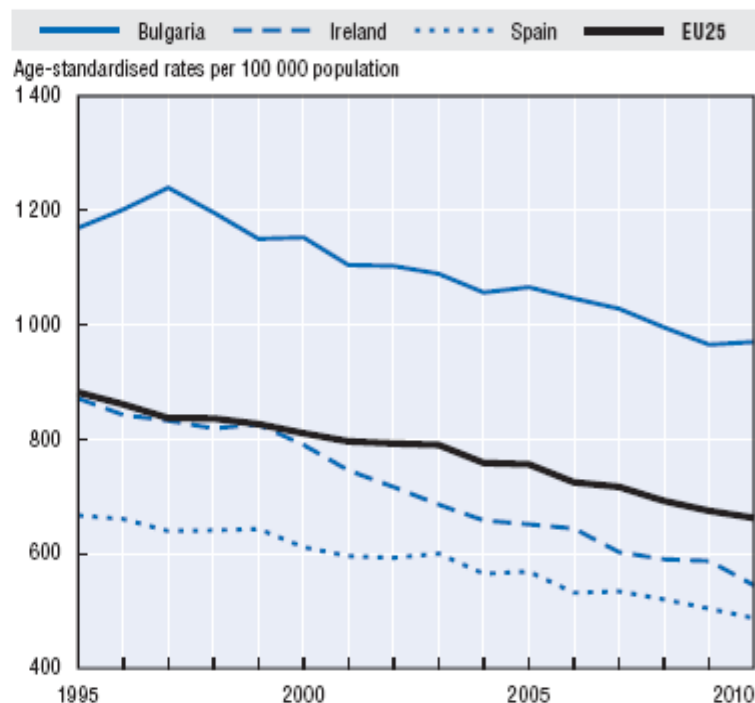


# Mortality Rates are falling

1.3.2. Decline in mortality rates from all causes, 1995-2010 (or nearest year)



1.3.3. Trends in mortality rates from all causes, selected EU member states, 1995-2010



Source: Eurostat Statistics Database. Data are age-standardised to the WHO European standard population.

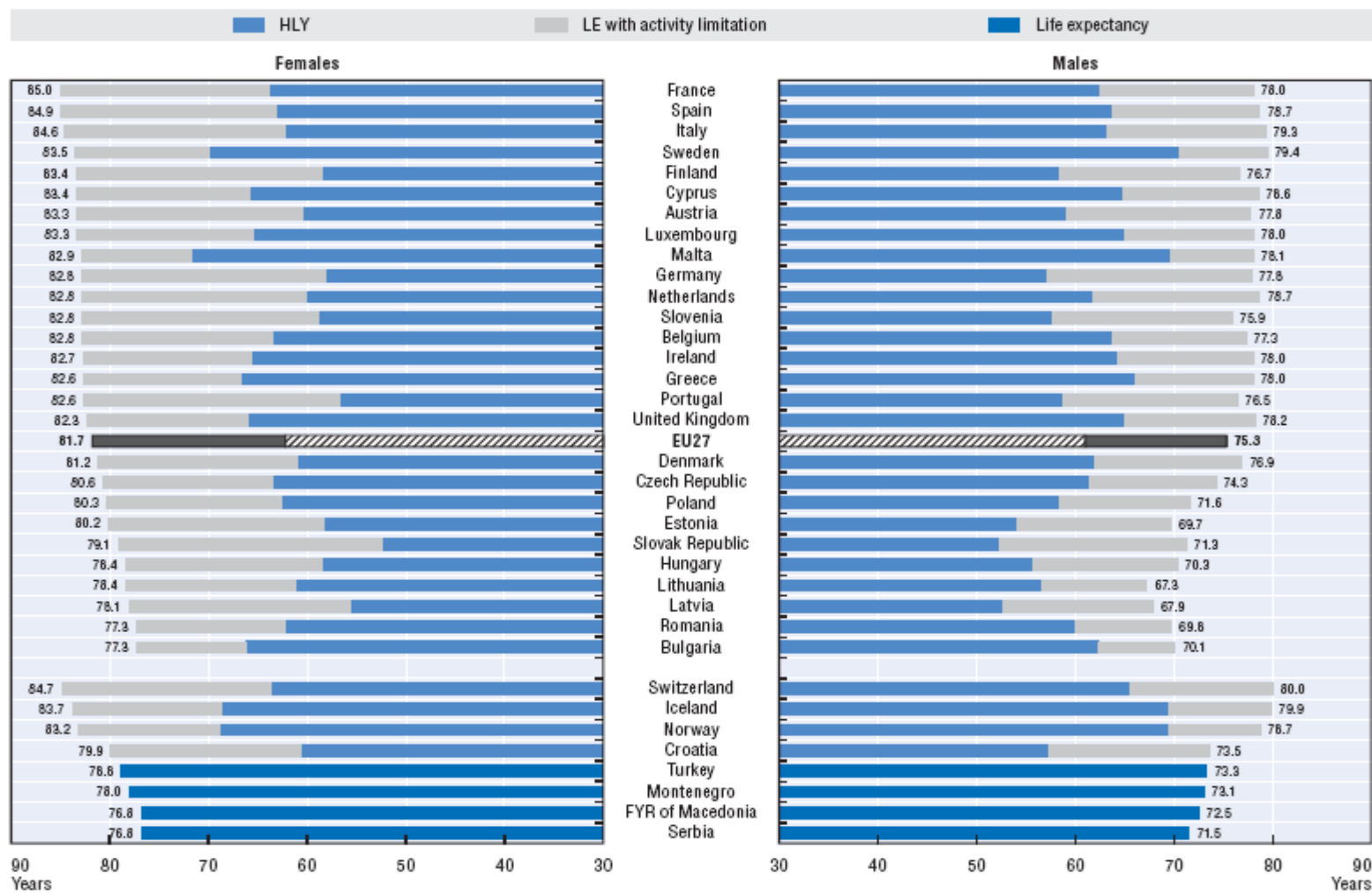
StatLink <http://dx.doi.org/10.1787/888932703012>

Source: Eurostat Statistics Database. Data are age-standardised to the WHO European standard population.

StatLink <http://dx.doi.org/10.1787/888932703031>

# Life Expectancy increases

1.1.1. Life expectancy (LE) and healthy life years (HLY) at birth, by gender, 2008-10 average

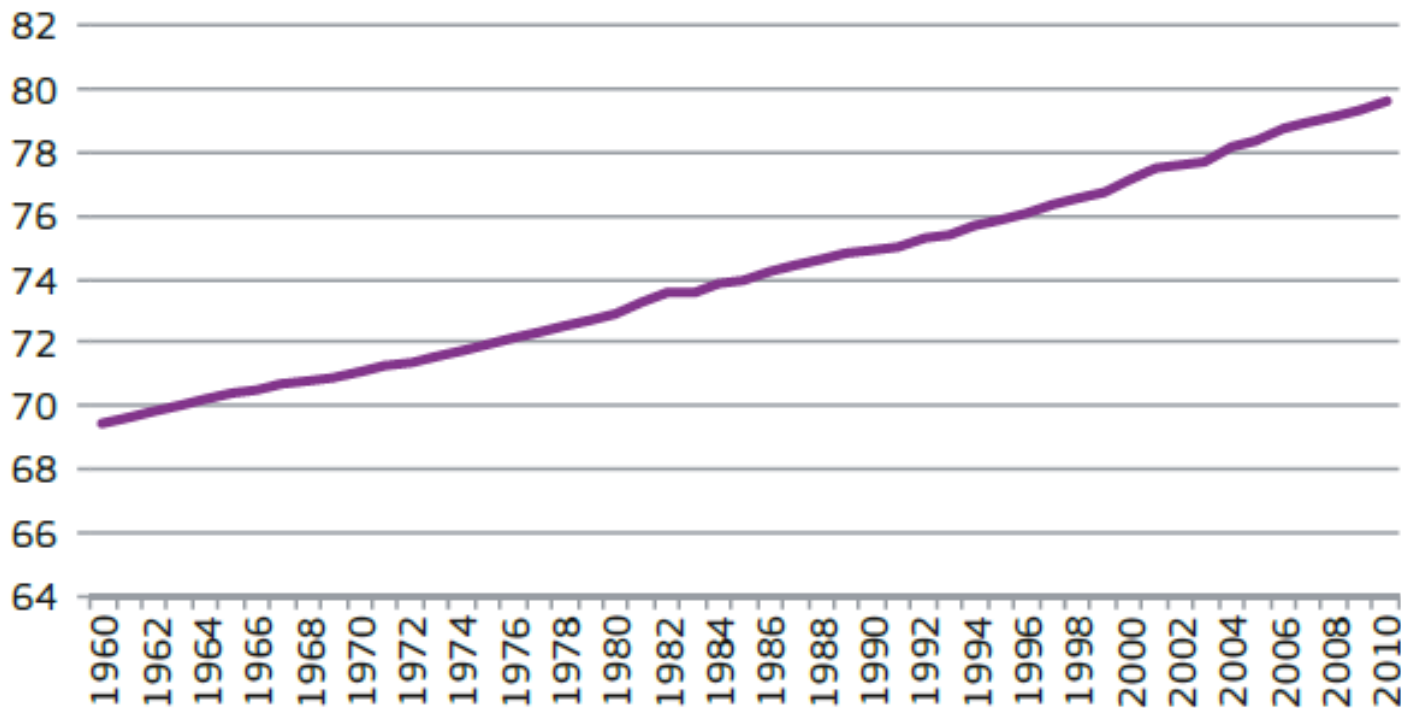


Source: Eurostat Statistics Database; Joint Action: EHLEIS (2012).

# Demography report 2010

*Older, more numerous and diverse Europeans*

Figure 1.1: Life expectancy at birth in the EU-27

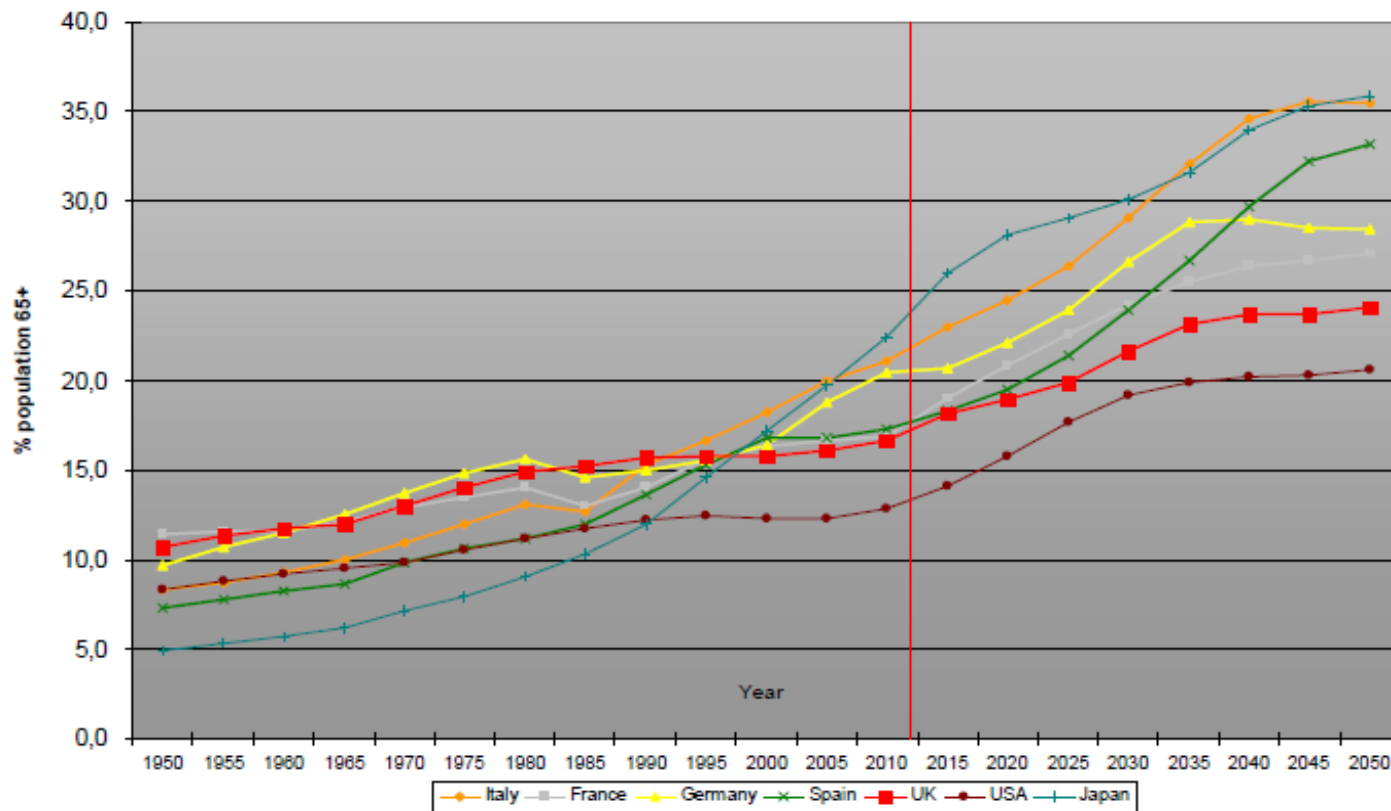


Source: World Bank, health database (<http://data.worldbank.org/topic/health>).



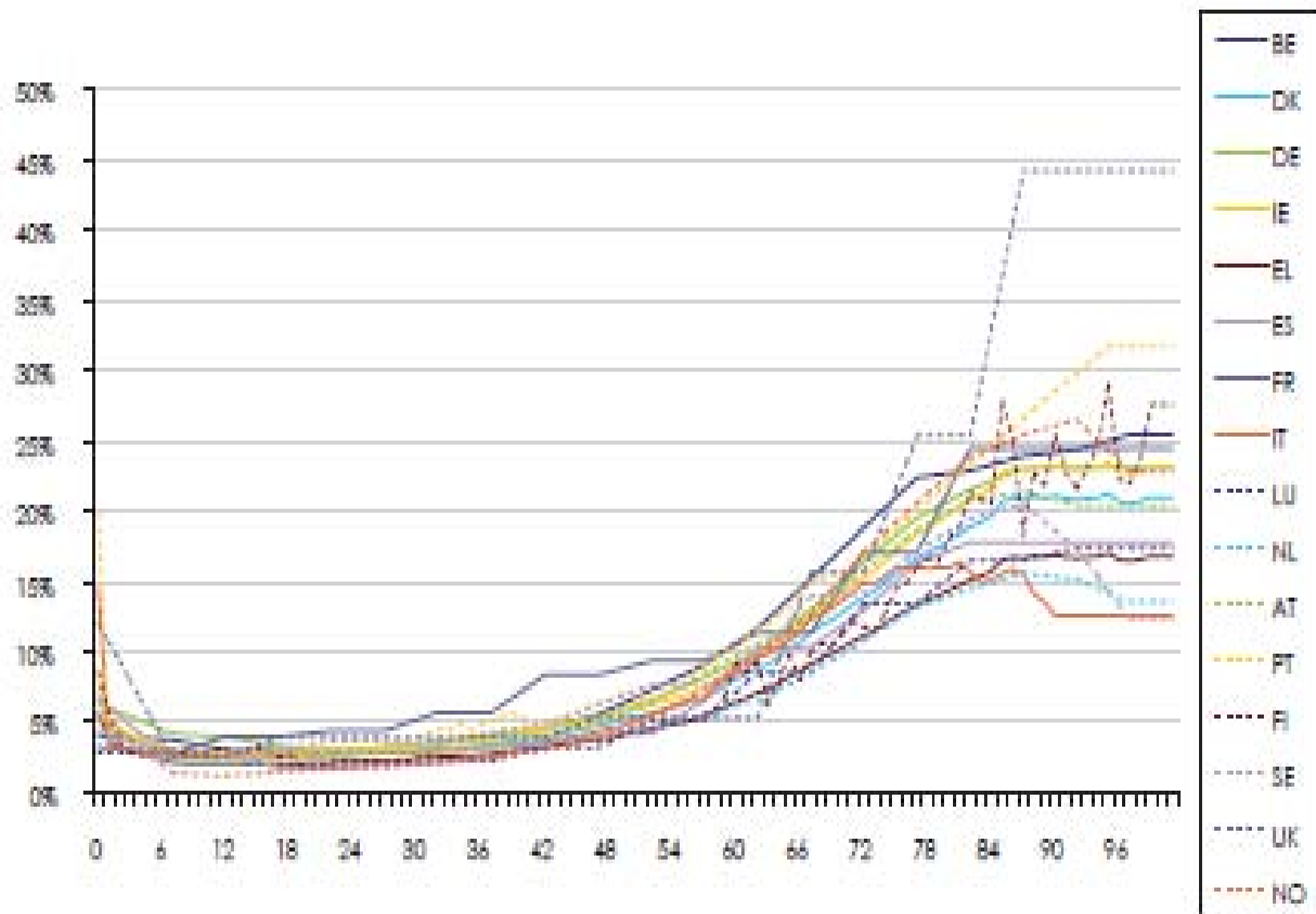
# The number of elderly increases

## Population above 65



Source: United Nations' Dept Economic & Social Affairs, 2006

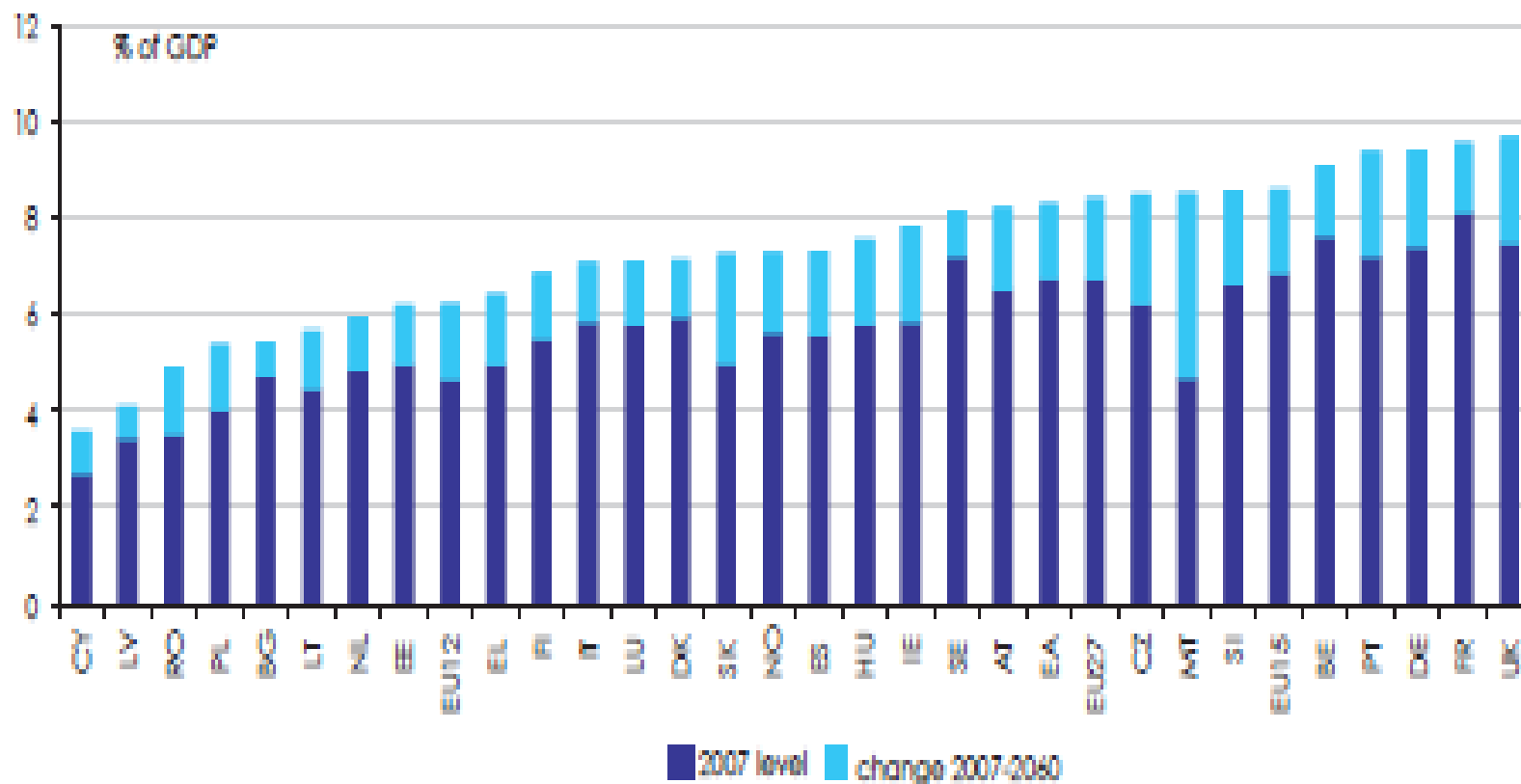
# Per capita health expenditure as % of per capita GDP by age



Source: The 2009 Ageing Report: economic and budgetary projections for the EU-27 Member States (2008-2060).

The European Commission (DG ECFIN) and the Economic Policy Committee (AWG) ISBN 978-92-79-11363-9. DOI 10.2765/80301. © European Communities, 2009

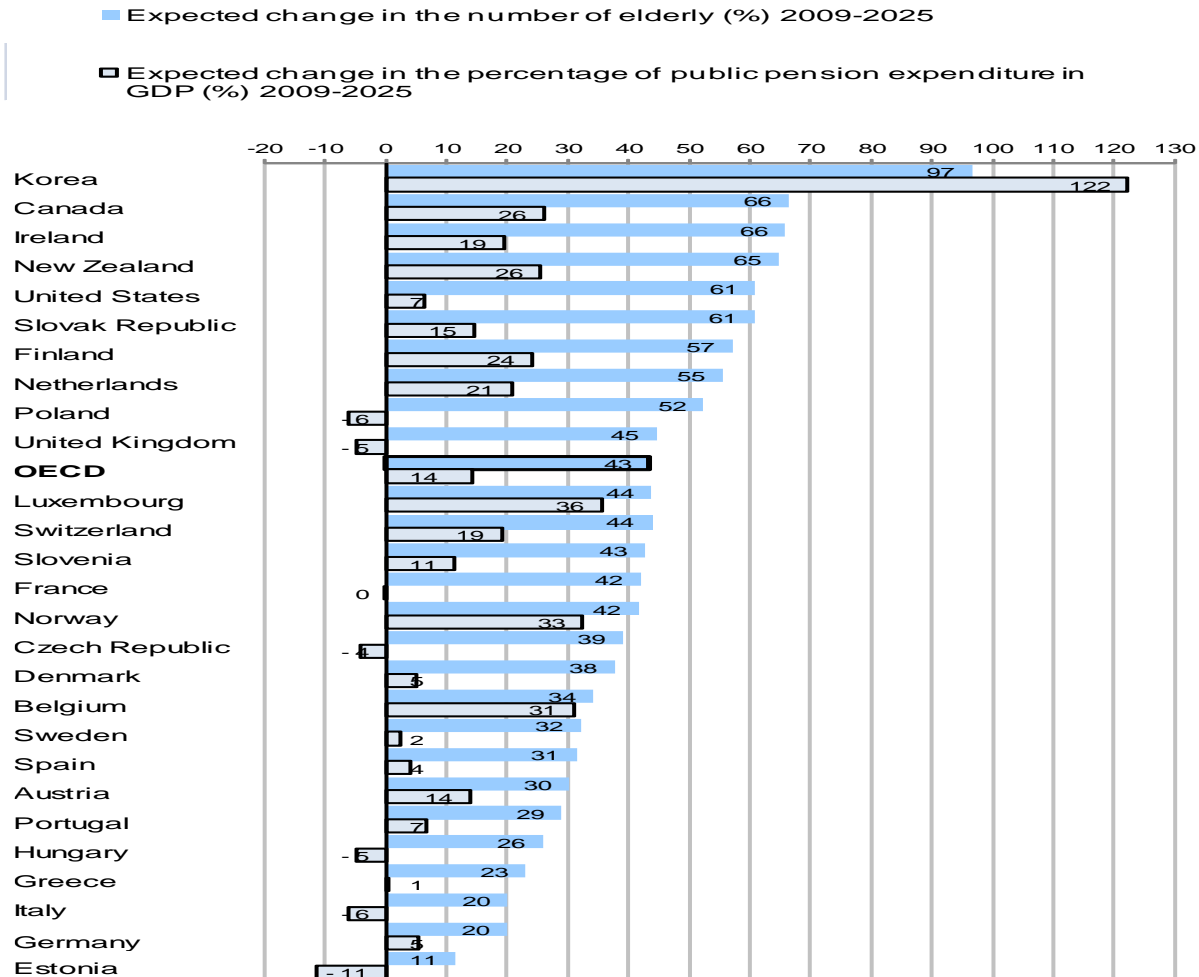
Graph 68 – Impact of demographic change on public expenditure on health care (% of GDP, 2007-2060)



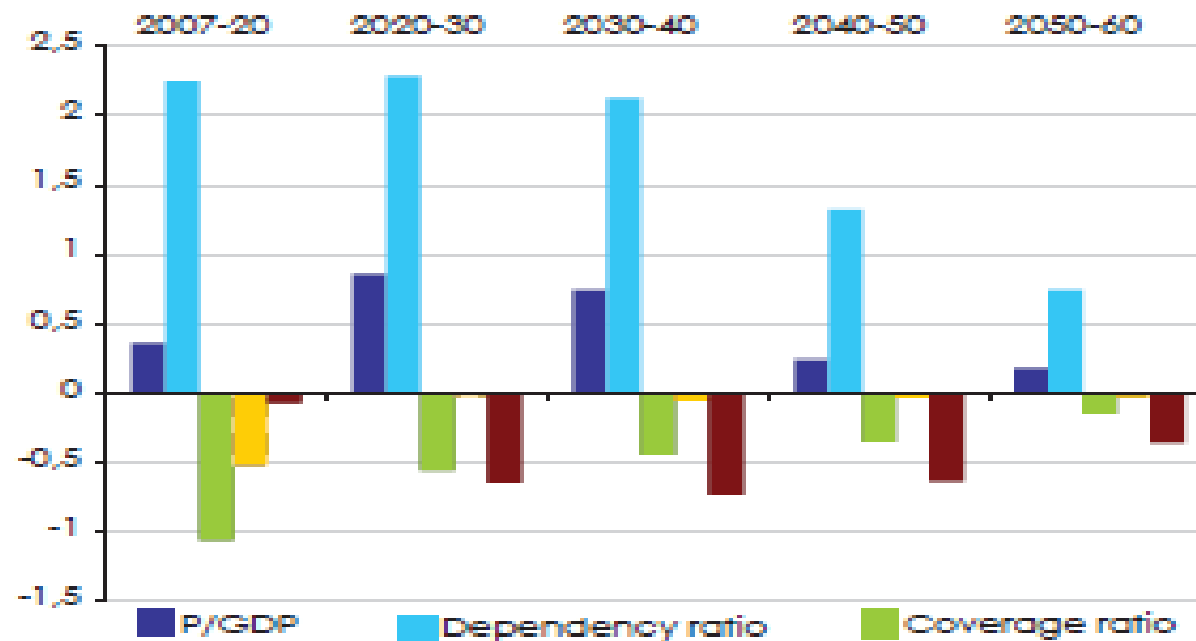
Source: Commission services, EPC.

# Pension will also grow

**Chart 6. Pension spending will grow but not as fast as elderly populations**



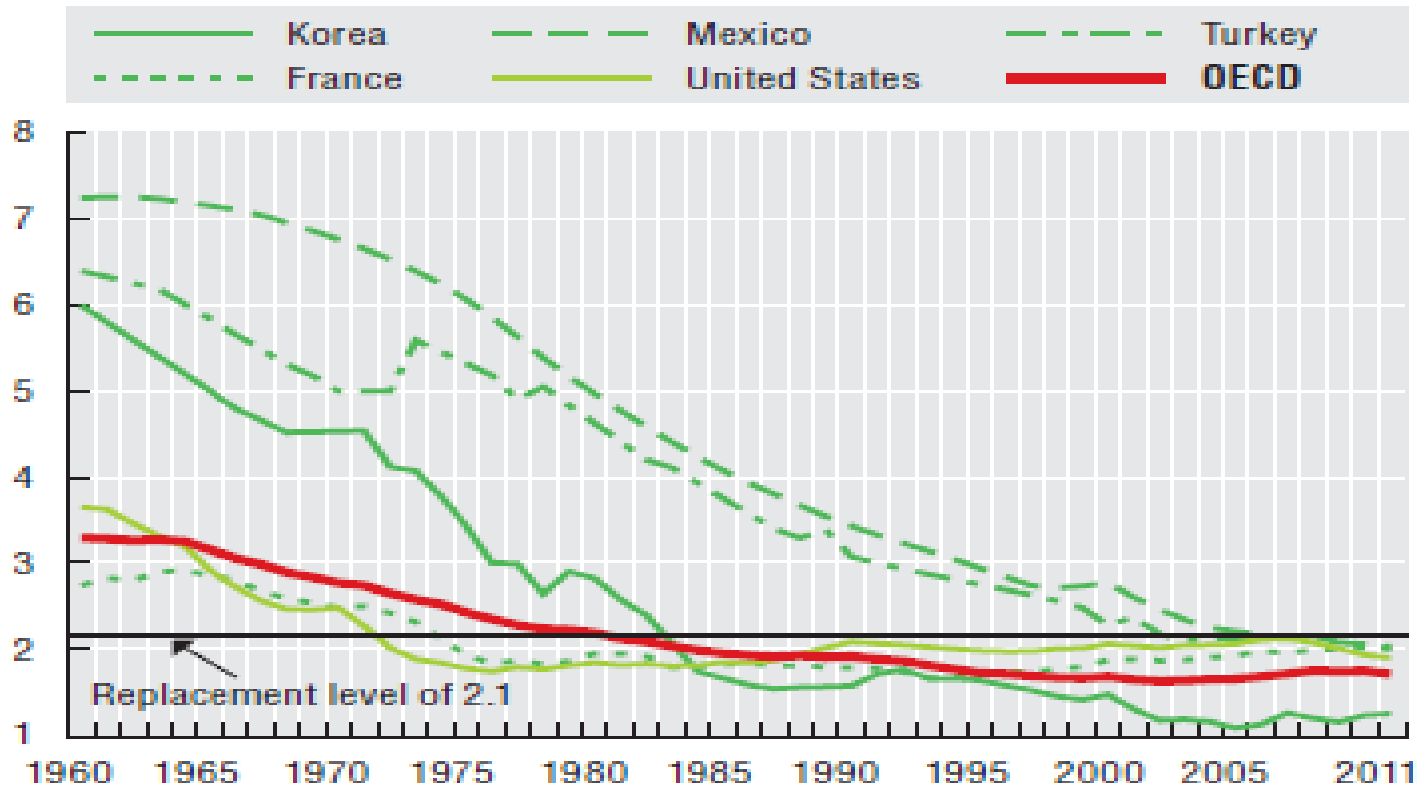
Graph 52 - Decomposition of the public pension spending to GDP ratio over sub periods for EU27 (in percentage points)




Source: Commission services, EPC.

# Fertility is falling

Panel A. Long-term trends:  
Total fertility rate from 1960 to 2011

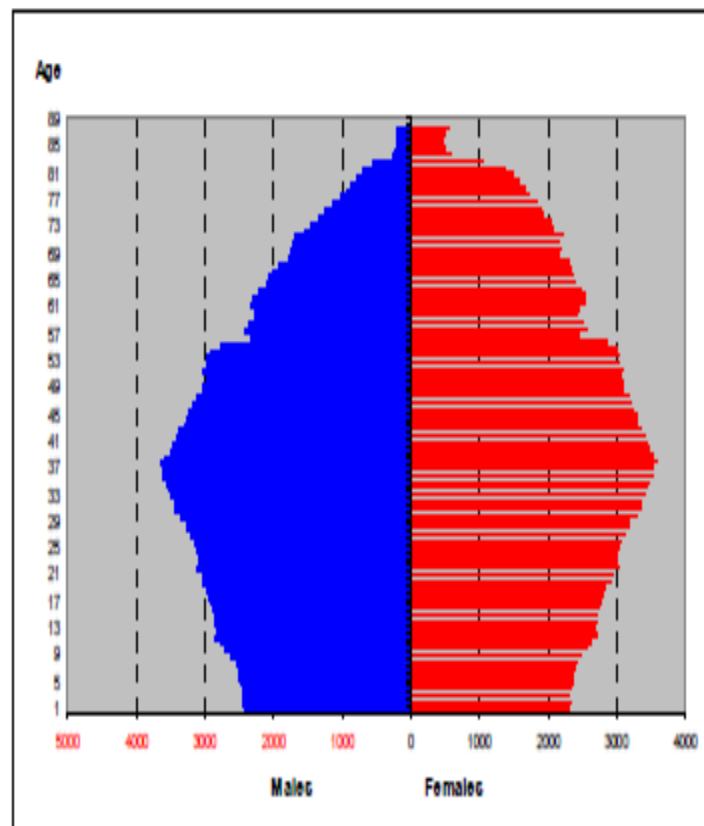


Source: National statistical offices and World Development Indicators (<http://data.worldbank.org>) for non-OECD G20 countries.

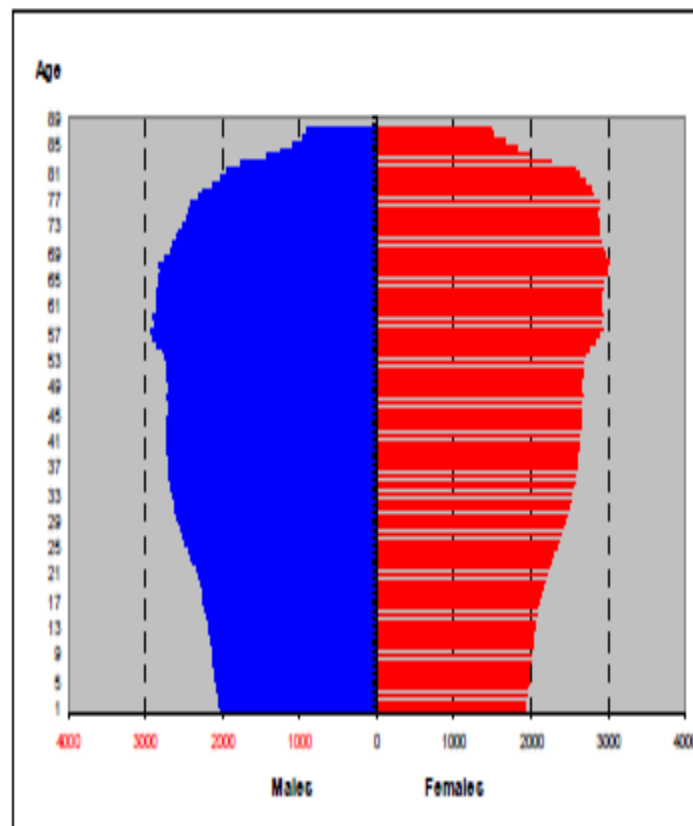
StatLink  <http://dx.doi.org/10.1787/888932966295>

## Age pyramids for EU25 population in 2004 and 2050

2004



2050



# The synthesis of population changes

Figure 1.4: EU-27 Population by age group, 2010-2060 (%)<sup>(1)</sup>

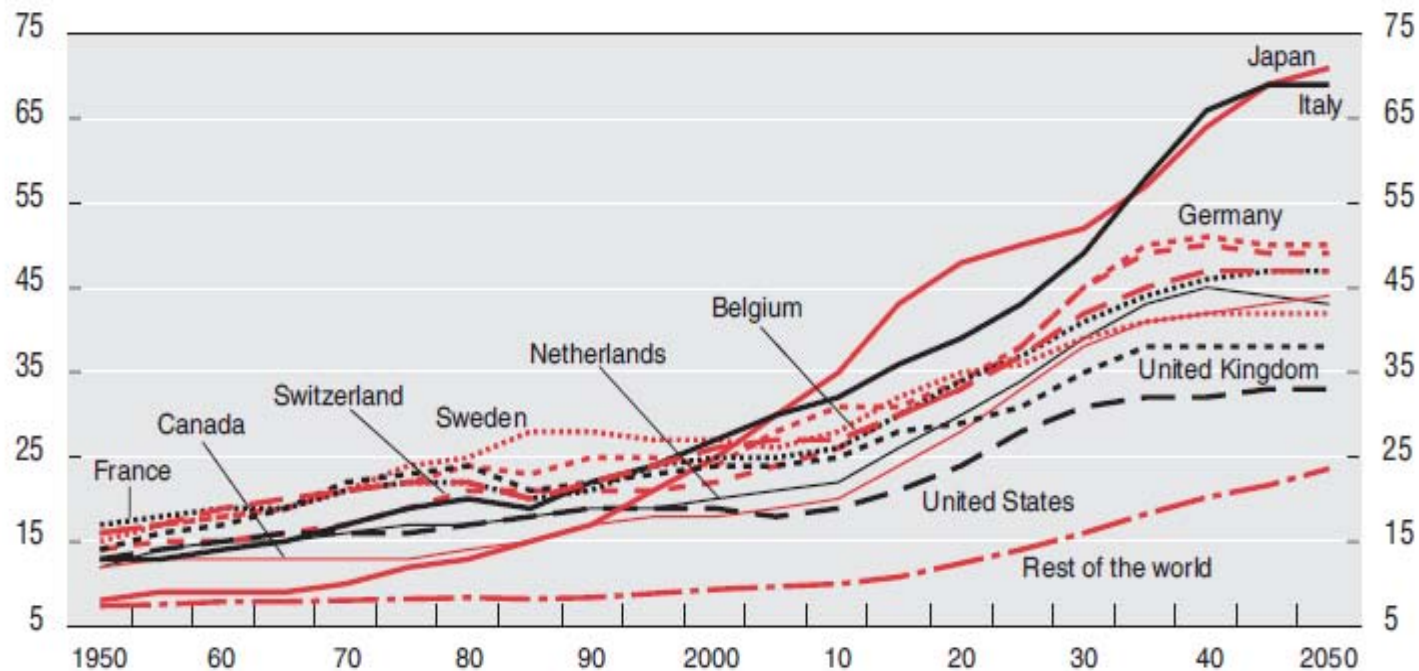




# A sharp increase in dependency ratios

Figure I.1. Old-age dependency ratios are increasing sharply

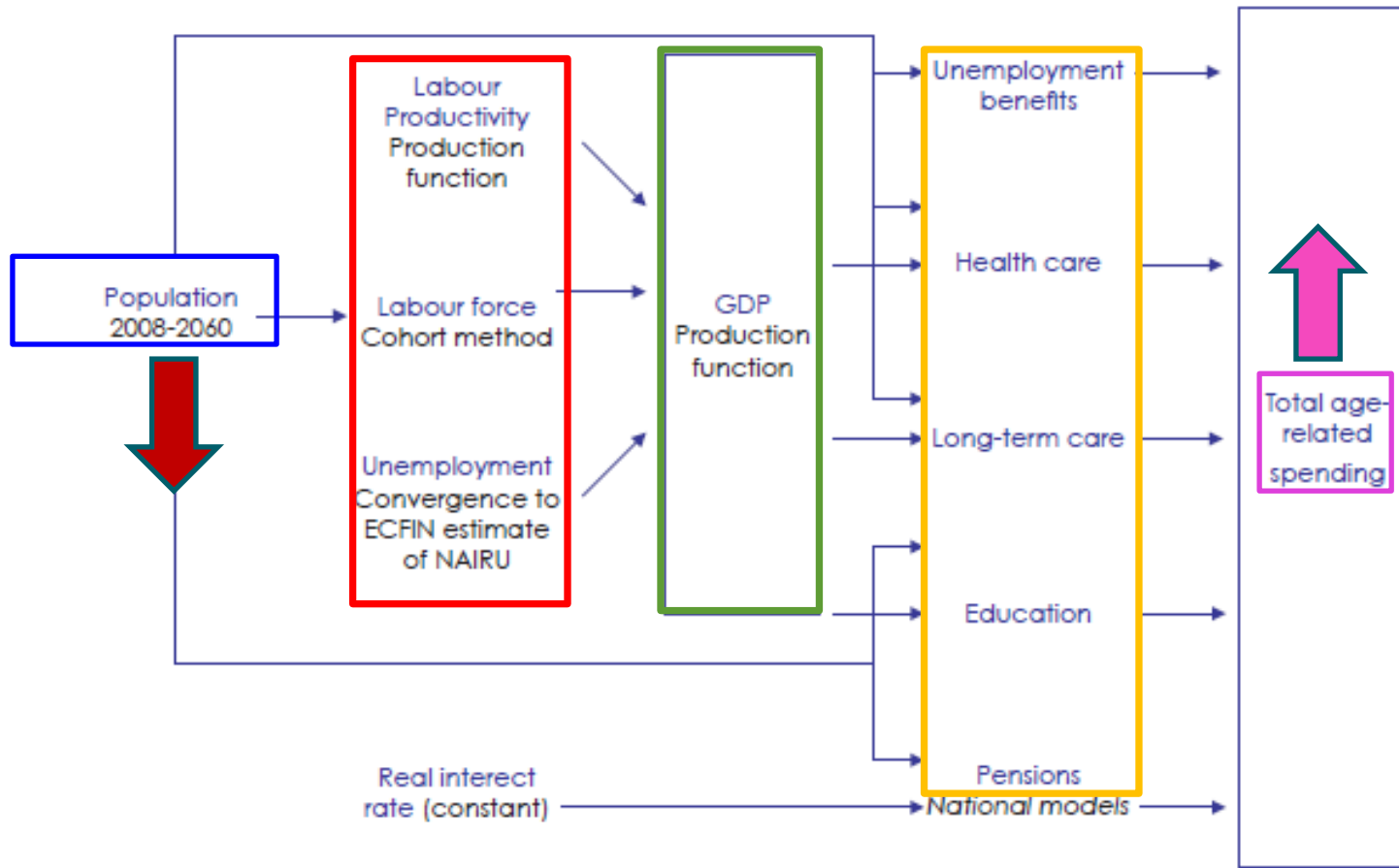
Ratio of the population aged 65 years or over to the population aged 15-64, in per cent



Source: United Nations Population Division, *World Population Prospects: the 2004 Revision*.

# The mechanics

Graph 1 - Overview of the 2009 projection of age-related expenditure



Source: Commission services, EPC.

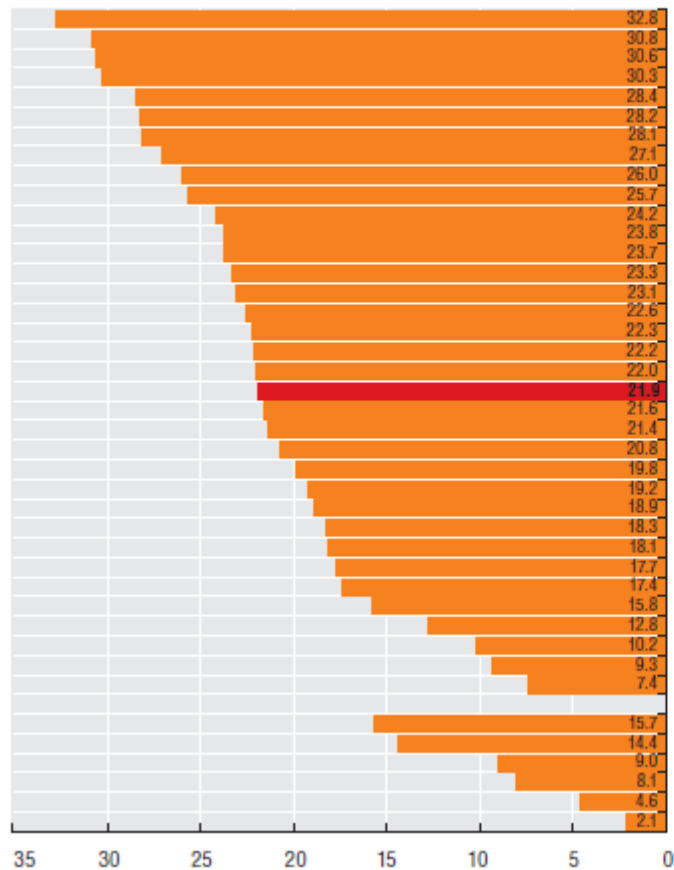
# EFFECTS OF ECONOMIC CRISIS



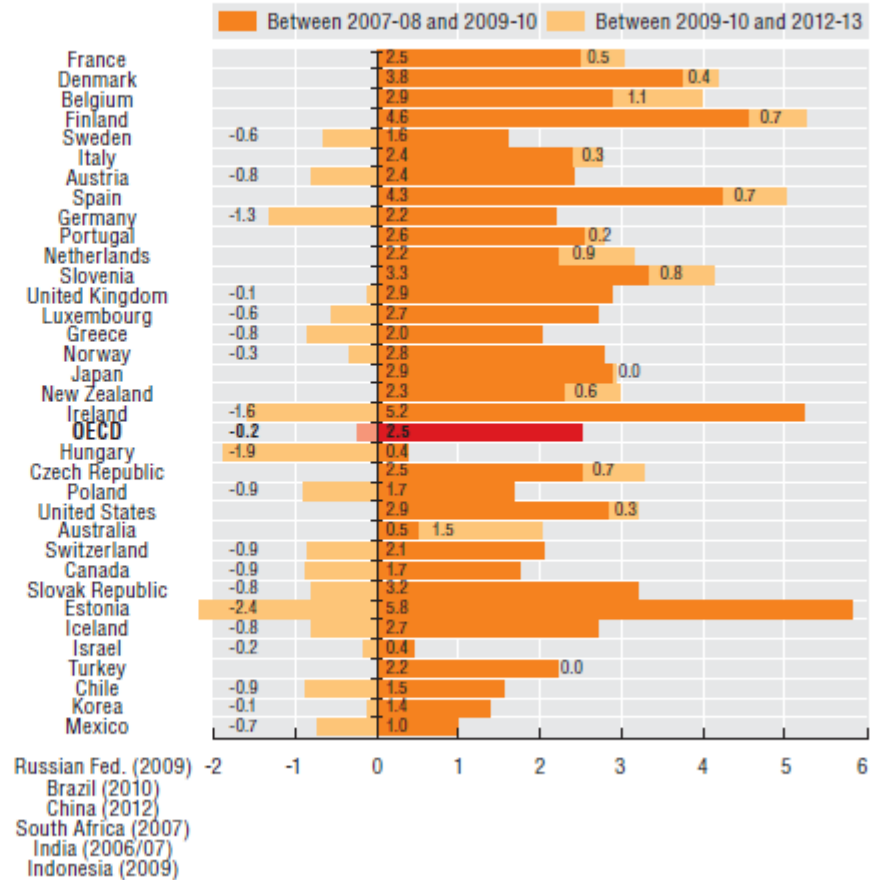
# The welfare state is growing

## 5.7. Social expenditure increased during the crisis

Panel A. Public social expenditure in percentage of GDP, 2012-13

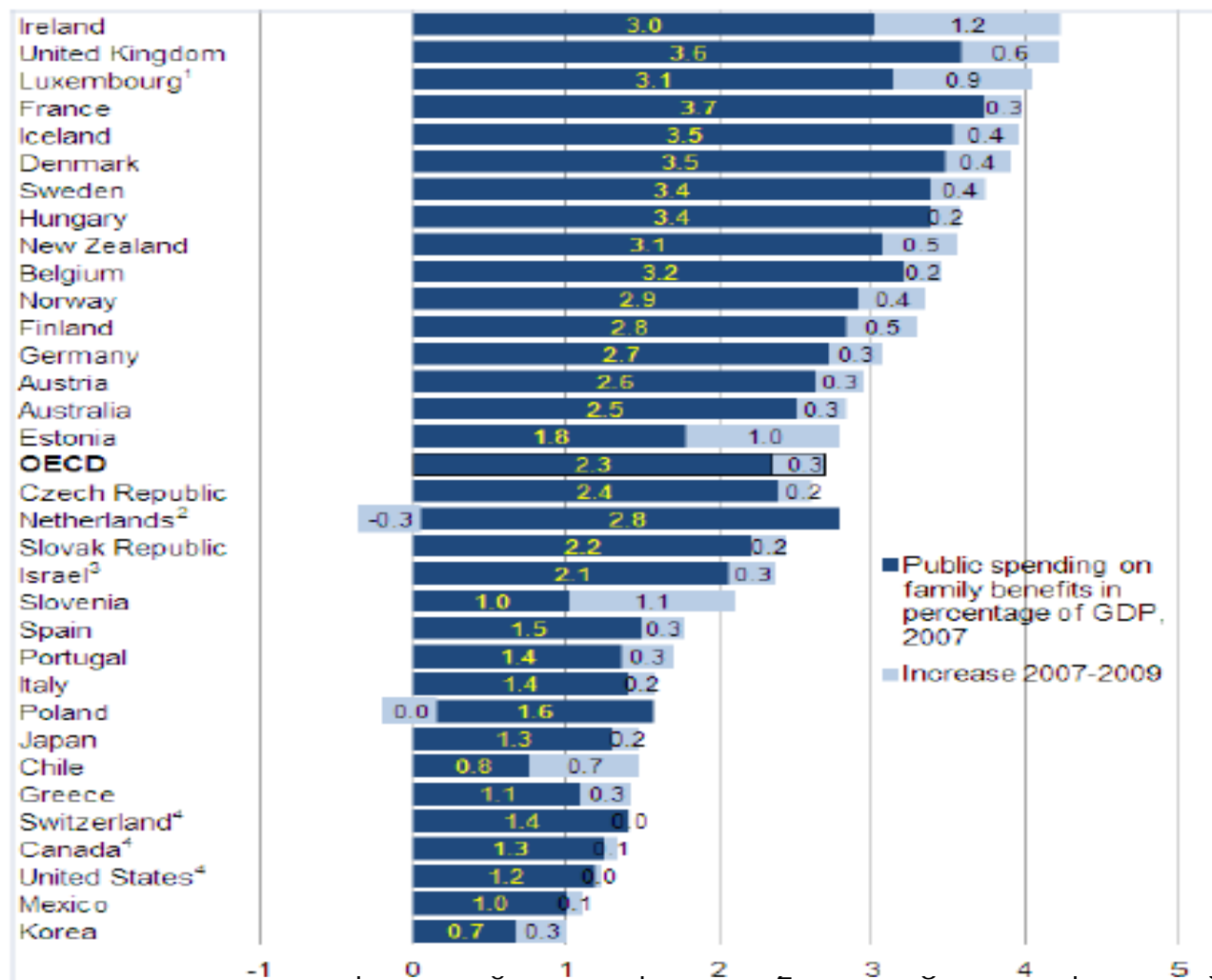


Panel B. Percentage point change



### 3 Family spending went up most in countries with income-tested child benefits

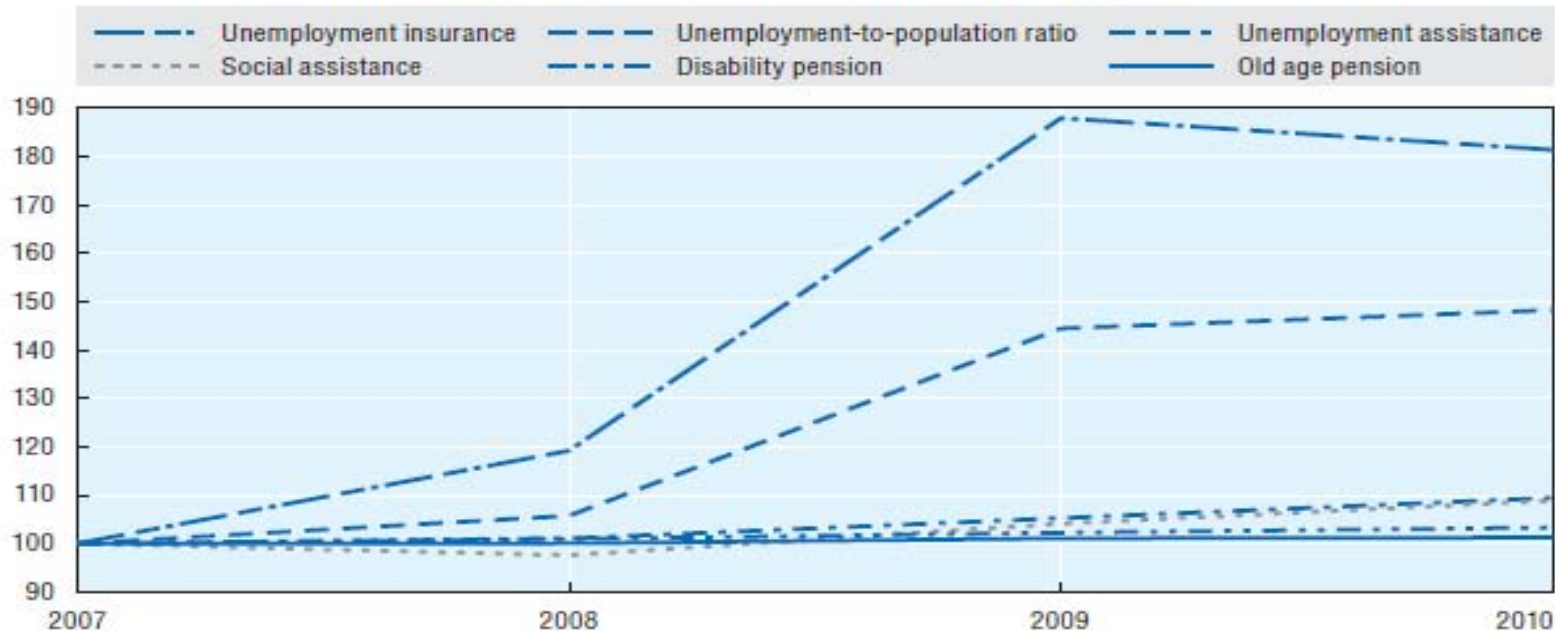
Public spending on family benefits as percentage of GDP



Source: OECD Social Expenditure database ([www.oecd.org/els/social/expenditure](http://www.oecd.org/els/social/expenditure)).


**Figure 1.13. More people receive unemployment benefit, but receipt of “inactive” benefits has largely remained stable**

OECD total, number of recipients in 2007 shown as 100

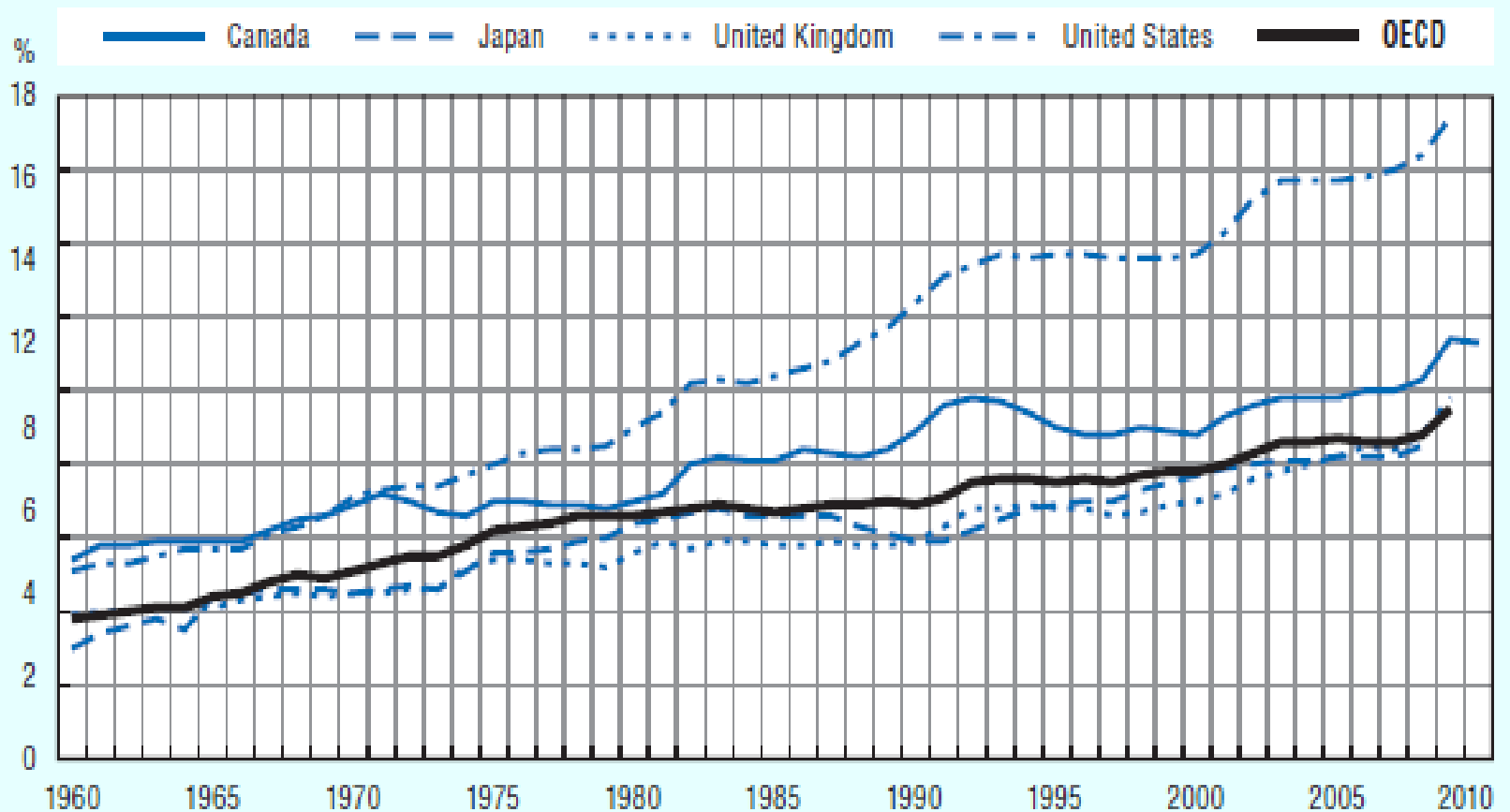


Note: Unemployment and benefit recipient ratios relative to the working-age population (total population for old-age benefits).

Source: Calculations based on OECD (2014), Social Benefit Recipients Database.

StatLink  <http://dx.doi.org/10.1787/888932966105>

## Health expenditure as a share of GDP, 1960-2009, selected OECD countries

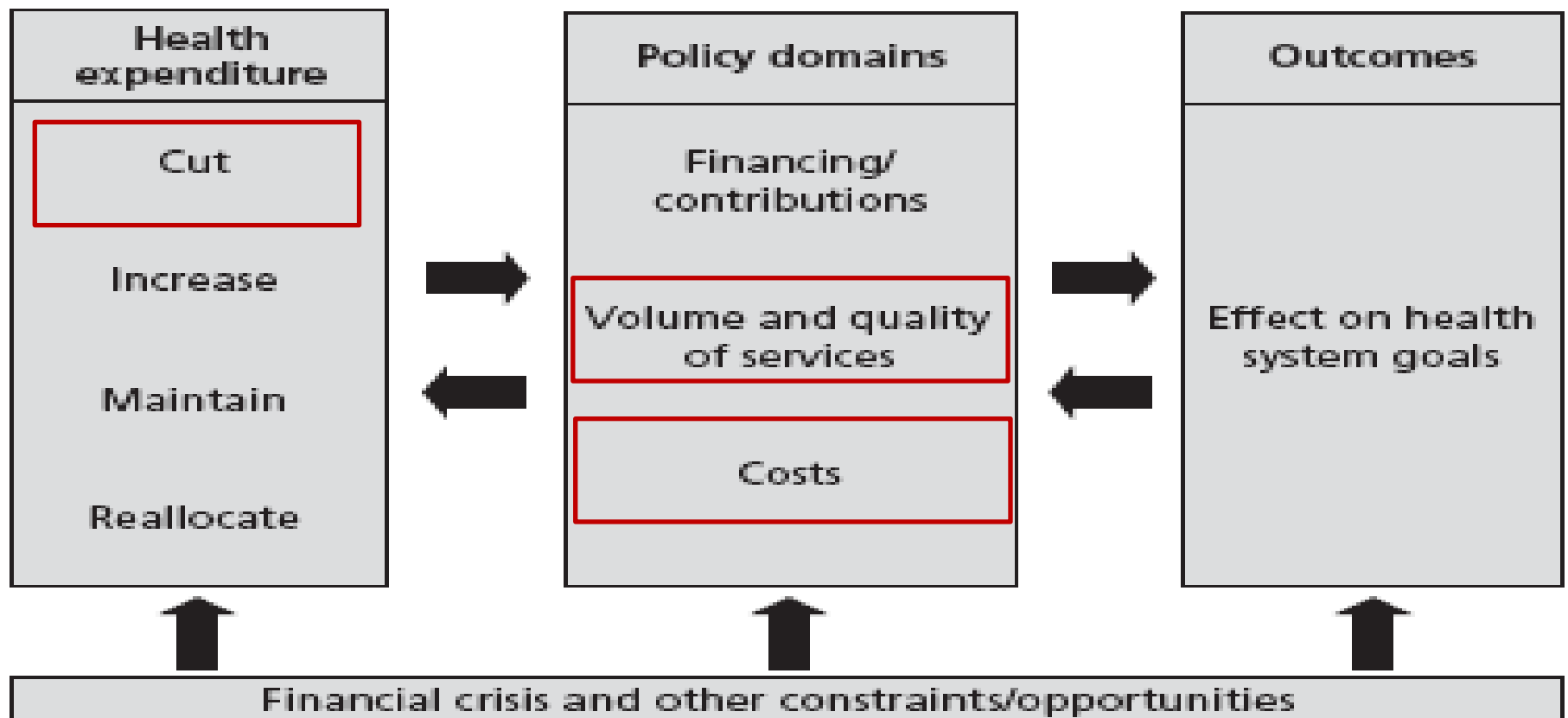


Source: OECD Health Data 2011.

# Health policy responses to the financial crisis in Europe

Philipa Mladovsky, Divya Srivastava, Jonathan Cylus, Marina Karanikolos, Tamás Evetovits, Sarah Thomson, Martin McKee

Fig. 1. Health policy responses to the financial crisis and other economic shocks

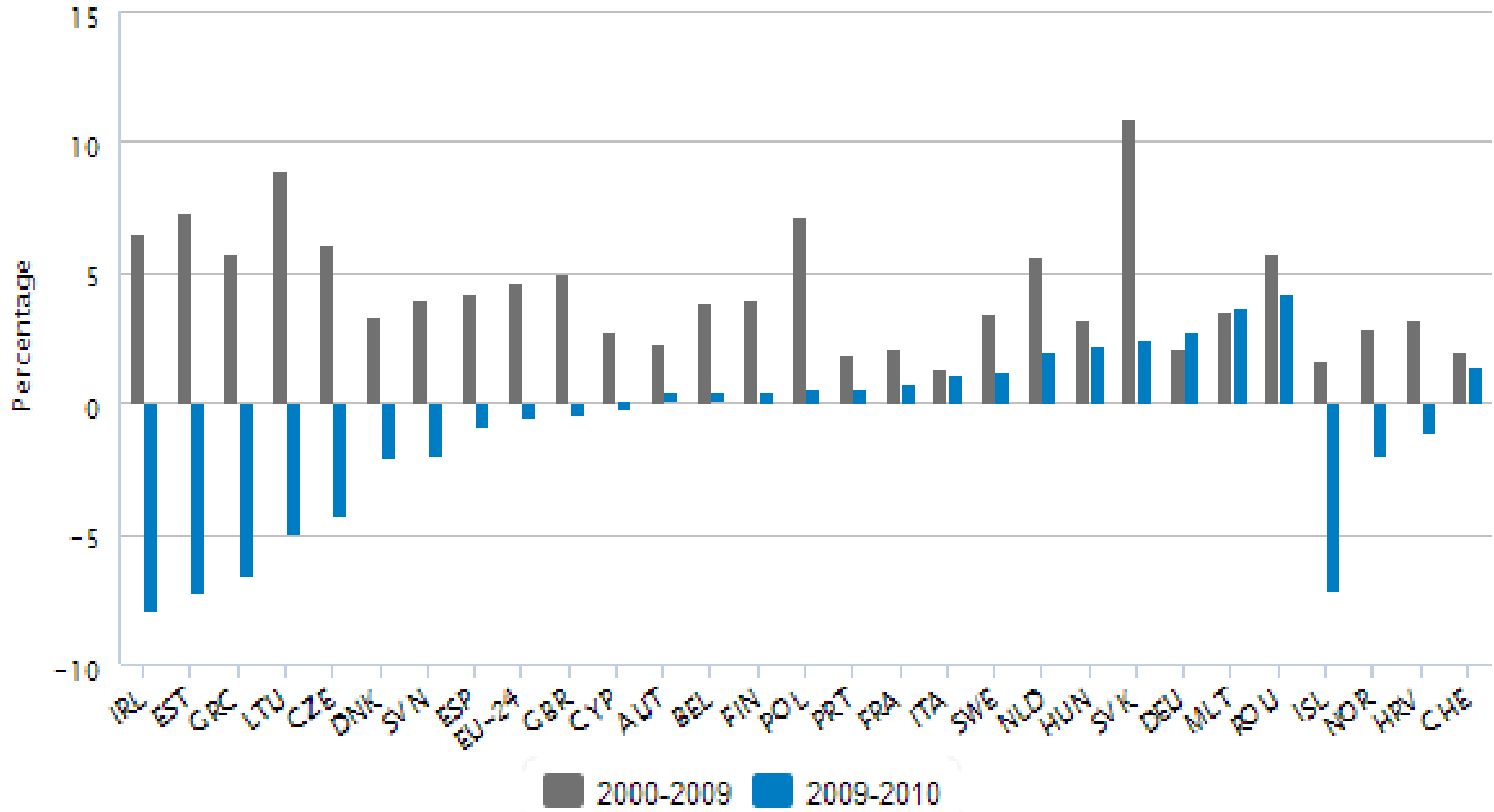




# Health spending in Europe falls for the first time in decades

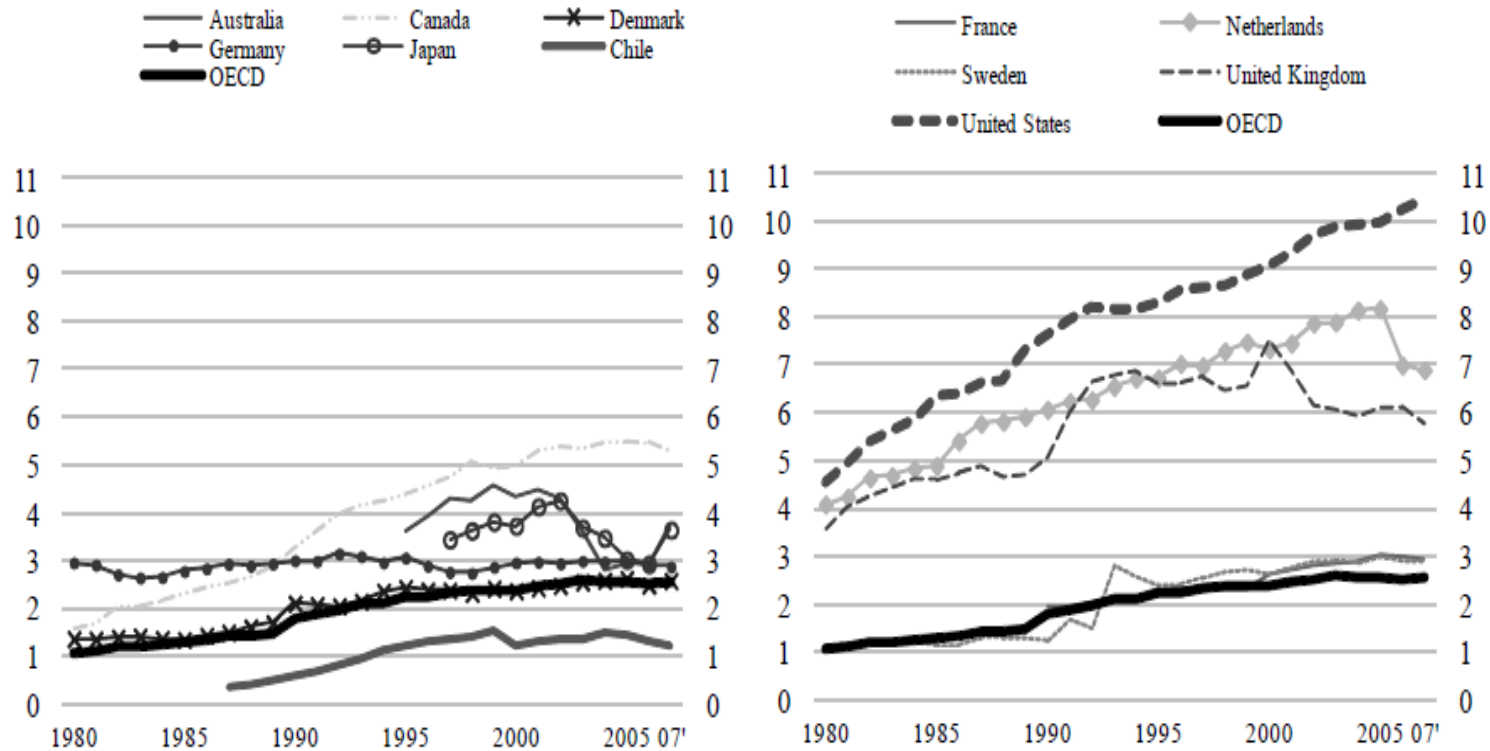
## Health spending in the EU falls in 2010

Annual growth rate in health expenditure per capita



# Private social spending is constantly increasing

Mandatory and voluntary private social spending, in percentage of GDP, 1980 to 2007



Note: Significant change for Japan and the United Kingdom results from a break in series.

Source: OECD Social Expenditure database (SOCX, [www.oecd.org/els/social/expenditure](http://www.oecd.org/els/social/expenditure)).

# Conclusions – messages

- ❖ The welfare state is our most fundamental institutions in EU
- ❖ Despite beliefs and perhaps desires by some it is here to stay
- ❖ Despite scarcity of resources and economic turmoil is growing
- ❖ This is due to prevailing life expectancy & demographic trends
- ❖ Nonetheless socio-economic trends are threatening its survival
- ❖ Constant reforms needed to adopt it in an evolving environment
- ❖ There is a reallocation of resources and health care is losing

**WELFARE STATE:  
NEED TO FIXED IT, CANNOT BE OUTSOURCED**

