

Mauricio Rojas: Conclusions on the Welfare State in Europe

“Europe leaves us an important lesson concerning the loss of certain essential values, that is, the relationship between obligations and rights, between effort and results, between what individuals and the state should do. The long cooling period followed by the European crisis warns us on the dangers of the great State, which apparently can solve all our problems; however, with its interventionism, regulations, high taxes and excessive promises it ends up causing much more serious problems”.

Last October 22nd, Libertad & Desarrollo celebrated its 22nd anniversary with the Chilean intellectual and former member of the Swedish Parliament, Mauricio Rojas, who referred to “Europe’s two faces”, addressing the consequences of the Welfare State.

In the following lines we reproduce an excerpt of his speech.

Europe has many faces, it is very diverse. In the first place, not everything is crisis in Europe. There is also an emerging Europe, the Europe which was once part of the Soviet Union and some of its former satellites. There is also an interesting and promising Baltic growth pole, which groups the Baltic States, Poland, Northeastern Russia, Northern Germany, Denmark, Sweden and Finland. However, there is also a Europe which is experiencing a profound crisis.

What happened in this Western Europe from which we hear today such concerning news? The first thing I must say is that these circumstances did not suddenly occur. Crisis as deep as those affecting great part of Europe are the result of a long period of accumulating problems and weaknesses, which finally gave rise to a crisis situation, when a specific triggering event occurred, such as the financial crisis of 2008.

Therefore, in order to understand these facts, we must analyze several decades of European development. We should remember that the concept of “eurosclerosis” was already adopted in the 80’s, pointing to the difficulties of Western Europe for dynamically adapting to a new global

scenario. Europe reacted slowly and on the defensive when changes occurred, trying to defend what they had, rather than searching for what they could have.

This defensive, conservative attitude took the form of an accelerated development of great interventionist states, whose basic function was to guarantee a series of rights that the European population had assumingly acquired once and for ever. This was the so called Welfare, Benefactor or Social State, which disproportionally grew from the 70's until it became the heart of what was known as the European Social Model.

The great State had several characteristics: its huge intervention, regulation and protection capacity of what already exists, but also very high taxes in order to guarantee a growing number of rights to the entire population.

This entailed many problems which became quite perceptible as time went by, such as losing the stimulus for working, as a result of taxes that strongly punishes the yields of work. But what is more critical in the long-term is that defensive regulations, particularly those of the labor market, and high taxes severely hindered and penalized the enterprising effort of the European population, its will to create new things.

Thus, European politics was more focused on distributing the created wealth, than on fostering the creation of new wealth. This way of acting finally became a true culture of acquired rights, universal rights which have no direct relationship with duty and effort, where the link between what is done and what is achieved is lost, between individual responsibility and what can be obtained from life. All this started to dilute in Europe, and the new generations went to schools that taught them that life is a game and that they did not have to worry much, because there was someone, the State, who in the end took responsibility for their wellbeing. These are the "indignants" we see today in the squares of Europe, demanding rights that currently no one can grant them. They are the great victims of the Welfare State's promises and their disappointment is evident, in the same way as their increasing frustration.

Now, to specifically illustrate what the European development has meant in relation to the wealth generating capacity loss, it is necessary to look at two figures: in California, 26 firms have been created since 1975 and they are among the biggest 500 in the world. On the other hand, in the entire Eurozone, with more than 300 million citizens, only one such company has been created since 1975. This is the condensed result of a culture which does not reward effort, does not reward entrepreneurship, and does not applaud legitimate enrichment, and which makes redistribution its main diligence.

There are many similar examples, such as those half million first-line European scientists, technicians and entrepreneurs who have searched in the United States for a place to fulfill their dreams.

However, this is the overall view of Western Europe, but there are great differences among the countries within it. In a simplified way, there is a Northern or German-Nordic Europe which keeps afloat, and a Southern Europe in profound crisis.

There are many possible ways of explaining this difference. They have cultures and histories which are a far cry from each other. Nevertheless, I believe there is a much more elementary and highly relevant difference in this context. Northern Europe societies expanded their great States many years before those of the south and, therefore, they faced all their problems much earlier. Sweden, a pioneer country in this area, underwent a crisis twenty years ago, which is similar to that of Spain or Italy today. A government spending accounting for more than 60% of the GDP entailed a strong impairment in the working and enterprising impulse. A sort of Welfare State populism that promised too much in the good times, creating social systems which became unsustainable as soon as the economic situation got less favorable. This happened in Sweden at the beginning of the 90's, when the international recession produced a strong increase of unemployment and a drop of public revenues, which originated a disastrous fiscal deficit of over 10% of the GDP and the collapse of the old "Swedish model".

Somewhat similar crisis affected Germany, Denmark, Finland or Netherlands, forcing these countries to moderate their great States and making them more dynamic. The reforms were not enough to reverse the cooling trends already mentioned, but they have allowed these states to face the current crisis in much better conditions than those of Southern Europe.

The misfortune of the southern countries is that they arrived to the society of rights not long ago, greatly expanding their Welfare States in the mid 90's. Moreover, they did it under conditions which invited to uncontrolled acts. In this respect, the euro played a key role, since it created the impression of financial stability and fiscal seriousness in societies that had never had them for themselves. This was combined with a recession period in Germany which put a downward pressure on interest rates. For the Southern Europe societies this meant to be able to have abundant and cheap money available, with interest rates actually reducing the credit cost to zero.

This derived in a series of bubbles in Southern Europe. First, of indebtedness both from families and businesses and the states, thus provoking situations such as the Spanish one, where the total accumulated debt is 3.5 times its GDP. Indebtedness enabled overinvestments in real

estate, industrial and infrastructure projects. The credit and real estate bubbles led to a political bubble, since treasuries received a glut of all sort of taxes. And all this led to a really exceptional inflation of rights, with promises and social systems that were only sustainable if the exceptional conditions under which they were created continued indefinitely. It was, in short, an exhibition of irresponsibility and populism.

Today, Southern Europe is living the traumatic waking from the welfare dream with borrowed money, but its waking has a crucial difference with what occurred in Northern Europe, where a unity trend predominated, the understanding that “either we are together and we work together or we sink together”. This spirit is completely absent in the southern countries, where it seems that everyone fights for their own rights, even if the country sinks.

In short, Europe leaves us a pretty sad but important lesson on the loss of certain basic values, without which societies languish and, finally, enter into a crisis, that is, the relationship between obligations and rights, between effort and results, between what individuals and the state should do. The long cooling period followed by the European crisis warns us on the dangers of the great State, which apparently can solve all our problems; however, with its interventionism, regulations, high taxes and excessive promises it ends up causing much more serious problems.

However, the most tragic thing of what is happening in Europe is that this great project of peace and friendship among European people, the European Union, is being undermined today by this crisis situation; everyone wants the neighbor to pay, those from the south want those of the north to pay, and those from the north see their southern partners as shameless spendthrifts. This is a tragedy, since aggressiveness is starting to appear among European countries, which is directly the opposite from the European Union’s purpose. Nevertheless, this is a logic outcome from having forced the Union beyond reasonable. The euro is the most evident example thereof. It was imposed against all odds by some big leaders overwhelmed by the greatness of their intention. It was an act of political voluntarism which has a quite uncertain future today. Moreover, I think the euro will not survive the current commotions, and I only hope that it will not take the European Union with them, because this would be a really big tragedy.

In brief...

Europe leaves us a pretty sad but important lesson on the loss of certain basic values, without which societies languish and, finally, enter into a crisis. We are talking about the relationship between obligations and rights, between effort and results, between what individuals and the state should do. The long cooling period followed by the European crisis warns us on the dangers of the great State, which apparently can solve all our problems; however, with its interventionism, regulations, high taxes and excessive promises it ends up causing much more serious problems.