The Public Policy of European Countries –Prospects and Risks

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Abstract: This article provides a critical appraisal of the relationship between private capital and the social services in the public sector. It examines four different models of types of Welfare State in Europe, and what is often referred to as the "trap of the Conservative model". The pressure on the curtailing of the welfare state is often legitimated by financial experts by their pointing out that the extensiveness of social expenditures is the main cause behind the increasing indebtedness of states, and therefore, a radical reduction of social expenditures is required. The article sets out the argument that it is not necessarily social expenditure that leads to indebtedness, and provides evidence of this from comparisons of the USA, UK, and other European Countries.

Article:

According to the concept of welfare state prevailing today, there exist four types of welfare state in Europe (Esping-Andersen 1990, 1999). Financing of each of the types grapples with its own specific problems.

Up until the 1970s, the Continental type of welfare state (also called Conservative or Bismarckian) was considered the paragon of social security. However, it has been attracting some very sharp criticism recently, especially during the past two decades. The very features which used to be seen as its virtue have now started to be viewed as its weak point: i.e. the central role of full-time, permanent employment and the determinant position of the head of the family for the financing of social insurance. For instance, in the German welfare state, what accounts for more than two thirds of the funds expended towards welfare state policies are the contributions of employees and their employers. The system thus rests on the assumption of almost full employment of the male labour force. If the situation changes and the economy produces more and more without ensuring people their full-time, permanent jobs, the welfare state loses its economic footing. As shown by R.G. Heinze, the main cause behind the problems of the German welfare state indeed lies in the transformations of the labour market. For instance, expenditures on healthcare, if measured by their proportion in GDP, have been constant in the long term. Contributions to hospital treasuries, however, have been falling due to growing unemployment and the proliferation of short-term, flexible forms of work (Heinze 1999:31).

What is often discussed in connection with this is the "trap of the Conservative model". The more widespread the use of these flexible employment forms, the higher the burden on those who still have full-time, permanent employment contracts. For this type, but also for all of the other types of welfare state, the following is true – both growing unemployment and the decreasing price of labour in the name of higher global competitiveness have the effect of decreasing the flow of finances into state coffers and they thus increase demand for social assurance.

Among other things, those who speak about the necessity of modernising the conservative social system also suggest transferring the burden of its financing from insurance to taxes. This is the reason why trade unions are against modernisation envisaged in this way. This manoeuvre would eliminate trade unions from the process and any decision making would be transferred to the government, parliament and the political parties.

The Scandinavian model (also called Nordic or Social-Democratic) of welfare state is financed primarily from taxes levied by the state. The state also dominates the pension system and until recently, private pension funds played only a very limited role in it. As late as in the 1980s, the Scandinavian type was considered to be the most advanced of welfare state types altogether. However, especially since the turn of the 1980s and 1990s, the Scandinavian countries have also experienced quite a severe economic downturn, growing unemployment and rising public debt. Also in these countries, the relationship between social assurance and the competitiveness of a country in the conditions of the globalised economy is under discussion.

As financing of this type of welfare state is predominantly based on taxes, globalisation represents double pressure for this model. Not only do politicians attempt to attract foreign firms to their country with promises of tax breaks and investments into infrastructure, they also try to entice domestic firms into staying in the home country in an effort not to lose them as taxpayers and employers. Reflections arguing that high taxes are a grave handicap for Nordic countries have therefore been growing more intense, especially since the 1980s.

Concurrently, there occurred capital market deregulation after almost all of the obstacles to the free flow of foreign capital had been removed at the beginning of the 1990s. Several bank crises followed almost immediately in the Nordic countries. The states provided rescue funds to the banks but this increased the lack of funds for public expenditure. At the same time, long-term unemployment emerged and this also meant higher pressure on public finance.

The system of general taxes through which the Nordic type of welfare state has been financed does not increase secondary costs of labour as social insurance does. But firms have grown expert at shedding the burden of taxes and this is why there is growing pressure in the Nordic countries to finance social policy from insurance.

So while the Conservative model prefers to increase the importance of taxes (and has been decreasing the proportion of social insurance), the Scandinavian model is ever more often pushed into decreasing the tax burden and thus increasing the importance of insurance contributions. In both of these models, there moreover exists pressure to transfer the weight of insurance from firms directly to employees (Keller 2009: 52-56).

The Residual model (also called Anglo-Saxon, or Liberal) is primarily financed from taxes, but at a much lower level than the Scandinavian one. Already, since the reforms introduced by Lord Beveridge, it has been characterised by the low amount of insurance contributions and hence the corresponding low level of social benefits paid. Moreover, in this system of social assurance, the relationship between previous income and the amounts of social assurance paid is very weak. This is what constitutes its residual character. This liberal system is distinguished by the low level of social expenditures in proportion to the country’s GDP. On the other hand, emphasis is put on market-conforming private insurance against social risks.

Generally, we may observe that the alleged higher dynamism of the Anglo-Saxon welfare state when compared to the previous two models is based on the acceptance of labour market flexibilisation as well as on efforts to transfer part of the former responsibilities of the welfare state to the family. However, this strategy has its limits. Flexibilisation of labour is not a safeguard against social risks, on the contrary – it has rather become their integral part in the form of new social risks (Husson 2006). And the ever more fragile and unstable family is no such safeguard either. So the effort to achieve greater economic competitiveness is paid for by growing social inequalities, the increase in the numbers of the needy, including the working poor (Filoche 2008).

Finally the fourth, Rudimentary model (also called Mediterranean or Latin) is, from the point of view of its financing, a mixture of the Conservative and Nordic types. This model also finds itself in a difficult situation. On the one hand, countries from Portugal to Greece lag behind substantially in the development of the welfare state as they were the last to start building it. On the other hand, these countries are also subject to strong pressures of the present stage of economic globalisation which runs counter to their efforts to catch up with European social standards.

Are we getting into debt due to social expenditures?

The pressure on the curtailing of all four types of the welfare state is often legitimated by pointing out that the extensiveness of social expenditures is the main cause behind the increasing indebtedness of states. Financial experts therefore recommend a radical reduction of social expenditures.

The problem with this is that currently the most indebted are those European and North American countries which spend the lowest amounts on social expenditures and fall within either the Anglo-Saxon or Mediterranean type of the welfare state.

The Rudimentary system of social security is decidedly not spendthrift in any way. Besides the already aforementioned reasons, this is also due to the fact that the system relies on the relatively strong familial solidarity still surviving in southern Europe to cover the not insignificant element of social support needed in cases of unemployment or old age as well as when providing for support for families with children. This is why in countries from Spain to Portugal to Greece, the proportion of expenditures on the social belongs to the lowest in the whole of Europe.

Great Britain, which as late as in the 1970s was a socially generous country, has since then aggressively trimmed social expenditures. So it has done exactly the thing which has been recommended so enthusiastically by experts from the World Bank or the International Monetary Fund, for instance. In spite of that, Britain's public finance deficit has been increasing.

Today, the United States does not actually operate a welfare state, yet the country's indebtedness is astronomic even in comparison with the greatest European debtors. It is a country of private pension funds, private sickness insurance, high tuition fees, privatised healthcare and privatised social services. It has done all of the things which are allegedly supposed to safeguard European countries from debts and it ended up much deeper in debt than these countries.

On the other hand, many truly socially generous countries (Scandinavian countries, France, Belgium, Germany, Austria) are not on the brink of bankruptcy. And this is in spite of the fact that the public sector still has an important role in them and the state still has a strong say in most of these countries when it comes to issues of social security. Generally, even the argument that states have been incurring debts as a result of excessive salary demands on the part of trade unions will not hold up. In the United States, i.e. in a country with enormous indebtedness, less than ten per cent of employees are organised in trade unions. Moreover, their demands, in comparison with those of their European counterparts, are not that bold, either.

The causes behind the existing problems with growing national indebtedness and the lack of funds for the operation of the public sector need to be sought elsewhere (Taylor-Gooby 2004).

Middle Classes as the Last Sponsor of the Welfare State

Even those most aggressive in their criticism of the welfare state and its expenditures have no intention of totally disbanding or eliminating this institution. A number of these critics would agree with the existence of the welfare state provided that its running and the operation of the public sector are financed exclusively by the middle classes (Lojkine 2005).

This is because such a type of welfare state is exactly the one from which the income and power elite may gain a substantial profit. By maintaining the social contract, the welfare state guarantees certainty for investors thus increasing the country's rating assigned by financial institutions. By ensuring a minimum level of security for the population, it averts the danger that members of the most underprivileged strata spread contagious diseases. The welfare state is useful as it veils the worst consequences of social devastation caused by the sharpening global economic competition. Besides that, the existence of the welfare state may be used in the political discourse of its opponents. It makes it possible to fan controversies between those towards whom social assistance is directed and those who, for the most part, finance such assistance, i.e. between the lower and the middle classes.

In many European countries, neo-liberal policies reduce the tax liability for the highest income categories and strive for the elimination of minimum wage. The result of these policies is that an ever-larger part of tax income is paid for by the middle classes. Members of the middle classes in these countries do not usually blame the upper classes for ducking out of paying their taxes. However, they are angry at those with lower social standing for having to contribute to their assurance. By using these purely fiscal measures, the power elite is able to accurately distribute out and regulate the wrath of the middle classes towards the lower classes, with the wrath springing from their fear of being lowered in their middle-class status (Maurin 2009), (Peugny 2009).

The neo-liberal thesis of the 'Minimum State' does not openly admit that the aim of its proponents is a state where state expenditures are so low that its running may be financed exclusively from the pockets of the middle classes. All of this is happening in a situation in which the process of economic globalisation, as illustrated by Italian sociologists Gaggi and Narduzzi, undermines, in many aspects, the position of both European as well as American middle classes (Gaggi, Narduzzi 2006) (Newman 1988).

In the conditions of the world-wide economic crisis, the aforementioned pressures on the middle classes as the last sponsor of the welfare state have markedly intensified (Quatrepoint 2008).

The Policy of 'Social Minimum'

In the ongoing process of financialisation of the economy, the whole economic life is being gradually transformed into subsidiary branches of the omnipotent financial sector. In this system, the individual firms merely serve as more or less suitable bearers of profit increase, predominantly for the big shareholders. If profit may be significantly increased through investment into one of the virtual bubbles, then this option is given preference over investment into production of goods or provision of services (Bourguinat, Briys 2009).

The easiest way for firms to attract the attention of big shareholders is to offer them as high a profit as possible and, at the same time, one that in comparison with the financial bubbles is less uncertain. Part of this strategy on the part of firms is transferring the costs of labour force reproduction on to the employees themselves and on the welfare state.[1]

[1] As observed by Luc Boltanski, the first thing, i.e. the transfer of the costs on reproduction directly to labour force leads to the deepening of inequality among workers. The second, i.e. the unwillingness to contribute to the financing of the welfare state, results into an increase of fiscal pressure on employees (Boltanski, Chiapello 1999:338).

This is where their cognitive dissonant attitude towards the welfare state stems from. Firms need the welfare state to help their employees in situations of life's accidents. The welfare state is supposed to substitute for them in labour force reproduction whenever the employees' low income from economic activity does not suffice. At the same time, these same firms are highly reluctant to contribute to the operation of the welfare state (Guillemard 2008).

This is how the concurrent pressure on a double minimum arises: Since the 1980s, there has been pressure on the part of firms in the individual European countries to minimise employee income. Coming hand in hand with this, the policy of 'social minimum' has surfaced on the part of state power because it has been impossible to guarantee any large-scale social assurance from the shrinking contributions. In essence, what is supposed to be implanted into Europe is the (originally) American invention of permanent precarious work – working poverty (Bresson 2007), (Cingolani 2006).

This also has to do with the wave of mass unemployment which started to spread through Europe like a flood in the 1970s. Up until then, people dependent on social benefits were those who, for whatever reason, did not pay insurance contributions. Now minimum benefits are to be paid to anyone afflicted by longer-term unemployment, totally regardless of how long they had previously been contributing into the social insurance system. At the same time, these people are pressed into accepting any kind of work, i.e. usually part-time work, temporary work, short-term substitution for another worker and the like.[2]

As part time, flexible employment contracts slash household incomes deep down to poverty level, they are quite routinely accompanied with entitlement to only minimum welfare benefits. In this case, inspiration was gained in the United States.[3]

This concurrence of poorly paid work and complementary social benefits enables firms to achieve two goals. With reference to their global competitiveness, they demand that they should be able to pay as little as possible. At the same time, they have no interest in the decrease of purchasing power in the country where they operate. So the concurrence of low wages and minimum social benefits allows them to decrease labour costs without entirely eliminating the purchasing power of the population.

In this way, employees and taxpayers in fact subsidise the operation of private firms. Purchasing power is maintained at a certain level through social transfers, i.e. through taxes and insurance contributions, while firms themselves are more and more often released from the obligation to pay these.

The minimum social benefits at the same time lead to the break up of the classical paid-labour relationship which assumed that remuneration for work would be as high and as interconnected with the systems of insurance that it would reliably protect employees against social risks. Primarily, remuneration was supposed to enable employees to ensure themselves fully against job loss.

And it is in this area of assurance for the unemployed where, in the most developed European countries, a striking change has been taking place since the beginning of the 1980s. The goal is not to ensure the jobless a dignified income for the period during which they search for a new job any more. Now, the effort to decrease expenditures on unemployment as much as possible has become the priority. The amounts of unemployment benefits have become disconnected from the development of salaries and wages. The amount of the benefit has ceased being related to the amount of salary collected before the loss of employment. The

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[2] European treaties only speak about the necessity of increasing the rate of employment without mentioning the content of work, working conditions and wage amounts. A decrease in unemployment is thus accompanied by the expansion of poverty (Lévy 2003:66).

[3] An American who works full time for a minimum wage earns 700 US$ a month, i.e. 20% less than what the poverty level is for a three member family. (Wacquant 2004:98).

period of entitlement to unemployment benefits is being cut. Entitlement is made dependent on the so called “activation” of the unemployed which unfortunately often means that “officials bully the unemployed into looking for a job themselves as they are unable to find it for them” (Lévy 2003:80).

The usual neo-liberal speculations about ‘lazy workers’ and the abuse of social benefits often lack the support of empirical studies and hard data, but are a reliable way to transform the instrument of social protection into a means of labour market reorganisation.

In ever-larger numbers, people are forced to accept one of the wide spectrum of part-time, flexible forms of work (or to participate in often highly dubious retraining courses) with their low income for these activities accompanied by only minimum social benefits (Paugam [2000] 2007).

So the relationship between income from work and social assurance is turned upside down. Instead of solid income being a source for solid assurance, provision of a minimum amount of social assurance is made dependent on the willingness to accept even poorly paid jobs. This so called flexibilised work is becoming a form of forced labour for those who live on social benefits. This is the true essence of “labour force activation”.[4]

Thus, the vicious circle of working poverty begins. Non-permanent, part time forms of work enable employers to decrease social insurance contributions. This leads to the reduction of sources from which welfare benefits are disbursed. The decrease in the amounts of benefits paid out is used as a coercive measure which forces more and more workers to accept badly paid work, i.e. work from the remuneration for which insurance contributions cannot be paid (Burgi 2006; Thomas 1997).

Disciplining Methods and the Transformation of the Welfare State

There are various methods which allow the state to make economies on welfare benefits already granted. For instance, in Great Britain, one of the obligations of the unemployed is to keep a diary in which they daily record the number of job applications they have sent out to firms. The job seekers are allowed to address firms in which they might make use of their qualification only during the first three months. From the fourth month on, they must accept all of the offers. If an inspector reveals low frequency of such correspondence, sanctions follow. Unemployment benefits may be withdrawn for two to twenty-six weeks according to how serious the transgression was. Most recently, job seekers’ “unsuitable behaviour” or their long hair are also viewed as misconduct on their part.

In Belgium and Germany, inspectors sometimes examine the bathrooms of unemployed people who collect one of the social benefits the granting of which is dependent on a means test. They look for a high number of toothbrushes. These are used as evidence proving profligacy. Refrigerators are popular with inspectors in France. If only one butter dish is found in flats where a landlord shares the flat with his/her tenant, this gives rise to suspicion that the tenant shares the butter with the landlord, so he or she is not without any financial means.[5]

[4] Another extremely degrading instrument of the “activation of the unemployed” has already arrived from the United States to some of the European countries, for instance Germany. It is the so called “Null-Euro-Job”. A mediating agency (called Friendly Service in Germany) hires assistants for supermarkets who put goods into the shopping bags of customers at the cash desk. The supermarket pays three to five Euros per hour for these people. The “activated” only receive tips from customers and may only hope that their welfare benefits will not be decreased.

[5] As if some stories were taken over from Kafka’s novels. For instance, when French inspectors found that someone repaired a broken washbasin in the flat of a single mother free of charge, her benefits were withdrawn as this, in their opinion, was sufficient to substantiate that she did not live alone. The case of one Labour Exchange Office in Germany has become infamous around the whole of Europe. The office paid around EUR

This and many other similar cases illustrate the fundamental transformation which the European welfare system has been undergoing. While in the thirty post-war years, the task of the system was to protect employees against randomness of the market and especially of the labour market, today, it is supposed to serve as an instrument of obedience and as complete as possible an adjustment of working people to any form of market randomness. Thus the social system has become a silent accomplice in the transfer of a maximum degree of market uncertainty from firms to employees.[6]

But there also exists another way in which the social system can be used to serve the purpose of maximising private profit. In the eyes of influential financial groups, large amounts of money flow through public budgets every year without being put to good use. It is problematic for these financial groups to access the money here and it is therefore necessary to redirect their flow. The best shortcut they can take is via the "modernisation" of the welfare state.

The welfare state is supposed to be modernised because there are not enough funds for its operation while somewhere else so much money accumulates that investors have a hard time finding good use for it.

The limiting of the inflow of money into the public sector, from which healthcare, the school system, social care or the pay-as-you-earn pension schemes are funded, is not a mere concurrence of circumstances. It is part of a strategy which is supposed to open the 'market' wide for private initiatives.

The deepening poverty of the public sector is the other side of the huge opportunities which arise in the business of human fears, with the fear of old age and the fear of disease, and which also stem from our desire to give our children the same or better education than that of their parents.

According to some authors criticising the transformations of the welfare state, financial institutions, in principle, find the poverty of the public sector convenient. An indebted state has to borrow from banks. This means that the money which the rich refused to hand in to the state in the form of taxes is readily lent by them to the state, however – now they are its creditors. The less they pay in taxes, the more profitable such lending is. The rich moreover receive part of the money they lent to the state back in the form of those state expenditures from which they also gain profit. So for providing the services also to themselves, they receive money from the state, including interest. Nowhere else is money more secure than when lent to a state. For financial capital, states are ideal clients (Bihr 2007:40).

Some Aspects of Public Sector Privatisation

In principle, privatisation of the public sector, which is a reaction to the deepening of its poverty, has two functions. It broadens the field of opportunity for the appreciation of free capital and besides that, it also dissolves the traditional bulwarks of organised public sector employees who are thus spread over a multitude of competing firms that mutually decrease their incomes in relation to one another.

50,000.00 to a private investigation agency for which the task was to shadow an unemployed man to see whether he was as disabled as he alleged. After months of sleuthing, the detectives confirmed the disability of the applicant for welfare benefits. Many similar examples illustrating how mature democracies treat the unemployed today can be found in the work published by (Lévy 2003).

[6] At the ideological level, this shift is often justified by the need to tie provided assistance to willingness of the socially needy to deserve benefits through their own work. One of the first authors promoting this principle, which has gained strong political influence, was American political scientist Lawrence M. Mead (1986).

It is this concurrence of minimum wage (decreasing the “excessively high labour costs”) and minimum social security (making an end to the “exaggerated social protection of the labour force”) which is the core of the American model ‘Workfare’.

Workfare is a name given to public programs which force welfare recipients to work if they want to continue receiving at least minimum welfare benefits. So in this system, former employment from which social security contributions were paid does not guarantee entitlement to social rights any more. On the contrary, in case of a job loss, it is necessary to accept any job offered so that a recipient can continue to receive a basic level of social support.[7]

The aim of the Workfare regime, the theoretical elaboration of which started in the 1970s, the implementation of which was tested in selected American and Canadian cities in the 1980s and which was then fully implemented on a nation-wide level in the 1990s, is not merely to force the unemployed people to take any work available. It is also a warning for those who still hold on to their well-paid jobs. The primary goal, however, is shifting the blame for job loss to the unemployed themselves. In a situation when firms are not interested in employing a large part of their workers for the long term, responsibility for job loss is attributed to the workers, to their insufficient motivation and low resolve. At the same time, those who instead of a full-time, permanent job got a mere substitute, are supposed to show their gratitude for having at least some kind of a job – as well as access to minimum welfare benefits (Wyss 2007: 12).

In principle, the Workfare regime is based on the philosophy implying that those who have a job do not need any extensive social assurance, and those who do not have one do not deserve any social assurance at all.

However, the main significance of Workfare lies at the ideological level. This model of residual social assurance serves the purpose of making it possible that those who most suffer due the existing conditions of the globalised economy are accused of being lazy and incompetent. Not only are they to blame for their own poverty, in a sense, they are also to blame for the low competitiveness of the whole country.

Through the optics of Workfare, one of the main causes of unemployment is the existence of the minimum wage guaranteed by law, which in Keynesian economics served the purpose of maintaining the purchasing power of the population.[8]

If it is impossible to eliminate the minimum wage directly, it can be circumvented. This is done by releasing employers from their duty to pay taxes for the lowest wage rates, or by concluding part-time employment contracts (especially with women and young people), but this may also take the form of training or retraining courses for which the employer receives subsidies from the social fund so that the firm is then willing to employ people at

[7] The Workfare regime in principle means that the socially needy are obliged to take any work available under the threat of losing entitlement to assistance. It is applied together with the Learnfare system which requires that recipients sign up for participation in any course or training even if these do not lead to employment. As observed by Kurt Wyss (2007), people often have to carry out cleaning work in municipalities which due to tax cuts do not have enough money to pay out normal wages. In the same publication, Wyss pays attention to the drill the unemployed have to undergo within the framework of Workfare. At the beginning of the retraining courses, all the things they are ignorant about are emphasised to them. Afterwards, they go on to perform inferior work for the municipality. The peak of their career is their temporary placement in a private firm where their job is subsidised by the state. As only the most competent of the unemployed are selected into these programmes, evaluation of the success rate of the programmes is distorted.

[8] According to Alain Bihr, this in fact implies that people are merely to be given such possibilities to feed, accommodate and clothe themselves which best suit the appreciation of capital. The efforts to eliminate minimum wage make people’s chances of survival dependent on the need of capital valorisation (Bihr 2007:212).

least for a partial salary, and through similar schemes. This in practice means that private firms are subsidised by money earmarked for the needy.[9]

Making an end to "the exaggerated protection of the labour force" is predominantly aimed at unemployment benefits. The official complaint is that they make it possible for inefficient people to take advantage of social support and for those somewhat more efficient to simply make do with such support. The real problem is that unemployment benefits make it impossible to eliminate the minimum wage. This is the main reason why welfare benefits, including the unemployment benefit, are painted as the road to the "poverty trap".

The rich variety of activation measures, which are supposed to shield people from the poverty trap, includes, for instance, the reduction of benefits if the recipient does not accept the first employment offered, pressure to accept employment which does not correspond to the recipient's qualifications, or employment which is far away from where he/she lives or which prevents him/her from devoting time to the family and the like.

The degree to which all of these "activation measures" indeed decrease the unemployment rate is highly disputable. What is obvious, however, is that they decrease labour-force costs for firms and organisations, and this is just another way of engaging the welfare state into the process of private profit maximisation.

Neoliberalism uses all of these methods to destroy the very measures which the state implemented in its attempt to rectify the failures of Classical Liberalism. "This is the revenge of the propertied ones for having to temporarily accept the Fordist compromise" (Bihr 2007: 131).

Transferring Debts from the State to Households

In the aggregate, the measures which are supposed to decrease the national debt, together with the ongoing privatisation of the individual functions of the public sector, lead to a situation in which the states' indebtedness is gradually transferred to households. In a society which will implement the reforms of right-wing governments (i.e. undergo the process of modernisation), households will quite automatically get indebted directly, that is, without any intermediation on the part of the state.

Austerity reforms within the framework of welfare state modernisation mainly affect healthcare, the pension system, the school system and welfare benefits. In all of these cases, responsibility for the payment of an ever greater part of expenses, which were previously covered from taxes and insurance contributions collected not only from the whole economically active population, but also from firms and employers, will be transferred directly to those in need (the ill, senior citizens, students and their families, the potentially unemployed). In all of these cases, households will have to create large reserves. In the first area, people should save money in case they fall ill; in the second one – for their old age; in the third one – for the situation that their children want to go to university; and finally in the fourth area, for the event that they themselves lose their job. All types of the welfare state are now pushed to pursue the policies of the Anglo-Saxon welfare state.

[9] In France, this role is fulfilled by the RMA (Minimum Income for Activity) system. An allowance of a subsistence minimum in the amount of EUR 433 is given to an employer as subsidy for an employee's salary. The employer then adds the difference between this amount and the minimum wage to the salary, or - if it is a half-time employment contract – the difference between EUR 433 and half the amount of minimum wage. At present, half of the amount of minimum wage in France is EUR 468 so the employer only has to add EUR 32 a month from his funds. Besides that, the employer pays monthly insurance contributions towards the employee's old age pension in the amount of EUR 130. But with this amount of the contribution, if the employee wanted to obtain the full amount of the old-age pension, he or she would have to work for the whole of 140 years before retiring.

It goes without saying that states will keep on levying taxes and employees will continue to pay social security contributions. But states will expend ever lower amounts from the public insurance systems guaranteed by the state on any of the socially risky situations. In many countries of primarily Central and Eastern Europe, the tendencies to transfer the burden of taxation towards direct taxation of everyday consumption and the burden of insurance contribution payment from firms to employees have intensified. The cumulative impact of these changes on households and on their economic management is still the subject of speculation.

For the time being, going into debt serves as a certain form of subsidisation of firms by households. With the stagnation of employee incomes (which is in the interest of competitiveness of the firms) and with the reduction of welfare benefits to the level of minimum social benefits, going into debt is the last strategy on the part of households which prevents a more radical decrease in the purchasing power of the population.

The Generational Dimension of Indebtedness

The transferring of debts from banks, which were teetering on the edge of bankruptcy, to the selfless state, and from the state to the even more selfless citizens, has its generational dimension (Chauvel 2006). In the developed countries of Europe and in the United States, the generation born at the turn of the 1930s and 1940s had an exceptionally good starting position (Baudelot, Establet 2000). Too young for military service in WWII, ahead of them was the unusual prosperity of the thirty post-was years. For this generation, education represented a superb investment opportunity because when the generation entered the labour market, the number of university graduates in it was negligible. Salaries, on the other hand, were high and the unemployment rate slight and so buying a house or a flat was not a big problem at that time. This generation reached retirement age at a time when the functioning of the pension system was still smooth and today, the amounts of old-age pensions collected by these people are the highest in the history of the pension system.

The things which the generations born before the middle of the 20th century managed without any trouble have become a major problem for young people born in the 1980s and especially in the 1990s. The latter are more and more often referred to as the lost or "written off" generation (Chauvel 2002). For them, obtaining university education is an obligation if they want to maintain the same incomes as are those of their parents. But on average, the ever more expensive education is less and less financially rewarding – which corresponds with the law of supply and demand. Buying their own house or flat is becoming increasingly out of reach for this generation. In countries like France, housing prices and rents have increased twofold during their short lives. They will also have to contribute more towards their pensions even though they know that on average, their old-age pensions will not be as high, and by no means as certain, as are the pensions of their parents and grandparents (Guibert, Mergier 2006).

Due to all of these expenditures, young households have been pressured to go into debt. Three quarters of those who are unable to keep paying off their debts, are threatened by the so called 'passive indebtedness'. Passive indebtedness does not arise as a result of some lavishness. The young family takes out loans which enable it to start their life together and to cover the social risks which welfare states more and more often fail to cover. Then one of the three most common calamities strikes: a job loss, a serious disease or a divorce. The result of this is that in every developed country, millions of young and middle-aged households are unable to pay off their debts (Maurin 2009).

It is more than obvious that this development is highly dangerous. As the many works of Loic Wacquant illustrate, the country which during the last thirty years has become the laboratory of welfare state elimination and public sector privatisation is the United States. If, in the social area, the countries of Europe follow the example of the United States, then they will also face the risk that poverty will be criminalised in these countries and that their welfare states will be transformed into penal states (Wacquant 1999, 2004, 2007). This process would call into question the very roots of social rights which, at the same time, represent one of the basic preconditions for the implementation of civil rights (Marshall, Bottomore 1992).

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