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# The Future of the Welfare State in the Baltic Sea Region



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**The Future  
of the Welfare State**  
Perspectives from the Baltic Sea Region

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# Introduction

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**Bastian Sendhardt**

The European welfare state, in varying forms and shapes, is one of the major achievements of the twentieth century. In particular, this observation holds true for states in northern and western Europe in the postwar period. As a welfare state, the modern state satisfies the basic needs of its citizens and mitigates emerging risks of social exclusion by providing offerings for inclusion and participation, for example, through different forms of benefits and allowances or through the institutionalisation of a social dialogue as part of industrial relations. From a historical perspective, the welfare state functions as a safeguard against the negative effects of economic crises and political instabilities, which have been regarded as two of the main drivers of European democracies' previously drifting into the authoritarian waters of fascism and communism.

Today, in the second decade of the twenty-first century, the welfare state is faced with a twofold challenge. On the one hand, at the discursive level, we are witnessing an ongoing discourse about rolling back the achievements of the welfare state and accusing it of being too costly, too restrictive and too inefficient. The alleged correctives to be prescribed are privatisation and a general down-sizing of interventionist welfare state practices. On the other hand, the (national) welfare state is faced with challenges posed by globalisation, which may appear in the shape of European integration but are always accompanied by processes of debordering. In other words, more and more often the problems addressed by welfare state measures originate beyond the jurisdictions of the respective states and, in this way, challenge the sovereignty of the welfare state. In conjunction, these two processes query the very idea of the national welfare state and, thus, the intellectual foundations of social democratic politics as such. Through the after-effects of the global financial and economic crisis these processes have gained additional momentum. Finally, growing income and capital inequalities have recently been identified by organisations such as the OECD and the World Bank as decisive factors in severely hampering economic growth in a number of states.

The adjacent states of the Baltic Sea are also subject to the aforementioned processes and the logic involved. At the same time, the states of the Baltic Sea Region are characterised by enormous differences regarding both the quality of their welfare systems and the ways they deal with the described challenges. There are the Nordic states that for a long time have been seen as the unchallenged prime examples of ‘welfare statism’, but which are also faced with the question of how the Nordic model can stand its ground amidst the increasing challenges of globalisation. There is Germany with its postwar tradition of tempering capitalism within a social market economy, which, however, on the other hand, has

introduced liberalisation measures and deregulations of the economy. Moreover, after reunification in 1990 Germany grew by some 16 million inhabitants, whose biographies had been shaped by the socialist experience of the German Democratic Republic. Then there is Poland which tried to ‘cure’ its socialist past by undergoing economic ‘shock therapy’. Eventually, this led to a steadily growing economy; however, it came at the expense of an almost complete neglect of social policy initiatives, rendering healthcare, education, old age and family care some of the most pressing social policy issues in today’s Poland. Finally, there are the Baltic states, which also attempted to speed up the transformation process but were hit hard by the economic and financial crisis. In a nutshell, due to this heterogeneity of welfare state conditions across the region, the example of the Baltic Sea Region seems particularly suited to an in-depth discussion about the future of the welfare state. Whereas some countries have a wealth of experience with advanced welfare state systems and have listed present and future challenges of welfare state development on their national reform agendas, other states in the region are seeing an increasingly heated debate among academics, NGO representatives and practitioners when it comes to introducing elements of the ‘Nordic model’ in their national debates on social policy and welfare state intervention.

In the light of the above, the Polish representation of Friedrich-Ebert-Stiftung (FES) and the Warsaw-based International Centre of Research and Analysis (ICRA) initiated a workshop series bringing together experts from academia, NGOs and trade unions to engage in a transnational debate on “The Future of the Welfare State in the Baltic Sea Region”. In 2015/16, three thematic workshops on the themes of ‘solidarity’, ‘work’ and ‘development/social investment’ took place in the Polish cities of Warsaw and Gdańsk. The present publication is the result of the three workshops, summarising the key findings of the experts’ debates.

The bulk of this summary consists of Michał Polakowski and Dorota Szelewa's analysis *The Future of the Welfare State in the Baltic Sea Region*. In particular, the authors focus on the commonalities and differences among the states around the Baltic Sea when it comes to future challenges for the welfare state in the region. Significantly, despite the striking differences in the quality of the welfare systems in the region, presently all states around the Baltic are faced with a set of structurally similar challenges including the increasing automation of work and ageing populations. As convincingly argued by the authors, the policy responses by the states in the region markedly differ, ranging from budgetary cuts for social policy, to ambitious new welfare programmes in Poland, and more progressive experiments with a Guaranteed Minimum Income in Finland. From this point of view, the enormous diversity of both social policy challenges and responses in the Baltic Sea Region could make the region a 'laboratory' for developing progressive welfare state policies, provided there is a general openness to knowledge exchange and mutual learning.

Polakowski and Szelewa's analysis is followed by three brief commentaries by expert participants in the project. Based on Norway's experience, Åshild Olaussen emphasises the central importance of social partners for the development of a functioning welfare state. Constructive social dialogue between employers' organisations and trade unions, as Olaussen argues, serves as one of the cornerstones of the 'Norwegian model,' which is founded not only on stability and high levels of productivity but also on a high level of trust placed in this welfare state model by society at large. At the same time, however, Olaussen underlines that the success of this model hinges on a high level of trade union coverage.

Johannes Kananen's contribution addresses *The Future of the Political Economy of the Welfare State*. Particularly, by challenging the 'theory of labour market

equilibrium’ and the ‘theory of efficient financial markets’, he argues for a fundamental rethink of social policy and the welfare state. More specifically, according to Kananen, a new welfare policy would have to reconsider its underlying understanding of ‘risk’. Consequently, governments would have to adopt measures to reduce the risks and barriers entailed by individuals’ entrepreneurial activities. As Kananen argues, an unconditional basic income could be one possible step in this direction. From this perspective, “understanding the centrality of ideas and the human capacity to establish new meaningful activity is key to a more sustainable economic and welfare policy in the future” (Kananen, this volume).

Finally, Zofia Łapniewska comments on the role of Equality as the Main Economic Challenge for the Welfare State. According to Łapniewska, it is inequality in socio-economic terms that poses a severe challenge to the states of the Baltic Sea region. In response to these challenges, she proposes some rather extensive countermeasures. First, the, albeit gradual, introduction of an unconditional basic income. Second, state-sponsored investment in national care systems and a reduction in weekly working hours. Third, rising minimum wages coupled with a salary cap according to a 1:12 ratio. Fourth, the introduction and/or expansion of taxes on assets, financial transactions and inheritances as well as reforms of current corporate, personal income and valued added tax legislation. In sum, Łapniewska argues, not only were these measures justified morally but they were also, from a rather pragmatic point of view, beneficial for the future development of the welfare state.

While the following contributions are the result of a two-year project, they cannot of course exhaust discussion on the future of the welfare state in the Baltic Sea region. Rather, as per the much more modest intent of this project’s organis-

ers, the individual contributions reflect an attempt to discuss the most pressing issues regarding the future of the welfare state in a truly transnational fashion. In this way, we hope to have provided an incentive to move beyond mere comparisons of national welfare state structures (though this remains an important starting point for the discussion) and identify common challenges and causes that—in the long run—might be further developed and included in a wider discussion about the mutual relationship between national welfare states and the idea of a ‘social Europe’.



# The Future of the Welfare State in the Baltic Sea Region

## Introduction

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Michał Polakowski  
Dorota Szelewa

The welfare state in Europe has been under attack for at least three decades. The notions of ‘growth to the limits’, ‘overly paternalistic bureaucracy’, as well as arguments such as the necessity to adjust to a global economy or societal challenges by reducing social rights have penetrated public discourse to such an extent in Europe and elsewhere that in some respects the discussion on the welfare state has left the realm of political conflict. The blurring of political cleavages has made the issue of reducing the welfare state a mere technocratic issue. Hence, instead of asking ‘why’, many politicians and policy makers have started asking ‘how’ they can achieve the goal of welfare cuts, without caring about the social, political and economic consequences. In many European countries this type of welfare state reform has brought

about increasing income inequality, a shared feeling of diminishing security, and dim prospects for social mobility. These, it has been argued, in turn have resulted in negative societal reactions: xenophobia, anti-migrant sentiment, and have created fertile ground for radical right-wing parties, which offer simple (but obviously flawed) solutions. This is of course a major challenge for the rest of the political spectrum, but especially for social democrats and other traditional proponents of an extensive welfare state.

The region around the Baltic Sea is no different in this respect. What is particularly interesting is that it encompasses various countries which are leaders when it comes to progressive welfare states as well as countries that from this perspective are European laggards.

While undoubtedly there is a need for progressive parties to rethink themselves in terms of electoral strategy, there seems to be an even more important question to answer: should progressives look for the solutions to current and future challenges in the past, or should they seek new ways of adjustment?

While a straightforward and definitive answer to this question is far beyond the scope of this paper, a tentative reply could be the following: it would be very hard to return to past institutions and policies in an unmodified form. However, social policy reforms very often require acknowledgement of country-specific welfare state architectures, as well as the interplay between their various domains. In this paper, we describe the future of the welfare state in the Baltic Sea region. Before we get into a detailed discussion, we should make some introductory remarks. Firstly, the region is highly varied—we have countries such as Sweden and Denmark, which traditionally lead the ranks regarding social policy expenditure, but also Estonia, Latvia and Lith-

uania, which take the very last positions in such comparisons, with Germany leaning towards the Nordics, while Poland leans towards the Baltics. Secondly, another divide is the experience of state-socialism and the development of a welfare state under conditions involving a lack of political pluralism in the case of several countries in the region (Ingłot 2008). Again, there is a north-south divide at work here, with the exception of Germany (western Bundesländer). Thirdly, the economic-political context of the last thirty years is very different. In the 1990s, post-socialist societies experienced real ‘valley of tears’ reductions to their welfare systems that were not that generous even at the time the old system collapsed. On the other hand, for Germany, Denmark, Sweden and to some extent, Finland, the 1980s were a ‘golden era’ (Castles 2004). Welfare cuts that followed in the 1990s did not bring these countries any closer to their post-socialist counterparts. Furthermore, while the Nordics pursued balanced fiscal policies, Poland and the Baltics opted for an unprecedented austerity path, one that we could label pre-emptive fiscal tightening. Finally, a fundamental difference lies in the logic of policy change—while, generalising, one may say that in post-socialist states major social policy reforms were of an ad-hoc nature, and relatively poorly prepared, the Nordics and Germany carried out a deliberative and consulted style of reforms (Lundqvist and Petersen 2010). The reforms met with opposition everywhere, and it was expressed in various ways. The key difference is the acknowledgement of the welfare state’s complexity and the interrelatedness of its components. It seems apparent that reformers in post-socialist states assume that other elements of the welfare state will somehow adjust, while in the Nordics these other components are subjected to scrutiny and adjusted when necessary. The two approaches can bring about completely different policy outputs. A good illustration of such diversity is pension reform in Sweden and Poland—relatively similar pension systems will yield completely different results for pensioners due to the state of the labour market. Swedish reformers knew that due to high employment rates and stable

career paths, workers would contribute to their pension throughout their working lives. At the same time, Polish policy-makers assumed that knowing how important contributions were to the generosity of pensions would make more people join the labour market. Another example is the expectation that female employment should increase, although there are no affordable care services, or the emphasis on labour market supply measures without considering the scale of labour demand.

All in all, in quite an institutionalist vein, we argue that the environment for progressive policy-making differs significantly among post-socialist countries and the Nordics and Germany. As the welfare state is a system, which spans several generations, its social, political and economic foundations must match such a long-term perspective. Therefore, reactions to the changing environment should consider the fact that these three domains (politics, society and economy) are interrelated.

We have drafted this paper on the basis of a two-year long project titled “The Future of the Welfare State in the Baltic Sea Region,” developed and organised jointly by the Polish office of the Friedrich Ebert Foundation and the International Centre for Research and Analysis (ICRA). The project aimed to bring not only a scientific perspective on welfare state developments in the Baltic Sea region, but also the experience and expertise of people engaged in policy-making, both analysts and stakeholders.

In this report, we refer to some empirical data only to discuss challenges facing the welfare state. Furthermore, when talking about solutions to these challenges, we focus more on mechanisms than well-defined instruments which can be applied in a given country. Finally, we highlight actions which can be perceived as an indication of developments in some other countries in the region.

# Social solidarity

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We selected social solidarity as a starting point for our discussion, as in many respects it is, or at least should be, one of the foundations for the welfare state. We focussed on the social underpinnings of solidarity, but also on the role of social policy in strengthening it. Over the last three decades we have witnessed two processes affecting welfare states in industrialised countries: liberalisation and individualisation.

As noted by Kathleen Thelen in her recent book (Thelen 2014), while we can observe a process of liberalisation in the majority of industrial economies, this is not a unified phenomenon. Thelen points out that it is more proper to talk about varieties of liberalisation, which might be better understood in a two-dimensional matrix. Such a matrix consists of a ‘solidaristic/dualistic’ dimension as well as a ‘liberal/coordinated’ dimension. According to Thelen, within the last two to three decades, Denmark and Sweden have become more liberal, but, at the same time more solidaristic, while Germany has been relatively stable when it comes to coordination, and moving at the same time in the dualistic direction. Liberalisation can be seen as a process affecting welfare states through several channels, both directly as well as by changing the environment the welfare state faces.

Following Jacob Hacker and Paul Pierson (2010), one should acknowledge that the prosperity of societies, when based on the principles of solidarity, is not only a result of narrowly defined welfare states preoccupied with redistribution. Predistribution is equally important, i.e. ‘the way in which the market distributes its rewards’ (Hacker 2011) in the first place, which is exemplified by the so-called labour share, regulation of the financial markets, or the empowerment of workers vis-à-vis employers.

As argued by some commentators, predistribution is not a new thing in the welfare state landscape. From the perspective of predistribution, the Baltic region can be seen as highly diverse, yet some common trends still emerge. Firstly, over the last three decades, the labour share has been fluctuating (European Commission 2017): in most of the countries (Poland, Sweden, Denmark, Finland) it has declined, however in Latvia and Lithuania it has increased. Estonia's labour share, meanwhile, has remained quite stable. In general, one can link this to not just changing economic structures, but especially to political factors. The role of collective bargaining, especially above the company level, has been challenged by liberal and conservative actors. The overall result is dualisation, which extends beyond the labour market and affects other dimensions of well-being through interaction with the welfare state (Emmenegger et al. 2012). In the most basic form, dualisation expresses itself in dividing labour markets into two segments: stable and well paid, and unstable and precarious. The differences tend to influence individuals beyond the labour market situation.

In cases where social insurance dominates the provision of social benefits, those individuals who have fragmented employment careers or whose employment status (such as self-employment, migrants) does not qualify them for the benefits, are systematically discriminated against. If one adds the presence of a wage gap between regular workers and those employed on atypical bases (fixed-term or part-time contracts, forced self-employment, mini-jobs), the problem becomes acute (ibid.). The availability of social services is another feature of the welfare state that reflects its level of solidarity. In many respects, the countries of the region have achieved the aim of providing some form of social services, however the recent changes make the picture much more complex.

Accordingly, a trend which has been observed in the Nordics is the privatisation

of the provision of services, as well as their financing, to some extent (Pfau-Effinger and Rostgaard 2011). This phenomenon has a strong class dimension, but equally important, it influences gender relations. In pre-1989 Poland, social services were underdeveloped and the period when the country transitioned to a market economy saw their supply reduced even further (especially with regard to care services). We have observed similar trends in Estonia, Latvia and Lithuania, although the starting point for these countries was different, as they already had much better developed services at the beginning of the transition period (Szelewa and Polakowski 2008).

Therefore, in order to induce more solidarity in our societies, some strategic improvements are suggested. The central role of extensive collective bargaining should be recognised by the governments of the region. This applies especially to post-socialist states, where the role of social dialogue is rather marginal. In addition, male-dominated trade unions should acknowledge the role of women in certain, often overlooked, sectors of the economy, such as the service sector. Furthermore, a common challenge is the incorporation of foreign workers in labour organisations, and the inclusion of the interests of this group in the agenda. The more general desire to democratise socio-economic governance should also mean strengthening civil society, think-tanks and other bodies which can advocate for progressive solutions.

# Reproductive work and cash (f)or care

Care-related policies have become a widespread challenge for many reasons, including the increase in female employment rates, a shift in values with regard to gender roles, population ageing, etc. Childcare services, early education, as well as policies regarding parental leave remain in the centre of welfare state research—as far as the institutional design of child and family policies are concerned—and conditions for working adult families (Daly 2011). Long-term care (LTC) represents perhaps an even more difficult challenge for all European countries due to ageing populations.

Again, the picture within the Baltic Sea Region is quite diverse. More obvious differences relate to the overall level of the availability and affordability of care services. Countries like Denmark, Norway and Sweden are usually presented as the European ‘champions’ providing public childcare for at least forty (Norway, Sweden) or even seventy (Denmark) per cent of all children below the age of three. The high levels of access to these services coincide with or, perhaps we should say, facilitate, high levels of female labour market participation rates in the Nordic countries. It comes as no surprise that Norway, Sweden and Denmark are listed among the ‘top five’ European countries with regards to female employment. The fact that Finland represents a slightly different model is not surprising for experts on Nordic social politics. Finnish mothers tend to take a break from employment to take care of their small children until they began education at the age of three. Interestingly, this is also typical in Estonia, Latvia and Lithuania and for German mothers. One could label this group of countries as medium female employment/low-to-medium availability of childcare services.

Finally, female employment activity rates are lowest for Polish women, where we also find the lowest availability of childcare. What is specific for all the countries in the region is the availability of various types of family support in the form of cash, including generous child benefits recently introduced in Poland, high replacement rates of maternity and parental benefits, and the availability of cash-for-care schemes in some of these countries. We will come back to these issues.

While policies relating to childcare are often put forward because of a demographic downturn, the challenge of LTC seems even more pressing due to a rapid increase in the population aged 65 or over everywhere in Europe. Terms like ‘sandwich generation’ characterise the situation of population cohorts squeezed between their care-demanding children and parents. Gender penalties apply here as well: it is more often daughters, and even daughters-in-law, than sons that are expected to take care of their parents (or parents-in-law). Children tend to take care of their parents (or bear the financial responsibility for it) almost everywhere in Europe. In general, we group these countries together as ‘familialistic’—they provide some kind of direct care, as well as featuring systems that tend to prefer home-based care services. We find a combination of all of these ‘pure’ models in the Baltic region, with the familism prevalent in all the post-state-socialist countries, and a combination of institutional and home-based care in the Nordic countries. Often, the model of LTC seems to match the welfare regime, like in the case of Germany, where the importance of LTC insurance is growing.

What is common for the policy fields of childcare and LTC, when it comes to public discourse, is the question: should we provide care services directly or should family-based care get financial support? In short: should we opt for cash or care? Or both?

The question of ‘freedom to choose’ appears almost immediately. Citizens have the right to choose, it is argued, and thus we cannot and should not ‘force’ them to use one of these instruments, but instead, we should give them options. Families and parents should be given options—whether to use public care services (and if so, a variety of such services should also be guaranteed) or to take care of the family member at home, but then receive financial compensation from the state. However, this is not about choice and the alternative allocation of public funds. Politicians, policy-makers and other stakeholders often employ the discursive framework of ‘freedom of choice’ in public debates, for various reasons. Thus, the proponents of a deinstitutionalisation of care, or cash-for-care schemes, have often pointed to much higher costs being associated with institutional care as compared to the provision of benefits. Less ‘officially,’ they have also pointed to the fact that ‘it is better for a small child to stay at home with their mother,’ or that ‘mothers are forced to work, while they would otherwise take care of their own child,’ and such arguments often come from right-wing and/or conservative politicians. Arguments for cash-for-care schemes in Sweden or Norway most often have related to the issues of choice followed by the various costs of services and cash benefits, while policy-makers seemed, in fact, to challenge the dual earner model and policies in support of female employment, while indirectly also challenging the countries’ efforts to enhance gender equality. Explicit de-institutionalisation of Finnish LTC involved ‘discourse in line with the national policy aims of putting the home first’ (Anttonen and Karsio 2016).

There are at least three ways in which one can argue against such reasoning. Firstly, we can look at the effects of such schemes: these were working class women, women with migrant backgrounds, that used cash-for-care schemes due in part to their disadvantaged position in the labour market, in which case benefits were a far better option compared to low quality employment (Esping-Andersen 2009, Giuliani

and Duvander 2017). Secondly, family support schemes are already providing various kinds of options, including cash support, such as paid parental and childcare schemes, family allowances, etc. Thirdly, as care services are public services, in theory, one could extend this mode of ‘alternative’ payments to private citizens to other public services, like public libraries and public transport, demanding compensation from the state if someone does not use it.<sup>1</sup>

Finally, the ‘freedom of choice’ argument is often used when it comes to the marketisation or privatisation of care services. It might seem that since Western welfare states have experienced the consequences of ageing populations early that they might also be better prepared for the increase in the number of elderly who need of care. However, generous LTC systems cannot always withstand the pressure of increases in the number of clients, and/or cope with a shrinking tax base, with ‘budget constraints’ and an ‘increase in demand’ being key-words in the public debate on the side of policy-makers legitimising cuts in spending. Therefore, privatisation of LTC often takes place in those countries that developed high quality universal services in the 1970s and 1980s. The proponents of privatisation often argue that the ‘free market’ should necessarily lead to a ‘natural’ emergence of services, with the quality of service increasing due to competition among providers and as a result of consumer choice. Moreover, stronger investment incentives in the private sector might lead to an increase in innovation and hence, contribute to an increase in quality. Finally, private providers might not want to risk their ‘reputation’ by lowering standards of care (Bergman et al. 2016). And yet, private nursing homes generate higher administrative costs, while in general transparency and accountability amongst these providers are lower than in the case of public and/or municipality-run nursing centres (Har-

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<sup>1</sup> We would like to thank Åshild Olaussen for this remark during a workshop called ‘The Future of the Welfare State Perspectives from the Baltic Sea Region’ organised by the Friedrich-Ebert-Stiftung and ICRA Foundation on the 10-11.03.2016.

rington et al. 2016). Moreover, there is much evidence that very often marketisation (or privatisation) of services leads to degradation in service quality, also measured by outcomes such as (inverse) mortality, which increases significantly with privatisation, and often, in conditions when the residents' position is weak (like in the case of dementia or other illnesses influencing the patient's vulnerability), although evidence is mixed in the case of Sweden (Bergman et. al. 2016).

One could also relate this situation to childcare services – the direct beneficiary is the child and parents are not always able to control service quality. This might happen not only due to the fact that parents are not direct service recipients, but also because parents mostly do not have expertise in pedagogy, child psychology, child health, etc. Motivated by cost-containment, private for-profit providers might exploit this fact while seeking not-so-obvious ways to cut running costs. Moreover, privately operated services might be 'sold' like any other product, with the use of appropriate marketing, advertised in a way that suits particular contexts.

In summary, from the viewpoint of social citizenship, privatisation or marketisation might appear to endanger the individual's social rights instead of expanding 'choice'. Such processes might lead to a serious decline in quality and hence, contribute to a decrease in general well-being and/or to a re-familisation of care, when families cannot afford to pay for high quality care. Gaps in the provision of good-quality formal care are also likely to (further) attract migrant care workers ('care drain'), with consequences for family and gender relations in their countries of origin (in our case, the group of post-socialist countries) and emergence of so-called 'migration chains' (Polakowski and Szelewa 2016). Investing in differentiated, but publicly supported and high-quality, care services in Europe seems to represent one of the most important challenges, especially for the Baltic Sea region.

# Social investment

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The focus of social investment as a policy strategy is on the impact that policies have on human capital (at the micro scale) and the economy (at the macro scale). The economisation of the issue of childcare, for example, goes from emphasising a positive relation between attending childcare and pre-school for children's cognitive, social and emotional development, to presenting the cumulative effect of this increase in human capital as being a positive return from investing in childcare and early education (Heckman 2006, Nores and Barnett 2010, Kalicki, Woo, and Barnett 2017). The sources of the benefits that come from investing in childcare would therefore crystallise in the form of a more highly skilled labour supply (human capital), while in this way “adapting to women's new roles” would mean both more women in the labour force and higher fertility rates, which together should help the long-term sustainability of public finances (Esping-Andersen 2009). Scholars have touched upon the economisation of the discourse on childcare in the process of policy reform, especially during the recent reforms to enhance childcare for children under three in Germany.

This has truly entered the research arena, but also it has become a leading policy paradigm, promoted by several international organisations, the EU, OECD and the World Bank being among the most notable of them. The impact of the European Union seems of particular importance since the announcement of the Social Investment Package in 2013, although the recent strengthening of foundations for economic development through ‘traditional’ investment seems to have sidelined it.

A question arises: is the social investment approach a new chance to argue for expansion of the welfare state or is it another strategy to introduce welfare cuts through the

back-door, i.e. whenever the ‘investment’ does not produce positive returns? As suggested by Jenson (2009), social investment is a departure from traditional Keynesianism (focused on consumption and extensive social protection), but to the same extent it is also a departure from neoliberalism (with its inherent critique of social protection as being ‘unproductive’).

From the perspective of childcare as one of the flagship programmes of the social investment paradigm, an important development has been identified by R. Mahon (2013) within the OECD. Initially (mid-1990s), social investment was embedded in a neoliberal agenda, where ‘extensive’ social policies were facing budget constraints. Such a type of ‘passive’ social policy provided by the state was meant to be replaced with more ‘active’ types of policies. At the same time, the issue of intergenerational conflict was raised and it was suggested that a shift from policies targeting the elderly (mainly pensions) to policies investing in younger generations should be welcomed.

An intrinsic feature of the social investment paradigm is intertemporality—today’s investment will yield long-term results in the future. Van Kersbergen and Hemerijk (2012) raise the point that it is exactly such a long-term perspective that is also a threat to success, especially in a period of economic crisis. As argued by Y. Kazepov and C. Ranci (2017), the social investment concept tends to be universalised, however, its success depends on a specific set of pre-conditions, which is not shared universally. When it comes to childcare development in Italy, the authors claim, the expansion of childcare did not translate into higher levels of female employment. They point out that the reasons for this are the high levels of gender inequality in the labour market and in households, as well as the promotion of the middle class as a beneficiary of this policy expansion. Therefore, it is argued that social investment programmes, when implemented, should take into account the local institutional and structural context. Finally, ‘social

investment’ often appears as a ‘productivist’ approach—it no longer refers to social rights as a central category but, rather, social policy is treated as a production factor, and as such—subordinated to economic goals.

But is that really the case? Were childcare and early education policies always only about social rights and equality? One could say that Nordic or social-democratic welfare states introduced many important reforms quite early in order to improve the life chances of children in their early years, and these policies contributed to a decrease in social inequalities, however, the approach has always been to mobilise female labour, to extend the tax base (also through the pro-natalist character of many of these policies), and to invest in the development of social policies in order to boost the economy. Another argument in favour of investing in formal childcare for children under three was based on differences between pupils’ performance in PISA tests. Relatively recent reforms to the German system of parental leave and huge investment in developing childcare services for small children were carried out with an accompanying discourse of social investment and boosting the economy (Leitner 2010), but also they occurred as a reaction to German pupils’ relatively weak performance in PISA rankings. Finland, on the other hand, is most of the time perceived from the viewpoint of its successful model of education policy, as proved by Finnish pupils traditionally topping the PISA rankings. And yet, the Finnish model favours starting formal education at the age of three, which does not back the argument of investing in formal care for small children as a prerequisite for strengthening human capital (if measured by school performance).

With countries, like Estonia, Latvia, Lithuania and Poland there is yet another issue. On the one hand, the argument about positive returns from investments (and, conversely, negative consequences stemming from non-action) might resonate with the public debates in these countries, debates which for years were dominated by neoliberal

economic discourse. On the other hand, there was the experience of state socialism in these countries and the ideological legacy of the mass, and top-down, mobilisation of female labour during the immediate decades following the World War Two. As their communist leaders did not inspire gender equality at home by changing men's attitudes and roles, parental leave was only ever taken by mothers, and women were engaged both in paid and unpaid work activities, i.e. a 'double' or even 'triple' burden. In the context of post-communism, the argument against social investment improving female human capital and 'activating' women, by providing work and family policies, is often dismissed as repeating the logic of the 'forced commodification' applied previously by those communist leaders.

And yet, almost thirty years after the fall of the old system, these countries are part of the EU, receiving structural funds to support their development, including promoting social cohesion, and the rhetoric of departing from state-socialism should be exhausted as no longer grasping the problems of the younger generations. Social investment might have an economising effect on welfare discourses, but in accounting for inequalities and the need for inclusion based on social solidarity and gender equality, the strategy might also represent a chance for the development of social policies in conditions of permanent pressure on the welfare state that are unlikely to cease in the future.

## Automation of work

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The automation of work has been progressing for many years, however, recently, due to the development of robotics and IT, the process has speeded up. This has created fears, but also hope in progressive circles. The fears are linked to the ease

with which some jobs (especially low-skilled ones, but also such professions as data mining and processing) are being replaced by technology. A study by McKinsey (Manyika et al. 2017) published in 2017 indicates that in sectors such as accommodation and food production (or manufacturing), it is possible to automate more than 70% and 60% of activities, respectively. At the other end of the scale relating to potential for automation lie management (35%), professions (35%), and education (27%). Therefore, it seems that in sectors where expertise plays a major role, in some instances similarly to data processing and mining, it is hard to replace humans as automation can affect not necessarily all the jobs, but rather certain aspects of them which are particularly prone to this process. Furthermore, while many jobs will be destroyed in the process of automation, other jobs might be created. In sum, if properly anticipated and managed, the automation of jobs does not lead to solely negative outcomes. It may open up possibilities for performing jobs which are less routine-based, require less physical strength, and also may reduce working hours and the need to focus on the quality of one's work.

A recent (2016) OECD report analyses some of these issues in detail and claims that previous alarmist reports regarding automation and the impact of digitalisation on the labour market in the form of both its scale, as well as the ultimate result that is technological unemployment, are exaggerated (Arntz, Gregory, and Zierahn 2016). Accordingly, the authors point out two factors in this overstatement: the internal heterogeneity of tasks in several sectors of the economy as well as the relatively slow pace of technological progress. However, they also emphasise that the main impact of automation will be felt by workers on the lowest salaries and with the lowest skills. The data for the Baltic Sea region indicates that the share of workers with a high risk of automatability (at least 70%) is highest in Germany (12% of workers), followed by Norway (10%), Denmark (9%), Sweden, Finland and Poland (7%) and Estonia (6%) (ibid.).

While the standard prescriptions assume the necessity of permanent re-skilling and life-long learning for workers, so that they are ready for the digital era, there is also a ray of hope on the horizon. It concerns the possibility of the ‘end of work’—in a positive sense: the automation of repetitive, routine jobs would mean that individuals performing these tasks could be freed up to engage in other socially beneficial activities (Standing 2014).

## Basic income

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An integral part of this debate regards the introduction of a Guaranteed Minimum Income (GMI). The feasibility of a GMI in the region of the Baltic Sea was a recurring topic in the debates organised within the framework of the project. While the empowering dimension of a GMI was raised several times, there were also voices challenging the possibility. Firstly, there was the question of the fiscal capacity of the state. Secondly, there was the issue of its relation to other elements of the welfare state. Thirdly, it was argued that traditional social insurance programmes draw on the concept of acquired rights (a direct link between contributions and expected benefits). Finally, it seems that in a deliberation-oriented institutional setting, such as a bi- or tripartite social dialogue, where policies are constantly negotiated, such an ‘imposed’ policy may face opposition from social partners. Whatever the outcome of the debate on a GMI is, it opens up a platform for rethinking the basic role of the welfare state. The Finnish experiment with this policy instrument (unfortunately on a reduced scale compared to its original plans) will be of central relevance for the debate. What is already known is that a full-scale implementation of a GMI in its universal form will require a major rethinking of the tax-benefit systems of welfare states along with technological change.

# Conclusions

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The purpose of this paper was to map some aspects of the welfare state which are important from the perspective of the ‘future’—future challenges, constraints and possibilities. Our perspective was motivated by a progressive agenda which sees social policy as based on values and not on a technocratic vision, and which perceives the welfare state as the main equaliser of conditions. Therefore, when speculating about the future we stand against the general argument for radical retrenchment. Instead, we argue that reforms are needed which are more subtle in terms of content and much more democratic in terms of procedure. Let us come back to our initial question: what is the future of the welfare state in the Baltic Sea region?

From our presentation it emerges that the region is not unified in a sense that the Nordics most likely will follow their own path and Germany will also have its own trajectory. It is hard to speculate about post-socialist states, as so far they have pursued policies of low social expenditure, especially in the field of social services. Given that ‘low equilibrium’ (low taxation and low expenditure) is so strongly embedded in their economic policy-making, it is hard to imagine that these countries will move to another equilibrium in the short term, irrespective of the declarations of politicians.

In the field of the welfare state, one of the most important challenges in the (near and more distant) future is the ageing of the population and its fiscal consequences. As we presented, the variety of responses is striking. While in all countries in the region pension reforms have been enacted with the purpose of stabilising or even reducing spending in the future, their results for pensioners will differ. Here, a change in benefit formulae is especially important, as is an increase in the retirement age. This is

happening virtually everywhere (apart from the very recent reversal of a retirement age increase in Poland). The other two important areas of the welfare state have been flagged by the European Commission. These are healthcare and LTC. While (most probably) partial privatisation will be a common tendency, the countries may also develop in completely different directions. As we mentioned, the big dividing line is the quality of policy-making, whose poor quality in post-socialist states seriously hampers systemic, future-oriented reforms. The pace of reforms seems faster in post-socialist welfare states which is a result of less discussion with social partners or experts. Also, it is quite rare that governments establish independent commissions whose role it is to analyse possible variants of public policy reforms. Therefore, in Poland and other post-socialist states, it is the government itself which completely controls the reform process. Social partners, especially trade unions, are reduced to commenting on draft bills, while civil society organisations play no role whatsoever in drafting reforms.

Furthermore, European Union institutions play varying roles in the region. While important in some welfare state-related areas (non-discrimination, including labour law) and providing substantial financial support through structural funds as well as introducing some benchmarks, for some observers in post-socialist countries the role of the EU in enhancing a progressive social policy agenda has been disappointing. Here two factors need to be singled out. Firstly, the majority of traditional social policy areas have been covered via Open Methods of Coordination (OMCs). While enhancing benchmarking and mutual learning among country administrations, the OMCs have not delivered closer societal interest in social policy. Secondly, the field of social policy in the European context has to be analysed jointly with macroeconomic governance. It is here that a striking asymmetry in European priorities appears. While macroeconomic governance should be treated as ‘hard’, followed by

possible sanctions in the event of exceeding certain well-defined parameters, social policy remains comparatively 'soft'. This macroeconomic governance has been further instrumentalised by the post-socialist states to justify welfare cuts or in the best-case scenario—a lack of development of the welfare state.

A similar scepticism can be observed in the Nordics. It might be motivated by at least three factors. First, the standards present in these countries are much higher than those stipulated by the EU. Thus, any binding regulation is perceived by many actors as a way of undermining the achievements of the welfare states. Second, there is a specific balance of power which can be observed in the Nordics: social partners have so much power (organisational, financial, expertise, and not to mention membership) that they prefer to have issues such as conditions of work and pay as well as fringe benefits negotiated bilaterally. Thirdly, the social policy agenda—together with Lisbon Strategy and Europe 2020—is seen as a product of neoliberal ideology with its emphasis on the necessity of scaling back the welfare state, moving from 'passive' to 'active' instruments, etc.

Therefore, if one is concerned with the expansion of social policy, the view of the EU on this issue should also change. While social policy remains a domestic affair, the international context impacts the conditions for policy-making.

The message we have wanted to convey in this paper is that the Baltic Sea Region remains very diverse, perhaps the most diverse in the EU, given the geographical proximity of its constituent countries. The future of the welfare state should be assessed in light of past and current developments. While the Nordics and Germany have suffered some blows in the welfare architecture, it still remains sound. The German welfare state suffers from dualisation which affects the situation of those ones

worse-off in the labour market and perpetuates further. Poland is a country where dualisation is relatively strong, which is combined by fragmented social policy. It is important to mark this diversity for the purpose of mutual learning and cooperation. The countries of the Baltic Sea region have served as a testbed for many social policy innovations and by understanding the experiences, our countries can realise a progressive agenda.

In this paper we mapped the welfare state realities in the Baltic Sea region, pointing out a striking diversity. However, at the same time it appears that the three broad themes: solidarity, work and social investment occupy the top of the agenda when it comes to the future of the welfare state in all countries of the region.

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# The Welfare State and the Role of Social Partners

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Åshild Olaussen

Can trade unions play a progressive part in the development of the welfare state? For many years and in many countries, unions have been accused of being a block against necessary restructuring and development of the labor market, and hence the economy. But based on the Norwegian (and Nordic) experience, it is possible to argue that the contributions of the trade unions and employers' organizations play an important role in developing and sustaining a welfare state.

Throughout the 1990s, leading world economists advocated a decreased welfare state. To ensure a healthy economy, nations were advised to reduce the public sector's share of the GDP, reduce taxes, decentralize wage setting, and give the unemployed incentives to work by lowering levels of social support.

How should one explain then, that Norway—and the Nordic countries in general—for a long time have been among the top ranked countries in the Human Development Index? After all, they have done quite the opposite of the economic theories espoused by those leading economists. Norway has:

- High public expenditure,
- High taxes, also including on labor,
- Low differences in wages,
- Social support close to work-related income,
- Strong unions, collective agreements and centralized wage setting.

Based on the assumptions that a free labor market gives the best allocation of labor, capital and technology, the Norwegian work model and its small wage differences should have given us low productivity instead of high, and poor conditions for a sustainable welfare state.

These observations have led to spirited discussions among scholars, and have brought new research and insight into how certain features of the Norwegian (or Nordic) welfare state model seem to bring favorable conditions for economic growth and welfare production. Three of these features are stability, productivity and trust. All three of them are influenced by strong social partner organizations and a system of coordinated wage bargaining.

# Stability

Employers and workers, or employers' organizations and trade unions, have traditionally been pictured as opponents with strong, contrasting interests. This conflict reflects the classic conflict between labor and capital. But through compromises between the interests of employers and workers, in which a strong labor movement has played a crucial role, Norwegian working life has been able to establish rules for bargaining and mechanisms for conflict solving. All in all, this has contributed to stability in the labor market and formed a basis for the "Norwegian model" where factors such as centralized wage bargaining and formal regulations around workers' right to co-determination, as well as practical and sustained cooperation between employers and workers, are key components.

Based on strong and representative organizations, both on the employers' and the workers' sides, a fruitful tripartite relationship has emerged. Over time Norway has developed long traditions of arrangements in which the government and working life organizations exchange information on prominent issues. One example is The Norwegian Technical Calculation Committee for Wage Settlements (TBU) which lays the foundations for the best possible shared understanding between the social partners in the Norwegian economy. In connection with income settlements, this tripartite committee are tasked with presenting the best possible background figures in a form that, as far as possible, helps to avoid disagreements between the parties.

The economist Karl Ove Moene, at the Centre for the Study of Equality, Social Organization and Performance (ESOP) at the University of Oslo, exemplified the

social partners contribution to stability in the following quote: “Had the financial crisis hit Norway harder, the government would know that they could coordinate themselves with working life organizations, and that there would be a common understanding of the economic situation”.

## High productivity and competence

High productivity in the economy can be a reason for more welfare. It has been argued, with support from research, that the strong role of social partners in Norwegian society and economy, contributes to high productivity and a high level of competence among the workers. The causation is as follows: Centralized and coordinated collective bargaining contributes to small wage differences. And compared to other alternative systems of wage setting, it is especially lower wages that become relatively high in the Norwegian system of collective bargaining. This in turn makes it expensive to hire low skilled workers, who typically can be replaced by machines or other technology-based automatization. And, as the Norwegian economist Roger Bjørnstad argues, on this basis three important drivers of change occur, which all contribute to high productivity. Firstly, low skilled workers are replaced by high technology capital. Secondly, both the government, the employers’ organizations and the trade unions work in order to raise the level of competence among the most vulnerable in the labor market. Thirdly, industries with a high demand for manual labor, which can hardly replace it with investment in technology or negotiate low wages, will suffer. And high-productivity industries will flourish, also supported by the advantage that due to the small wage differences, highly qualified and/or educated workers are relatively cheap labor in Norway.

## High level of trust

Research has shown that trust is strongly linked to higher support for social welfare provisions. Societies where people trust each other are more likely to support paying higher taxes in return for increases in welfare. A high level of trust in society derives from multiple causes. But the master variable is social equality, which for all practical purposes is equal to income similarity. Low differences in income correlate with a wide range of welfare indicators and a happy society. Figures from the OECD show that the Nordic countries have the lowest index for income differences. Again, coordinated wage bargaining plays a crucial role.

New statistics from the European Social Survey show that the Nordic countries lead in Europe when it comes to trust between people.

Researcher and sociologist Gudmund Hernes has argued that the Norwegian model with strong social partners contributes to high trust and to the development of social capital. In addition to the effects of coordinated wage settlements, he shows how the model in itself contributes by being institutionalized throughout society. That is, all parts of the labor market have a role in the model. This applies to individual workers, through union representatives, managers, to employers and workers' organizations and authorities at both local and national levels. Some central features lay the ground for building this social capital and trust at the work place; routines for dialog and compromises, knowledge about each other's position and each other's arguments and justifications, reciprocity in developing solutions, and the experience that participat-

ing in cooperation among social partners is an ongoing process where negotiations will be repeated again and again.

## Future challenges

The Norwegian welfare state is characterized by high productivity, a high rate of employment and an ability to restructure. And the level of conflict in working life has been low. Organized working life and tripartite cooperation between trade unions, employers' organizations and authorities make up much of the explanation. Participating in decision-making in the workplace, collective bargaining, and involvement of social partners in important societal issues will not be less important in the future. But it depends on a crucial condition; a high level of organization within the labor force. It is a challenge in Norway that the level of organized labor in 2017 for the first time is below 50 percent. Hence both blue-collar and white-collar trade union confederations have joined forces to increase the number of trade union members, to protect the Norwegian model and, in the long run, our welfare state.

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# The Future of the Political Economy of the Welfare State: A Blueprint for the European Social Policy Community

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**Johannes Kananen**

During the Golden Years of welfare state expansion (i.e. the decades after WWII) social policy ideas were compatible with prevailing economic ideas. Throughout Europe, the latter were influenced by the Keynesian doctrine about macro economics, demand management and regulation of markets. Social policy experts were able to design redistributive schemes in the fields of social insurance and social security because they were also legit-

imate from an economic point of view. The public sector expanded and the state guaranteed extensive citizenship rights, including the right to education, health and social care.

Ever since the changes in economic orthodoxy and the demise of Keynesianism, the social policy community, including researchers and experts, have struggled to find a constructive role in the international and national debates about social and public policy reform. I argue that in order to create potentially relevant ideas for future welfare reform, the social policy community needs to deconstruct the two hegemonic ideas that have underpinned public policy reform since the 1980s and 1990s. Often associated loosely with the term ‘neoliberalism,’ these ideas are:

1) The theory of labour market equilibrium (first formulated by Milton Friedman in 1968)

This theory postulates that labour markets automatically approach an equilibrium. A central feature of this equilibrium is the Non-Accelerating Inflation Rate of Unemployment (NAIRU), sometimes referred to as the structural rate of unemployment. According to the theory, governments cannot stimulate aggregate demand with a budget deficit when unemployment is below the structural level. Otherwise, inflation will increase. The NAIRU, in turn, is determined by the level and coverage of unemployment benefits, the system of collective bargaining, hiring and firing rules, taxation and social security contributions and Active Labour Market Policies. The government may only help the economy grow by increasing the labour supply by cutting the levels and coverage of benefits, lowering taxes, establishing individualised wage setting, relaxing employment protection legislation and via tougher sanctions for non-compliant job seekers.

2) The theory of efficient financial markets (first formulated by Egen Fama in 1970)

This theory postulates that when unregulated, financial markets will channel funding to those businesses with the greatest potential to succeed. It is associated with the idea that savings create debt. Banks gather savings and distribute them as loans to businesses and private persons. The theory also

postulates that the interest rate reflects the equilibrium of supply and demand of credit. The markets have the capacity to determine the price of equity and share prices reflect market expectations of future returns in the form of dividends.

While both theories are contested, they still remain the blueprints for European governments with regard to public policy reform. Although organisations such as the OECD have recently identified income inequality as an issue, the two theories still create the main rationale behind country specific authoritative reform proposals, regularly issued by the EU, the OECD, the IMF and the World Bank. Alternative paradigms, such as those regarding social investment or human capital, have remained marginal.

More important than the question of whether the two theories are true or not in a semantic sense is the question of what their real consequences have been for the almost four decades when they have—with the effective help of organised business interests—informed public policy reform. The consequences can be summarised as follows:

- More stratified labour markets with more precarious jobs,
- Financialisation of the economy,
- Increased income inequality,
- Social unrest and tensions between different groups of people, most notably different ethnic groups,
- Post-truth era associated with the rise of extreme right populism,
- Corporate power and concentration of wealth and political power.

In effect, the two theories are antithetical to progressive welfare politics.

**Towards a new welfare policy:** Thus far, the management of social and economic risk has been separated in public administration. Social administration has operated with social risks, such as the risk of loss of income, old age and so forth. Employment administration and associated government departments at central and local levels have managed entrepreneurial risks, such as the risks associated with starting up a new business and the risks associated with creating new products based on technological innovations.

In the future, these two kinds of risks can no longer be conceptualised separately. In fact, there is a need to rethink the entire concept of risk both because financial markets are operating in a dysfunctional way and because existing social security schemes no longer work well with the reality of the labour market. In addition to the concept of risk, the concepts of money, credit and capital need to be rethought—in order for the two hegemonic theories to be deconstructed.

The main problem of the theory of labour market equilibrium underpinning current labour market policy is that it focuses on the management of external behaviour, such as job seeking activity. It does not recognise people's individual capacities to generate new economic activities and new business ideas for themselves and for the communities around them. Yet, when a person can work from an idea that arises creatively from within—she or he is more likely to stay healthy and experience a sense of happiness and content. Therefore, understanding the centrality of ideas and the human capacity to establish new meaningful activity is key to a more sustainable economic and welfare policy in the future.

When governments start thinking about risk more holistically, they will see that the task of government is to create structures that allow people to realise their

ideas—structures that will alleviate associated risks and remove barriers. Currently the management of risk is more associated with a speculative financial economy aiming for accumulation of capital rather than the realisation of human economic aspirations. From this perspective, governments could think of ways to bear a larger share of entrepreneurial risk—in return for a commitment to pursue common and shared interests, for instance. An unconditional basic income could alleviate the risk of loss of income.

Similarly, the concept of money should be rethought. Now money is quite commonly understood as a commodity, subject to ownership and desires. People desire to own more and more money, which leads to an unhealthy social life. Yet, money and capital could be conceptualised as a means to realise the ideas people might have for their own life and for future economic activity. From such a perspective, money has no value as such. Instead the capacities and skills of each human being are the most valuable economic asset. Governments should therefore focus on the flow of (debt) money and ensure there is credit available for ideas on conditions that are reasonably favourable. This would, obviously require us to think of the purpose of business in a way that arises from the business activity itself (for instance the production of goods that people really need)—rather than economic production as a means to increase somebody's personal wealth.

The social policy community should align itself with such new conceptions of money and risk and work towards new social security and public service structures that would support these new concepts. New concepts of money and risk have so far reached the Bank of England (McLeay, Radia and Thomas 2014) and the European Central Bank—in addition to various citizens' initiatives (Europa 2019, Vollgeld, Economic Democracy, Time Banking) and some academic researchers.

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# Equality as the Main Economic Challenge for the Welfare State

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Zofia Łapniewska

For East European countries in the 1990s, the notion of democracy was effectively linked to free market reforms that adopted the form of “shock therapy” (after Klein 2008). For more than two decades since then, a dismantling of the welfare state has taken place in the name of “freedom” and “justice”, where the dominant individualist rhetoric has shifted responsibility for reforms to individuals, who ever since have had to count on themselves. Today, as research on Poland has shown, a large segment of society has a negative or ambivalent attitude towards system transformation (Czapiński and Panek 2014) and this social discontent is exploited by populist parties.

The inequality between the richest 10 percent of the population and the poorest 40—indicated by the Palma ratio<sup>1</sup> or alternatively the Gini coefficient<sup>2</sup>, are the best measurable evidence of the economic policy changes in the two blocks of Baltic countries, the “West” and “East”. The results differ significantly (Table 1).

Table 1. Indicators of inequality for the Baltic Sea Region countries

	Denmark	Estonia	Finland	Germany	Latvia	Lithuania	Poland	Sweden
Gini	0.256	0.346	0.257	0.289	0.350	0.381	0.298	0.274
Palma	0.89	1.38	0.89	1.03	1.42	1.67	1.08	0.97

Source: OECD 2014

Table 1 indicates that Denmark and Finland have the smallest gap between the richest and the poorest members of their societies and the richest 10 per cent of the population has 89 per cent of the wealth of the lowest 40 per cent, according to Palma. This ratio is highest in the Baltic States (Estonia, Latvia and Lithuania), where the gap between the richest and the poorest is largest.

Socio-economic inequality, which I see as a serious economic challenge facing the societies of the Baltic Sea Region, prompts reflection on social justice. Its basic element is the appropriate (pre)distribution of wealth (Fraser 2013), leve-

<sup>1</sup> The Palma ratio, introduced by Chilean economist Gabriel Palma, is calculated as the ratio of the share of gross national income belonging to the richest 10 per cent of the population compared to the poorest 40 per cent’s share (Cobham 2013).

<sup>2</sup> The Gini coefficient, developed by Italian sociologist Corrado Gini, measures inequality among values of a frequency distribution, e.g. the income or wealth of a nation’s residents, where 0 represents perfect equality and 1 implies perfect inequality (Cowell 2011).

ling out the chance of a decent life for all citizens. For that, as Polakowski and Szelewa indicate, social solidarity is necessary, which strengthens and justifies the actions of the welfare state. I propose some more or less radical solutions in this respect, which in some Scandinavian countries have already been introduced or tested, and which would also help less equal countries in the region to adopt a more progressive economic policy.

On the expenditure side, the first idea is an unconditional basic income (UBI), which is currently being tested in Finland (although the amount is small, 560 euros), and those who receive it had previously received benefits (therefore, it is not unconditional) (Łapniewska 2017). This can be also achieved gradually—the income is paid to the most vulnerable groups in the beginning, e.g. the unemployed, artists, or pensioners (the concept of a minimum pension has been discussed recently in Poland (Frączyk 2017)) and later UBI is extended to the whole of society.

It is also necessary to invest in care services (for children – especially for the youngest ones, dependents and the elderly) and to uprate wages in the care sector. The solution would be the creation of jobs by the states (part/full-time). With indirect and induced effects, these activities would also bring about new jobs in other sectors of the economy (Henau De et al. 2016, Łapniewska 2016). Jobs created by the state, as the employer of last resort (ELR), could also include a variety of activities for the well-being of local communities (such as community gardening, local supervision, help with children's homework, and many other things). Due to the imminent automation of industrial jobs, it would also be advisable to gradually reduce the length of full-time work to a target of 21 hours per week (cf. NEF 2010) within the next decade.

Another economic solution recommended here is an increase in minimum wages to the national averages. The next step could be deciding that differences in salaries in companies and other organisations shall not exceed 1:12 (unfortunately, there was an unsuccessful referendum on this issue in Switzerland (Lichfield 2013)). Thus, for example, an increase in the salary of the company's board would automatically be linked to raising the salaries of the lowest paid employees. It is also necessary to end "junk contracts" and to force companies to allot part of their income to National Insurance contributions. Employing on the basis of a proper employment contract gives employees a chance to associate and jointly represent their interests e.g. via trade unions.

The pursuit of equality also leaves space for action on the taxation side, and there are many opportunities for introducing equality measures in the Baltic economies. Regarding assets, a Robin Hood Tax could be introduced (The Robin Hood Tax 2014). In particular, now, before the next financial crisis hits, it is time for financial instruments to start benefiting real economies instead of merely expecting states to aid banks in times of economic downturns. 11 European Union countries, including Germany (unfortunately, no other country from the Region is participating in the program), put forward a motion to introduce the Financial Transaction Tax (FTT), which would involve charges of 0.1 per cent on share and bond exchanges, and 0.01 per cent on derivative contracts, if at least one of the exchange parties is a member of the European Union (European Commission 2010). My second recommendation in this field is the introduction of a flat rate inheritance tax, at the level of at least 4 per cent of a legacy's value, for the zero group – the deceased's closest family (a much higher tax was lobbied for by Warren Buffett, Jimmy Carter, George Soros, Bill Gates Sr., John C. Bogle and Robert Rubin in the United States (Ebeling 2012)). Naturally, every country

could set a threshold for exemption, for example, at the level of the average cost of a flat in a given country.

Another source of income would be tightening the national taxation systems, particularly regarding Corporate Income Tax (CIT). On the basis of a new anti-tax avoidance law, corporate accounts could be inspected to select “dubious transactions” for enforcing proper tax payments. Of course, this does not apply to Nordic countries and Germany, which have high moral standards in this regard and whose companies pay fair taxes on the spot (without “optimisation” and tax avoidance). The next logical step would be support from all countries in the Region for the Common Consolidated Corporate Tax Base (CCCTB), which intends to harmonise taxes throughout the whole European Union and to create a transnational fiscal office, which would prevent profits of multinational corporations being transferred to tax havens (Gajewski 2017). Unfortunately, Denmark and Sweden, among others, opposed the introduction of this solution (Duffy 2017).

In the case of Personal Income Tax (PIT), based on the example of the Scandinavian countries, greater progression is favoured (more tax thresholds depending on the amount of income) and—what would be interesting to implement in the Baltic former Eastern Bloc countries—imposing additional taxation according to residence privileges (e.g. residents of large cities would pay higher taxes—redistributed to the less developed areas of the country). PIT could also be charged on robots, and, following Bill Gates’ advice, on their utilization/productivity (Gates 2017), to compensate for job losses resulting from ongoing automation. Obtained funds could be spent on programs such as UBI or job guarantees.

Another, rather radical proposition, would be to cancel the PIT joint taxation and to introduce individual rules instead (e.g. single mothers and fathers, or same sex couples in Lithuania, Latvia or Poland, are not entitled to these tax privileges anyway). Raising PIT revenues can be accompanied with a Value Added Tax (VAT) reduction, which is the biggest burden on the poor. Such a reduction would primarily involve unprocessed food and products and services beneficial to society (e.g. books).

Although the proposals outlined above are just a few of the many ideas for progressive reforms of the welfare state, certainly, they are a step towards a more equal distribution of wealth in the Baltic Sea countries and will allow governments to prepare for the dynamic changes set to take place in the years to come. Striving for equality is not only morally justified, but also, as Wilkinson and Pickett (2010) have argued, pragmatic, because where there is equality, all life is better.

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