Efficiency and Effectiveness of Social Spending

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1. Introduction

In this sociological and economic policy paper, we start out from the assumption of the Commission Background paper (ECOFIN (2007), which states on page 26:

"Regarding redistribution, effectiveness of social spending can be defined by the degree to which the realized allocation approaches the socially desired outcome. For example, a social objective could be to reduce the risk of poverty (defined by some income threshold). If the market allocation without government intervention leaves 30% of the population at risk of poverty, effectiveness is measured by the extent to which government intervention reduces the poverty risk. Efficiency can be defined by the amount of foregone resources by moving towards the desired allocation. Social spending is more efficient if less resources are used for a given change, or if, for a given level of foregone resources, the economy moves closer to the desired allocation."

We are well aware of the fact that the issues at stake have many repercussions for overall European policy performance, especially the so-called Lisbon performance. For Aiginger (2008), the European model is no barrier to competitiveness, if it is reformed in the direction of fostering change and growth, improving incentives and qualifications. This is demonstrated in Aiginger (2008) specifically by the Scandinavian countries, which now combine–after several crises, devaluations, unsuccessful fiscal consolidation–rapid growth, full employment, with a comprehensive welfare system and a high priority for ecological concerns and fairness.

The successful countries had, Aiginger maintains, to undergo substantial changes to be able to adapt their specific version of the European Socio-economic Model to the challenges of globalization.

For Aiginger, the strategy rested on five pillars:

1. managed and balanced flexibility,
2. making work pay and training an obligation,
3. fiscal prudence plus quality of government,

4. fostering investment into the future, and
5. following a consistent long run strategy,

embedded in trust and strong institutions. As far as institutions were concerned, the Scandinavian countries always had for Aiginger more inclusive institutions, and less insider-outsider problems.[1]

The Scandinavian countries managed, according to Aiginger, to maintain and to exploit this property: the coverage of collective agreements is increasing, trade union membership is stable, both in contrast to continental economies. The inclusiveness of institutions and the trust in society enabled these countries to deregulate contracts, to make use of part-time work and fixed-term contracts without increasing poverty and exclusion. For Aiginger and associates (2007), the central question is the characterization of a number of welfare state models in the tradition of Esping-Andersen (1990, 1996 and 1999/2000), analysing the economic and social performance of these different welfare regimes on an encompassing empirical basis both in the long run and with respect to their adaptability to the challenges of the last decades. While the differences with regard to growth dynamics had been very small in the decades after World War II (1960-1990), growth rates as well as the employment and social policy records have diverged over the past 15-20 years. The best performances were found for the extremes: the Scandinavian model and the liberal Anglo-Saxon model, while the continental model produced low growth and increasing unemployment. The reforms in the Scandinavian countries allow them to delineate elements of a "New Welfare State Architecture", which on the one hand upholds important characteristics of a European social model, but on the other hand allows welfare states to be competitive in the globalising economy. Such a European socio-economic model could redirect incentives in such a way that the welfare state is able to shift from a burden (increasing costs and lowering flexibility) to a productive force.

HM Treasury et al. (2008) argued that the knowledge-based economy favours labour market entrants and workers with higher skills, while technological and structural change may require new and different types of skills, which will need to be updated throughout the lifecycle. Human capital formation is therefore crucial–to promote opportunity and employability of workers, and to increase the innovative capacity of companies and economies.

2. The Main Findings by the Commission in the Framework of the Types of Social Welfare Regimes Debate

The European Commission says in their paper (page 6 ff) that:

1. The issue at stake is whether it is more important to foster equal opportunities for all people (to start well in life and make the most

of the chances offered), by guaranteeing access and solidarity (as stressed by the recent Commission Communication ”Opportunities and access: a new social vision for 21st century Europe“), or to guarantee equal outcomes for its citizens, through income redistribution systems.

2. Redirect rather than increase public expenditure. Increased spending in itself will not necessarily improve the quality of social services.
3. When reforming social schemes, a comprehensive approach is needed. Revisions in the pension systems and in the unemployment benefit schemes should be implemented in parallel, through the tightening of eligibility criteria and the revision of the incentive structure for the access to social benefits such as disability pensions and sickness benefits. Access should be limited to those who genuinely qualify, in order to avoid that they become alternative pathways to early retirement or to unemployment benefits.
4. Encouraging people to work longer and be more active in order to cope with the social, economic, fiscal and other challenges posed by ageing populations.
5. ”Making work pay“ through appropriate incentives so that tax/benefit systems do not hinder labour market dynamics and actually help to facilitate structural change.
6. Pursuing further the ongoing efforts to improve cost-effectiveness and long term financial sustainability of health care while ensuring access to adequate healthcare and improving health outcomes.
7. Evaluate and screen regularly the efficiency of social policies, with a strong emphasis on value for money.

3. Welfare Regimes

3.1 Welfare Regimes–Developing a Sociological Perspective

It is now appropriate to present a more encompassing sociological perspective on ”welfare regimes“ with reference to institutions and the Social. Ever since the publication of Esping-Andersen’s ”Three Worlds of Welfare Capitalism“ (1990), social scientists have categorized advanced Western welfare states at least in three variants: either as a Nordic social-democratic system, or as a conservative system on the European continent, or as a liberal welfare state system in the Anglo-Saxon countries.

With Jayasuriya (2008), these three models of the welfare state are briefly described below:

1. The Liberal/Free Market regimes are characterised by selectivist residual welfare which is a targeted means tested welfare for the poor and places limits on the realm of social rights. The latter may include

features such as welfare recipients having relative equality, market differentiated welfare among the majority, means tested poor relief, and private pensions and private expenditure on health. This is typical of the USA welfare system which relies on a high degree of private market supplementation for those not entitled to benefits, and increasingly evident in the contemporary Australian welfare system.

2. The Conservative/Corporatist or Social Market type of welfare state upholds status differences by linking welfare benefits (‚social rights') to compulsory membership in occupationally differentiated welfare schemes, e.g., of social insurance. Accordingly, welfare outcomes are limited by features such as income maintenance benefits, other corporatist contributions and earning related characteristics. This type of welfare regime based on employee rights and benefit adequacy tends to be characteristic of the European Welfare State systems such as Germany (again under threat from neo-liberal social and economic theorists).
3. The Social Democratic/Scandinavian model of the welfare state is organised around universal benefits or citizens with social rights having equal benefits. Importantly, these systems with a high degree of benefit equality do not regard equality in terms of minimal needs and what is more, avoids the dualism of state and markets. This is characteristic of Scandinavian social democratic states (e.g., Sweden), and also the UK to some extent, where redistribution and social solidarity were major objectives at least before the dismantling of the welfare state by Thatcher.

Scheme 1 shows the resultant three models of welfare states (‚welfare state' regimes') based on each type of index, namely the de-commodification and stratification indices. The industrialized countries are grouped into three groups by their index level and models of the welfare state.

Scheme 1: Esping-Andersen's Three Worlds of Welfare Capitalism

Index of De-commodification			Index of Stratification		
Low	*Medium*	*High*	*Liberal*	*Conservative*	*Socialist*
Australia	Italy	Austria	Australia	Austria	Denmark
USA	Japan	Belgium	Canada	Belgium	Finland
New Zealand	France	Netherlands	Japan	France	Netherlands
Ireland	Finland	Norway	USA	Italy	Sweden
UK	Switzerland	Sweden			

Source: Esping-Andersen (1990) Table 2.21.

3.2 Welfare Regimes–An Answer without Real Questions

It seems at least nowadays impossible to enter a debate on issues as they are brought forward here not just without making reference to this mentioned typology of the different welfare regimes.[2] And indeed, his proposed three "models" are at first sight plausible, easily fitting into the debate of policy challenges of the time. However, it is exactly this, what characterises the weakness of the approach. Esping-Andersen's work, from a sociological perspective, fundamentally lacks important analytical dimensions and is–at most–an a posteriori approach to future policy making. The lack of analytical thinking concerns especially the following three dimensions:

- The definition of social policy is structurally limited on the institutional system, not only leaving the development of alternative pathways and instruments out of sight, but moreover fundamentally neglecting the provision of a clear understanding of what the social actually is, i.e. what the goal and aim of any social policy is,
- the fostering of the institutionalist perspective of social policy, and finally
- the promotion of a one-sided methodology of an extended methodological individualism.

3.3 Welfare Capitalism or Welfare Systems?

This section discusses the welfare capitalism versus welfare systems with reference to the lack of an economic framework. The most common reference is made to welfare regimes, commonly defined by Taylor-Gooby (1996, p. 200):

"as a particular constellation of social, political and economic arrangements which tend to nurture a particular welfare system, which in turn supports a particular pattern of stratification, and thus feeds back into its own stability",

or in the words of Gøsta Esping-Andersen (1990, p. 34f):

"A welfare regime can be defined as the combined, interdependent way in which welfare is produced and allocated between state, market, and family."

Esping-Andersen's work should be submitted to a further critique here. First, though with the publication of his work the issue of welfare typologies gained momentum in the academic and public-political debate, it seems important to mention the preceding theoretical efforts, which in many ways seem to be far more consistent than Esping-Andersen's approach. As far as social science is concerned, there had been earlier works being hugely relevant on the issues under debate here. Though one could go much further–for instance by including even the work of William Beveridge himself–there are two major forerunners, each with a very specific stance which is lost in the current debates. First, it is useful to look at the work undertaken by Harold Wilenski and Charles Lebaux (1976, p. 138ff), who stated:

"Two conceptions of social welfare seem to be dominant in the United States today: the residual and the institutional. The first holds that social welfare institutions should come into play only when the normal structures of supply, the family and the market, break down. The second, in contrast, sees welfare services as normal, ‚first line' functions of modern industrial society … In our view, neither ideology exists in a vacuum; each is a reflection of the broader cultural and social conditions ... and with further industrialization the second is likely to prevail."

Here, the conceptualisation is based on a simplified understanding of modernisation, namely employing three theses:

- The authors start from the assumption that overall societal development is coined by a shift from the residual to the institutional model, and
- following the US American understanding of the 1950s, such modernisation is understood in simple terms as increasing industrialisation, consequently
- the development of the institutional model is measured as increase of the spending of the social expenditure, relative to the GDP.

However, the approach is remarkable, as it develops a typology not from an international perspective, but from an analysis within the national framework. This entails a fundamental difference as well if compared with Esping-Andersen. What is decisively distinct is the taken perspective: whereas the latter is strictly institutionalist, Wilensky and Lebaux (1976) aim on detecting a wider understanding not only of the institutionalist system but as well of the actual setting of objectives. Sure, this is geared to discussing the value of the ‚American way of social policy'–and the need of reconsidering its structure while facing the challenge of early globalisation. Although one can well debate the presented way, the approach discusses at least to some extent as well the actual meaning, the aims and objectives of social policy–an endeavour Esping-Andersen falls entirely short of doing.

Richard Titmuss (1974, p. 30f) presented from a British perspective, however now taking an international comparative stance, three models, namely:

- the residual welfare model of social policy,
- the industrial achievement-performance model of social policy and
- the institutional-redistributive model of social welfare.

On the one hand, economic approaches often fall in many cases short by reducing economic matters on technical relationships of individualised actors in economic transaction processes–and from there they would need to be translated into their core of being fundamentally socially determined relationships. In this regard the theory of regulation is much more suitable to provide a suitable framework for welfare systems analysis. However, and this is the other side: any regulationist approach[3] aims on an integrated systems analysis (see for further elaboration: Herrmann Peter: forthcoming). Although this means to use this approach as well as a tool of a somewhat functionalist analysis of an existing system, it goes far beyond the welfare regime analysis of the Esping-Andersen style as the latter takes the stance of a genuine link between welfare and capitalism for eternally unquestionable. In other words, the current debate of welfare regimes, as it is largely inspired by the work of Esping-Andersen, is fundamentally fading out what welfare systems are actually about. Rather asking such a question, they are looking for optimising the way of administering the deficits.

Of course, this does not come as a surprise–and with this we arrive at the second aspect of the questionable career of the welfare regime analysis of the said type. Of course, any abstract contemplation for its own sake is, from a sociological perspective, questionable–it had been pronouncedly said that it is not a matter of philosophically reinterpreting the world but of obtaining with any analysis the means that enable political change. In this light there is nothing wrong with the fact that welfare regime analysis is a child of practical requirements of politics–it had been mentioned already that this was as well the case with the work presented by Wilensky and Lebeaux. However, the fact of social science being responsive towards political request nor the fact that social science can only be thought as theory of practice should not undermine the following two facts. First, any approach is mislead by taking the advice of being affirmative per se. Second, any reduction of social research on institutionalist–or moreover any reductionist–approach remains in the realm of establishing a wrong accountability.

3.4 Social Policy or Policy for Developing and Maintaining the Social

The term "social quality" had been used in the European Commission's Social Policy Agenda from 2000 (European Commission (2000)), though it had been suggested in a very limited perspective: as matter of social policy as distinct policy area–in this way reproducing the shortcoming which had been mentioned before: the inadequacy of a dichotomisation of social policies and economic policies.[4] Such separation of social policy is very much the political complement of the reductionist approach[5] as delivered by welfare regime analysis. In a way this is surprising as Michel Albert (1991) presented another approach that would have allowed European policy makers a more integrated approach towards a European social competitiveness approach. However, the advantage of the chosen ‚model' allowed at least to look for a more technical answer, maintaining the traditional departmentalised policy–by the way a strategy that was as well promoted by Albert.

In his scathing attack on European ”reductionism“, Clesse (2008), who must be called a real ”insider“ of the European strategy debate over the last years, comes to the following conclusion, which is of course not very pleasant for the neo-liberal mainstream:

”Brussels is the weak, cold heart of the Union, regulating and de-regulating, imposing norms and standards, pumping money but not political content through the veins of the organisation. The EU is a gutless, spiritless, headless organisation held together by little else than material incentives. It is the kind of Europe the British or Scandinavians have always cherished, and that the other nations no longer have the spirit to oppose. There is now a serious risk of a slow erosion of the EU‘s basic ideological consensus, its political fabric and its social tissue. If so, Europe will be unable to avoid long-term economic decline. These trends may be accompanied and reinforced by resurgent nationalism and right-wing extremism that will focus on foreigners and immigrants, and specifically on Muslims.“

In any case, the problem with all these paradigms is not least that they are very much oriented towards a static, statist and nationalist approach. In addition they lack any vision of what the aims of policies actually are. By and large it can be said that this is very much a consequence of the institutionalism and its functionalist perspective of maintenance in the tradition of Parsonian thinking.

As such it fits indeed as well, from a sociological perspective, into the orientation of the Lisbon strategy of making Europe the most competitive region, a stance that had been recently confirmed in a document launched by the European Commission and being concerned with globalisation. As much as it has to be welcomed that the Commission actually emphasised that globalisation is a process that is not just to be observed but of which the developmental direction and its shape need to be influenced the fundamental shortcoming is that the document promotes the traditional way: following the Lisbon strategy, the aim of such influence is to gain competitive advantage. In this light, the view on social policy is that on its instrumental character, searching for its ‚productive role'. The problem with such productivist orientation–and this is as well a fundamental problem of the model of the developmental welfare state–is that it actually reduces the economic perspective on applying a micro-economic perspective (see in general terms as well the remarks below when we look at Extended

Rational Choice and Methodological Individualism). It is important to highlight against such micro-perspective of a productive role of social policy that it is not about the contribution of social policy to economic development. Rather, the central issue is that we are looking at the interlink of economic and social development–of which social policy is one part but not more. In other words, what defines the macro-economic perspective is that view on the development of society itself and the task to develop a high priority for cohesion–though this has to be seen in a wider context as developed as part of the Social Quality Approach as it is briefly presented here as well.

3.5 Institutionalist Functionalism versus Social Development

A narrow micro-approach neglects a wider and more elaborated understanding of the social as outcome of the interaction and dialectic between people (constituted as actors) and their constructed and natural environment which allows to define social quality as the extent to which people are able to participate in the socio-economic, cultural, juridical and political life of their communities under conditions which enhance their well-being and individual potentials for contributing to societal development as well. A macro-approach allows opening the view on a developmental perspective that is not caught in the national enhancement orientation but seeks for developing a sustainable strategy that takes global issues into account. This means for welfare regime analysis that we have to overcome the functionalist determinism and equally the limited understanding of the relationship between economic and social policy as delivery, cost and supply relationship. Rather, properly understood as matter of global responsibility and systematic interrelationship–the economic processes being social relations and social processes being economic relations–the Social Quality Approach provides an alternative perspective on welfare system analysis, focusing on public policies rather than social policies. The challenge of this new approach is to build such a globally oriented conceptual framework, with which to analyse the mechanisms and their outcomes by applying its architecture, namely: (i) by defining the concept of ‚the social‘, (ii) the recognition of the herewith ontologically related conditional factors, constitutional factors and normative factors, (iii) exploring the interaction of these three factors, and (iv) elaborating the measurement instruments of these factors in an epistemological acceptable way. These factors and its domains are captured in the following table (Scheme 2).

It is decisive that any approach of defining meaningful practice for social policy has to consider:

(a) To shift from a reductionist approach of the traditional institutionalist patterns, moving towards a broader understanding of public policy, i.e. a

Scheme 2: Factors associated with the social quality approach

Conditional Factors	Constitutional Factors	Normative Factors
socio-economic security social cohesion social inclusion social empowerment	personal security social recognition social responsiveness personal capacity	social justice (equity) solidarity Democratic based citizenship human dignity

policy in the public, by the public and for the public. It is important–and widely shown in the remainder of this chapter–that we are dealing with an integrated approach that entails economic, environmental, cultural, international and many other policies, social policy in the traditional understanding only one amongst others.

(b) Furthermore it is important to acknowledge that it is about the architecture, i.e. the interplay of the different factors that determine what these policies are about.

3.6 Extended Rational Choice and Methodological Individualism

Overall, any other approach that does not start from an understanding of the social as it is proposed in the preceding remarks fails, in a sociological perspective, necessarily short of developing a sound social policy, be it that is competitive-nationalist or be it that it is competitive socially-divisonist–for the latter we see several examples in the so-called Asian tiger economies, the countries that only recently joined the European Union and the celebrated Celtic Tiger–all showing that economic progress had been largely paid for by an increasing inequality within the countries in question and as well an increasing divide between countries.[6]

To speak of extended methodological individualism suggests that the underlying assumptions of any welfare regime analysis are based in the rational choice of individuals but as well of systems. In other words, the current mainstream welfare regime approach starts from the postulation that social systems are actually behaving in a rational way and it is in this perspective that social policy–as distinct subsystems–are part of a productivity approach. The ‚political extension‘ of such perspective is the notion that it is claimed that some scope is claimed (a) for defining what the output of the productive system should be (as some extent of internal equity, the role of education etc.) and (b) for the definition of the investment side of the social expenditure. If we look through much of the literature–and as well if we look at the current report presented by the European Commission–we find, from a sociological viewpoint, a reductionist approach towards assessing social expenditures. One can even go a step further, saying that what is actually measured is not the effectiveness of social expenditure. Instead the measurement is geared towards measuring the effect on individual beneficiaries. So, in actual fact it is not about the productive role of social policy in terms of its contribution towards the development of social spaces as it had been proposed with the definition of the social in the preceding section. Rather it is a matter of increased individual wellbeing. Such an understanding of effectiveness of social spending is as well fundamentally characterised by the acceptance of inequality and departmentalisation.

The entire widespread strategy of the privatisation of up to hitherto public (social) services disregards the fact that much of the investment, now undertaken by private investors, is probably more effective than public investment if we look in a short term and departmentalist perspective or a slightly extended version, namely the efforts to measure the net public social expenditure.[7] However, even conventional wisdom of budgeting policies is more or less aware of the fact that both cross-sectional and intertemporary dimensions need to be considered.

Three points are of crucial importance here–not least when it comes to measuring efficiency of social expenditure.

First, taking the understanding of social services serious, we have to acknowledge that this is about the recognition of public responsibility. This means not least that any ambivalence with regard to the welfare state has to be rejected. Though there is without doubt the need of reforms, there is nevertheless the requirement to maintain its ability to perform.

Second, this means as well to acknowledge the width of its performance. Again, looking in a micro-perspective at the performance issue may occasionally–though not necessarily–we may be facing advantages of private and small business use for achieving higher efficiency and/or better performance. However, in most of the cases it means that this is due to the fact that in this way negative externalities are produced at the same time, structurally bound to the processes of privatisation. As well the other way round, the provision of public services–and only this–can guarantee equality of opportunities, provision of cross-range social services etc.

Third, this means that the suggested orientation of an increasingly targeted policy and the orientation on provision of services for the most disadvantaged, people who are furthest away from the labour market etc. is misleading: (a) In actual fact we see that it are those systems with a high rate of public provisions for the entire society–rather than the most excluded–that perform best. The successes of the Nordic countries are in the meantime well documented. (b) Furthermore it is important to highlight that any societal policy (and this goes beyond a simplistic and reductionist model of social policy)–has to aim on redistribution. As much as any analysis and policy has also to consider influencing the actual economic process as matter of social relationships, it has to consider as well the redistributive role–questions of actual wealth (re-)distribution are one side, issues of distribution between the generations, between families with and without children or between healthy and ill people are just a few examples. And they actually show pretty well that existing systems, geared to establishing and maintaining social cohesion are rather effective–and in which way they are so. Although selective systems are or have to be efficient in providing particular services (and this can well mean: good services for a limited number of people) in terms of their character as social services fall short of quality performance. In other words, it still has to be acknowledged that they are redistributive as well, but being built on a principle of cherry picking, leaving a major burden to be carried by the public–an externality producing in this way social divergence rather than contributing to social cohesion.

With respect to welfare regime analysis there is then as well an approach that actually goes beyond the decommodifiction issue and takes, instead, account of the social dimension of economic integration. In other words, the one–and somewhat reductionist–dimension of social policy is to which extent people are taken out of the obligatory system of employment. However, another dimension is the degree and way of including people into the labour market for instance via active labour market policies–and instructive example can be taken from Powell's and Barrientos' (2004) work.

However, this still leaves aside that the conceptualisation of social expenditure falls short of the said wider definitional background as suggested–though the concept is well known it is rarely applied when we look especially at recent debates. If we take social quality as point reference rather than ‚wellbeing'–be it the wellbeing of individuals or the ‚social wellbeing'–the multidimensionality of the challenge is systematically faded out. The concept known is the one of public goods or non-cash merit goods. However, it is rarely taken up as it is more or less difficult to calculate. The more fundamental question–and this is one that goes through the wider conceptualisation of social expenditure literature–is that the underlying approach refers to goods–to an understanding of a commodifiable character of welfare. Leaving aside general issues of discussions around the ‚general interest'[8] the core problem here is that the concept of a public good or non-cash merit good is misleading as it still suggests an exchange relationship–then very much leading as well to the dichotomisation of suppliers and users–the problematic and not least theoretical challenge cannot be discussed here.

In an international and global perspective respectively a point of departure for reshaping the debate may be seen in a contribution made some time ago by Ian Gough (2001, p. 168), writing on globalization and regional welfare regimes. He points importantly on the complex interaction of international factors, socio-economic environment, political mobilization, state institutions, and social policies.

Important in this work is that Gough goes beyond the standard social policy orientations–balancing input and output–and largely includes the welfare mix and more importantly work-related issues, thus the 'social dimension of economics'.

In other terms and coming back to the earlier debate of welfare regimes and world of welfare capitalism, we are looking for an alternative by considering a sound theory and criteria for an empirical analysis that looks at ‚welfare production' not along the axis of commodifcation versus decommodification. Instead, it is the search for criteria that reflect the public versus private and the reflection of social relationships not least as matter of responsibilities and the development of societies and communities to develop in an integrated and sustainable way. Precisely the rigorous social indicator approach, chosen by the United Nations Development Programme, seems to be a strategy, which should be applied more frequently to the European social policy debate.

In general, the question of what the actual social outcome is about is not even considered by the critics. This means as well to reduce measuring the efficiency of social spending on issues of a link that is theoretically established as causal relationship.[9] In other words, social policy is as such defined in an extremely narrow way: a matter of mechanical cause-effect relationship. However, no social policy works in this way. In a project on social services, this view was specifically widened not by looking at a wider understanding of input-output factors. Rather, the challenge had been seen as a matter of enhancing the field of measuring itself, seeing it as matter of multidimensional dialectical relationships. There focusing on social services, the given definition had been proposed as:

"These are any activity that is undertaken to enhance individuals' wellbeing and that is based on human and social rights, that contributes to the cohesion of the community and wider social relationships and at the same time enables or empowers the individuals concerned."[10]

However, decisive is in this context the different approach with regards to ‚users' or beneficiaries, broadly falling under society, the state as institutionalist system and the ‚clients' in the traditional sense of beneficiaries of social policies. In other words, the perspective taken here is the one of a citizen-approach.

This can be used as blueprint insofar as it overcomes at least to some extent the general trend of understanding social services in particular and social policy in general as commodifiable. This points again on a fundamental shortcoming of the mainstream welfare regime analysis: Emphasising the decommodifying aspects of social policy, it falls short of critically analysing the actual character of social policy, social benefits and social services. As correct as it is to look at their institutional forms and impact, they are primarily in themselves social relationships and subsystems of a wider social relationship–and it is only by measuring this that the real meaning can be made out.

One element of this is that the debate has to include not least the political dimensions as it goes beyond the institutional political system, and aims on the political structures, including the role social policy plays in respect to the ‚life world'-dimension of the democratic process–matter that is relevant in terms of developing the integrity of the system, the mobilisation of different forces and the way of how the system relates in a global context.[11]

A further crucial element to it is the need of developing a sound concept of socio-economic sustainability in the context of globalisation. However, the mainstream approach is concerned with the competitive side of globalisation. If we take together two major EU-statements–on the one hand the Lisbon agenda emphasising the goal of developing Europe's competitiveness, on the other hand the more recent claim that globalisation is not something Europe just has to face but that it can be and has to be influenced and shaped by the EU–it shows a decisive shortcoming. In this light, any strive for social cohesion and sustainability is limited by its orientation towards the competitiveness pillar. In simple terms it means that externalities are produced and these will–over short or long–resurge as real and actual ‚costs', be they economic or social costs. This is the case on a global level and also within the EU where we find shifts and rebalances but no real strategic changes. The standard indicators are very much geared to a mono-causal approach to specific ‚problems'. However, the foregoing debate on welfare regimes and the efficiency of social expenditure should have shown that this is insufficient. And the introduction of the social quality approach will have shown a way for policy analysis and policy making. For instance, while the ranking of countries in particular policy areas is informative, it is not apparent how it should be used in the policy process. A similar ranking derived from the social quality concept would point directly to policy domains and sub-domains in socio-economic security, social cohesion, social inclusion and social empowerment and the connection between them.

4. Towards a Critique of the Commission's Methodology

However much the present authors emphasize the great theoretical and empirical value of this definition, given in the European Commission paper, they allow themselves to remark that the far-reaching conclusions listed in the European Commission paper, are not supported by the empirical data, presented in the paper, let alone, by a solid econometric or politometric analysis in the spirit of the above definition. A number of authors from the

Table 1: Poverty before and after social transfers: an analytical approach, based on regression residuals (Eurostat figures, 2006)

	poverty before social transfers[13]	poverty situation after social transfers[14]	predicted value*	residual**	poverty situation after transfers better than expected (in % points)[15]
Sweden	29	12	16,83	-4,83	4,83
Czech Republic	22	10	14,73	-4,73	4,73
Denmark	28	12	16,53	-4,53	4,53
Netherlands	21	10	14,43	-4,43	4,43
Finland	29	13	16,83	-3,83	3,83
Slovenia	24	12	15,33	-3,33	3,33
Germany	26	13	15,93	-2,93	2,93
Austria	25	13	15,63	-2,63	2,63
France	25	13	15,63	-2,63	2,63
Slovakia	20	12	14,13	-2,13	2,13
Luxembourg	24	14	15,33	-1,33	1,33
Belgium	27	15	16,23	-1,23	1,23
Hungary	30	16	17,13	-1,13	1,13
Malta	22	14	14,73	-0,73	0,73
Ireland	33	18	18,03	-0,03	0,03
EU(25 countries)	26	16	15,93	0,07	-0,07
EA13	25	16	15,63	0,37	-0,37
Bulgaria	17	14	13,23	0,77	-0,77
Cyprus	22	16	14,73	1,27	-1,27
United Kingdom	30	19	17,13	1,87	-1,87
Poland	29	19	16,83	2,17	-2,17
Estonia	25	18	15,63	2,37	-2,37
Portugal	25	18	15,63	2,37	-2,37
Romania	24	19	15,33	3,67	-3,67
Lithuania	27	20	16,23	3,77	-3,77
Italy	24	20	15,33	4,67	-4,67
Spain	24	20	15,33	4,67	-4,67
Greece	23	21	15,03	5,97	-5,97
Latvia	28	23	16,53	6,47	-6,47

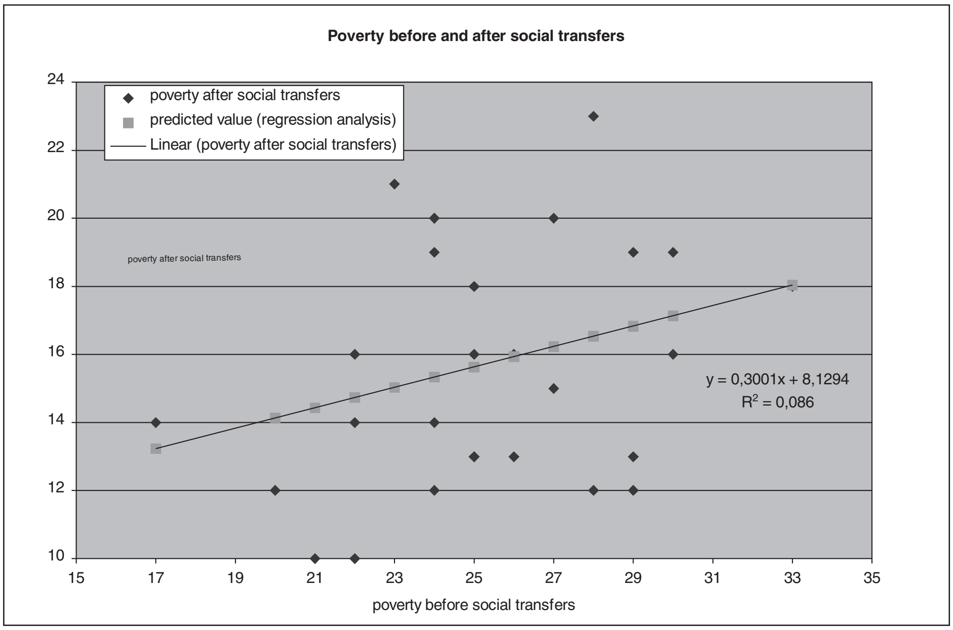
* regression analysis: poverty before social transfers predicting poverty after social transfers.
** measure how far the real value is away from the predicted value.
Source: Our own calculations from ECFIN/E3(2007)/REP/50604 and Eurostat data. The fourteen Lisbon indicators can be downloaded free of charge from the Eurostat website at: http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1133,47800773,1133_47802558&_dad=portal&_schema=PORTAL. This site also informs about the "short list" of the indicators, on methodology, quality profiles etc.

economics profession[12] were always conscious about the limitations of the strictly ”micro“-approach, referred to above in our sociological theory chapter, and opted for a perspective, which is compatible with the overall objectives of the ”social quality approach“ and the work inspired by the indicator work of the United Nations Development Programme, pioneered by the work of Amartya Sen.

Let us present the facts, as they are mentioned in the European Commission paper, and let us apply some analytical reasoning [presented in non-mathematical language] and the above quoted definition from the very European Commission paper.

It is a well-known fact from cross-national social science aggregate data research that simple percentage differences often lead to biased results. It is entirely possible that percentage point measured poverty reduction rates are a clear statistical function of initially very high before transfer poverty rates, i.e. it is much easier to reduce poverty at very high initial levels, while it is more difficult to have a good performance for the countries, characterized by initially low before taxation poverty rates. The countries are also performing differently in their objectives and in effectiveness in reducing the rate of poverty. The results in Table 1 and 2 show that Sweden and the Czech Republic are most effective and Greece and Latvia are least effective countries in social transfer and poverty reduction.

Graph 1: The real reduction of poverty risk



Source: Our own calculations from ECFIN/E3 (2007)/REP/50604 and Eurostat data.

Graph 1 shows the data for column (1) and (2) on poverty before and after social transfer from the Table 2 in the form of a simple scatter-plot. The two poverty measures are positively correlated (0.30). The fit of the model is quite low and poverty before transfers explains only a small fraction (8.6%) of variations in poverty after social transfers. Several outliers cause the positive low relationships between the two measures.

The European Commission study, by contrast, is based on the simple difference before and after social expenditures. The simple difference shows that Sweden, Finland and Denmark are most successful in their poverty reduction, while Greece, Bulgaria, Italy and Spain are least successful countries.

However, it can be shown that there is a systematic bias involved in this method. The statistical relationship between initial poverty before social transfers and the rate of "poverty reduction" is quite strong and to the tune of around 34% of variance explained.

Our method of calculating the success of poverty reduction, by using the simple residuals from the linear regression is expressed as:

(1) $PRAT_i = \alpha + \beta PRBT_i + \varepsilon_i$

where *PRBT* is the poverty rates after transfers, *PRBT* is the rate before transfer, α and β are unknown parameters to be estimated, ε is the residual and the subscript *i* indicate the country. As to be expected, our new method is far superior to the simplistic method, used by ECOFIN, and there is no correlation at all between initial levels of poverty and success in poverty reduction, as measured by the residuals method, presented in this paper.

Measuring poverty reduction in a very biased way will lead to results, which are in turn biased.

5. Reliable Estimates of the Efficiency of Social Policy

First we present the statistical data as they really should be presented. Poverty reduction is obtained as a residual from the regression of initial poverty on poverty after social transfers.

The result from regression of social situation on social expenditure is reported in Graph 2. For each percentage increase in social expenditure, the poverty rate declines by 0.32 percent. Social expenditure alone explains 30% of the variations in poverty rate. The reduction impact differs among the sample countries resulting in different effectiveness and gap between expected and observed poverty outcomes.

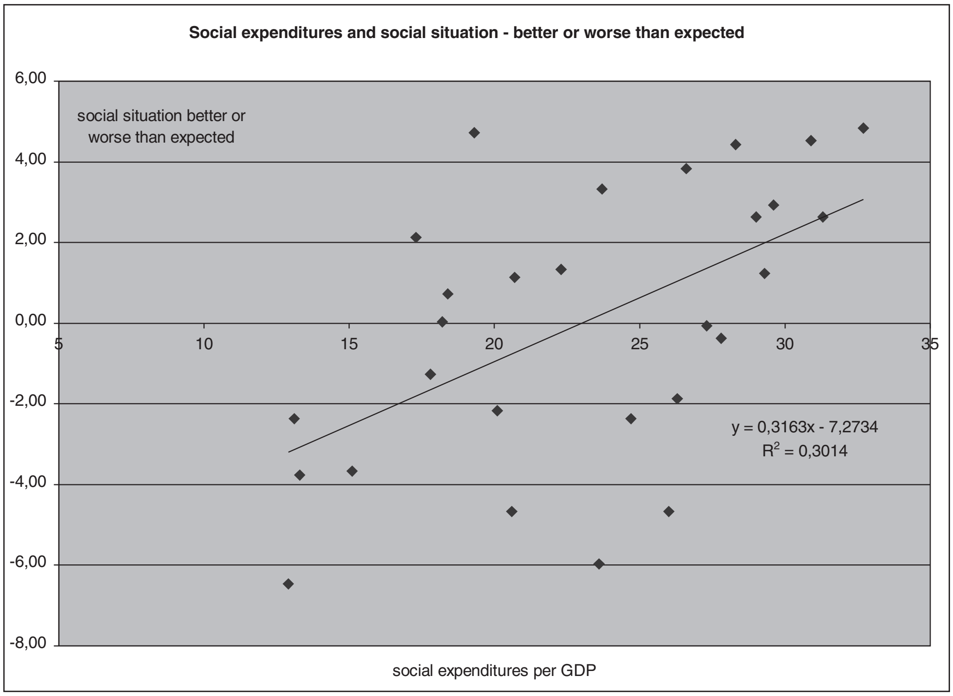
According to our analysis reported in Table 2, the most efficient countries are the Czech Republic, the Slovak Republic and Slovenia, while the most inefficient trade-offs are to be encountered in Spain, Italy and Greece. France is serving as the reference group with perfect prediction.

Table 2: The real efficiency of social expenditures in Europe

	Social expenditures per GDP	Poverty situation after transfers better than expected (in % points)	predicted value (linear regression: expenditures -> improvement of the social situation)	residual (efficiency of social expenditures)
Czech R	19,3	4,73	-1,17	5,90
Slovak R	17,3	2,13	-1,80	3,93
Slovenia	23,7	3,33	0,22	3,11
Netherlands	28,3	4,43	1,68	2,75
Finland	26,6	3,83	1,14	2,69
Malta	18,4	0,73	-1,45	2,18
Denmark	30,9	4,53	2,50	2,03
Hungary	20,7	1,13	-0,72	1,86
Sweden	32,7	4,83	3,07	1,76
Luxembourg	22,3	1,33	-0,22	1,55
Ireland	18,2	0,03	-1,52	1,55
Germany	29,6	2,93	2,09	0,84
Estonia	13,1	-2,37	-3,13	0,76
Austria	29,0	2,63	1,90	0,73
Cyprus	17,8	-1,27	-1,64	0,37
France	31,3	2,63	2,63	0,00
Lithuania	13,3	-3,77	-3,07	-0,70
Belgium	29,3	1,23	2,00	-0,76
Romania	15,1	-3,67	-2,50	-1,17
Poland	20,1	-2,17	-0,91	-1,25
EU25	27,3	-0,07	1,36	-1,43
EA13	27,8	-0,37	1,52	-1,89
Portugal	24,7	-2,37	0,54	-2,91
UK	26,3	-1,87	1,05	-2,92
Latvia	12,9	-6,47	-3,19	-3,28
Spain	20,6	-4,67	-0,76	-3,91
Italy	26,0	-4,67	0,95	-5,62
Greece	23,6	-5,97	0,19	-6,16

Source: Our own calculations from ECFIN/E3(2007)/REP/50604 and Eurostat data.

Graph 2: Social expenditures and the effects of social transfers on poverty reduction



Source: Our own calculations from ECFIN/E3(2007)/REP/50604 and Eurostat data. Computer Software Microsoft EXCEL 2000 and 2003

6. Predictors of Efficiency

The original data for our analysis of the factors influencing the efficiency of poverty reduction are presented in Table 3. The typology shows a significant heterogeneity across countries by nine indicators: old age and survivors % of TB (total benefits); the general government contributions as % of financing of total social security contributions; health care/sickness and disability % TB (total benefits), and employers‘ share are the highest contributors, while housing and social exclusion % TB (total benefits); unemployment % TB (total benefits) and other sources are the lowest contributors to poverty reduction.

7. On the Mathematical Model

Here the focus is on the construction of an index that is multidimensional and decomposable to use it in describing the social policy process in European Union. Such an index will be a useful tool in the evaluation of the outcome of the member countries efforts, the policy impacts on develop-

Table 3: The typology of social systems in the EU-27, based on the recent ECOFIN paper–the raw data

	Family/ Children % TB (total benefits)	Health care/ Sickness and disability % TB	Housing and Social exclusion % TB	Old age and survivors % of TB	Unemploy-ment % TB	General government contribu-tions as % of financing of total social sec contribu-tions	Employers' share	Protected persons' share	Other sources
Austria	10,7	33,5	1,4	48,4	6,0	33,0	37,9	27,3	1,4
Belgium	7,5	34,3	1,8	43,9	12,5	24,6	51,3	22,0	1,7
Cyprus	11,4	28,6	6,9	48,0	5,1	53,8	19,5	14,8	11,4
Czech R	8,6	43,3	3,2	41,2	3,7	18,0	54,5	26,5	1,1
Denmark	13,0	34,3	6,0	37,3	9,3	63,3	10,2	18,4	7,9
EA13	8,3	35,5	2,6	46,4	7,2	33,8	40,1	22,6	3,5
Estonia	12,4	41,1	1,6	44,2	1,6	20,3	79,7	0,8	0,0
EU25	8,0	36,1	3,4	45,6	6,5	37,6	38,3	20,6	3,5
Finland	11,6	38,8	3,1	36,8	9,7	43,6	38,9	11,5	6,1
France	8,5	35,7	4,4	43,5	7,8	30,6	44,8	21,0	3,9
Germany	10,9	35,1	2,5	43,5	8,4	35,8	35,1	27,8	1,7

Greece	7,0	31,4	4,8	51,1	6,1	30,8	35,6	22,8	10,8
Hungary	12,3	39,9	2,5	42,4	3,0	34,6	42,1	15,9	7,5
Ireland	14,7	45,3	5,3	27,1	7,6	54,1	24,7	15,5	6,2
Italy	4,4	32,3	0,4	61,0	2,0	41,4	41,8	15,3	1,5
Latvia	10,6	34,1	1,6	49,6	3,3	35,3	47,4	16,5	0,8
Lithuania	8,5	39,5	2,3	47,3	1,6	39,9	53,8	6,3	0,7
Luxembourg	17,4	38,8	2,7	36,5	4,6	45,3	26,7	24,6	3,4
Malta	4,9	33,5	3,3	50,5	7,7	34,2	43,5	19,0	2,7
Netherlands	4,9	41,3	6,1	42,0	6,1	19,8	33,4	34,3	12,2
Poland	4,6	31,0	1,5	59,4	3,6	39,2	27,9	22,5	10,3
Romania	10,1	43,2	4,1	38,5	3,4	11,8	50,0	23,5	14,7
Slovak R	10,8	38,9	3,0	41,3	6,0	14,3	61,9	22,6	1,8
Slovenia	8,6	40,5	3,0	44,8	3,0	31,8	27,5	39,8	0,8
Spain	5,4	38,1	1,5	42,1	12,4	33,3	49,1	15,8	2,3
Sweden	9,8	40,0	3,8	40,3	6,3	48	41,1	8,7	2,2
UK	6,6	39,5	6,2	44,6	2,7	50,6	32,5	15,5	1,5

Source: Our own calculations from ECFIN/E3(2007)/REP/50604 and Eurostat data.

ment in the region and in the quantification of the progress in achieving the Unions stated goals. In this section, we introduce a parametric approach to compute composite indices frequently used in the evaluation of outcomes of policies and for the ranking of countries based on their performance.

The literature on index numbers is diverse and volumes. These are the principal component (PC) analysis and factor analysis (FA) which can be also used in the computation of an index for the social policy process.[16] The basic idea with these methods is to combine several variables into a smaller set of independent variables without loosing the essential information from the original data. Thus, the issue first was how to combine different indicators related to the social policy process into a single measure of its progress. In this study, we adopt the factor analysis approach. Since the two methods in normalized form give principal component scores with unit variance, we use only the factor analysis results in the analysis of the social policy process.

Factor analysis is a multivariate technique for examining relationships within a set of interrelated quantitative variables or a common factor. The common factors are not observable and assumed by construction to be independent from each other. The explanatory variables or indicators, which are linearly related to each other, are combined within a single common factor. The correlation between the explanatory variables is explained by the common factors, while the remaining variance of a variable is attributed to a unique factor. The factors are derived in such a way that each maximizes the percentage of total variance attributed to each of the successive factors. The greater the variance share of the variables explained by the common factors, the better is the fit of the factor model and the more accurate is the composite index and the rank of countries.

Given a dataset with j numeric variables or indicators, at most p factor components can be computed, each being a linear combination of the original indicators with coefficients equal to the eigenvectors of the correlation of the covariance matrix. Mathematically the factor model is written as:[17]

(2) $Y_{ji} = A_{jp} X_{pi} + B_j E_{ji}$

where Y_{ji} is a jxn matrix of the measure of the centred variable *j* for country *i* in period *t*, X_{pi} is the pxj matrix of the value of the common factors for each country estimated, the coefficients are A_{jp} are a matrix of jxp weights called factor loadings, representing weights attached to the explanatory variables and are in proportion of the cross-country variance of the variable that is explained by the factor, E_{ji} is jxn matrix of the unique factor and B_j is a vector of nx1 weights of the unique factor.

The estimated factor scores can be used to rank the countries according to the respective factors. In our case, the factor scores are used to rank the countries with respect to the efficiency and effectiveness of social spending, i.e. a relative measure of the member countries progress in social policy. The factor components are sorted according to the descending order of the Eigenvalue, which are equal to the variance of the components. Unlike in a traditional least squares estimation method case, where the vertical distance to the fitted line is minimized, here the sum of the squared residuals is measured as distances from the point to the first principal axis.

The method of principal component analysis was originated by Pearson (1901) and further developed by Hotelling (1933). Tausch, Heshmati and Oh (2007) and Heshmati and Oh (2007) used the method for the computation of social policy indices.

8. Factor Analysis Results and Multiple Regressions

The results from the factor analysis based on the ECOFIN data are reported in Table 4. Four types of social policy model exist in Europe: the direct action against social exclusion (Denmark and Ireland), the emphasis

Table 4: A factor analysis of the ECOFIN data

		Type 1: DK IRE, direct action against social exclusion	Type 2: EST, IRE, health and family soc expenditures	Type 3: NL, RO neo-liberal approach	Type 4: BE, SP, unemployment benefit centred approach
Family/Children % TB	VAR02	0,485	0,574	-0,319	-0,053
Health care/ Sickness and disability % TB	VAR03	0,099	0,859	0,27	-0,153
Housing and Social exclusion % TB	VAR04	0,785	-0,057	0,224	-0,256
Old age and survivors % of TB	VAR05	-0,615	-0,752	-0,097	-0,209
Unemployment % TB	VAR06	0,300	-0,062	0,068	0,889
General government contributions as % of financing of TSC	VAR07	0,615	-0,290	-0,688	-0,006
Employers' share	VAR08	-0,784	0,513	0,039	-0,014
Protected persons' share	VAR09	0,123	-0,256	0,752	0,215
Other sources	VAR10	0,516	-0,293	0,451	-0,363

TB = total benefits; TSC = total social security contributions.
Source: Our own calculations from ECFIN/E3(2007)/REP/50604 and Eurostat data.

on health and family social expenditures (Estonia and Ireland), the neo-liberal approach (Netherlands and Romania) and the unemployment benefit centred approach (Belgium and Spain) are distinguished. The factor loadings values of a set of social policy indicators and their contributions

Table 5: The empirical typology of welfare states in Europe

	Type 1: DK IRE, direct action against social exclusion	Type 2: EST, IRE, health and family soc expenditures	Type 3: NL, RO neo-liberal approach	Type 4: BE, SP, unemployment benefit centred approach
Austria	-0,5220	-0,4440	-0,1230	0,7264
Belgium	-0,6890	-0,0820	0,3331	2,4016
Cyprus	1,6257	-1,6020	-0,7600	-1,1840
Czech Republic	-0,7350	1,1610	1,1587	-0,2360
Denmark	2,3773	-0,5940	-0,9330	0,5151
EA13	-0,2740	-0,3500	0,1049	0,6284
Estonia	-1,7060	1,9824	-1,1200	-1,2020
EU25	-0,0440	-0,3240	-0,0500	0,2901
Finland	0,7351	0,6589	-0,6670	0,8623
France	0,0303	-0,0720	0,3550	0,5411
Germany	0,0925	-0,1560	0,0595	1,2889
Greece	0,1881	-1,4090	0,7957	-0,5070
Hungary	0,0812	0,6511	-0,1580	-1,0590
Ireland	2,1547	1,6106	-0,4920	0,1008
Italy	-1,6570	-1,5330	-1,0700	-0,7270
Latvia	-0,8850	-0,1150	-0,9100	-0,2980
Lithuania	-0,9350	0,5675	-1,2770	-1,1790
Luxembourg	1,0599	0,8831	-0,6320	0,0079
Malta	-0,6140	-0,9210	-0,0150	0,6446
Netherlands	0,6758	-0,3150	2,7985	-0,5590
Poland	-0,6250	-2,2030	0,1454	-0,8720
Romania	0,2034	0,9916	2,1827	-1,5230
Slovak Republic	-0,8170	1,0988	0,7932	0,3646
Slovenia	-0,0390	-0,0860	1,2184	-0,0410
Spain	-0,5670	0,1466	-0,0410	2,1732
Sweden	0,3479	0,6251	-1,1350	-0,0180
UK	0,5385	-0,1690	-0,5630	-1,1410

Source: Our own calculations from ECFIN/E3(2007)/REP/50604 and Eurostat data.

to each type pf social policy model are also reported.

These factors yielded the following empirical typology of welfare states in Europe shown in Table 5. The table guide us to the identification of countries with best practice social policy models, their types as well as their rank in relation to the remaining countries in the sample.

- Model 1: Direct action against social exclusion:

Direct action against social exclusion is prevailing. Denmark and Ireland are the frontier countries. Here the expenditure on housing is the main indicator or social policy measure. The distribution of efficiency differs much across the countries. The factor analysis results related to welfare Model 1 are found in Table 5. The model combines very high expenditures on housing for the fight against social exclusion, and a very high government contribution towards the financing of the social policy model. The model has a very low share of employer's contribution in the financing of the model, and pension expenditures are a smaller part of total benefits. Most typically to be found is: Denmark and Ireland; least realization of the model: Baltic States, Czech Republic, Slovak Republic, Italy. Trade-off with the effectiveness of poverty reduction: significant.

- Model 2: Health and family approach:

Estonia and Ireland are serving as the frontier countries. Here the expenditure on health care, sickness and disability are the main social policy measures. The factor analysis results related to welfare Model 2 are found in Table 5. The model combines very high expenditures on family and children, and on health, sickness and disability. Pension expenditures are a smaller part of total benefits. Most typically to be found: Estonia and Ireland; Czech Republic. Least to be found: Italy, Poland, Greece. Trade-off with the effectiveness of poverty reduction: not significant.

- Model 3: Neo-liberal approach:

Here the Netherlands and Romania are identified as the frontier countries. The protected person's share is high, and contributors pay more. The factor analysis results related to welfare Model 3 are again found in Table 5. Model 3 combines very high contributions by the insured persons and very low contributions by the state. Most typically to be found: Netherlands and Romania. Least to be found: Baltic States, Sweden, Italy. Trade-off with the effectiveness of poverty reduction: not significant.

- Model 4: Unemployment benefit centred approach:

Belgium and Spain are identified as the frontier countries. The unemployment benefits are the main indicator or social policy measure. The factor analysis results related to welfare Model 4 are again found in Table 5. The model is based on a very high share of unemployment benefits per total benefits. Most typically to be found: Spain and Belgium, Germany and Finland. Least to be found: UK, Poland, Lithuania, Estonia, Hungary, Romania. Trade-off with the effectiveness of poverty reduction: significant and positive.

We also applied standard multiple regression analysis to analyze the effects of the four types of social expenditure and social welfare regimes in Europe on poverty reduction, as defined in Table 1 and 2. The multiple regression results are reported in Table 6.

Our regression results indicate the significant positive effects of Model 1 and Model 4 on poverty reduction. This suggests that action against social exclusion and unemployment benefits are most effective measures

Table 6: Multiple regression with the efficiency of poverty reduction

Predictor	Empirical measurement	Unstandardized regressioncoefficient	Standard error of the estimate	Beta weight	T-value	Error probability
Type 1: DK IRE, direct action against social exclusion	REGR factor score 1 for analysis 1	1,245	0,6	0,362	2,074	0,050
Type 2: EST, IRE, health and family soc expenditures	REGR factor score 2 for analysis 1	0,800	0,6	0,233	1,333	0,196
Type 3: NL, RO, neo-liberal approach	REGR factor score 3 for analysis 1	0,729	0,6	0,212	1,215	0,237
Type 4: BE, SP, unemployment benefit centred approach	REGR factor score 4 for analysis 1	1,089	0,6	0,317	1,814	0,083

Source: Our own calculations from ECFIN/E3(2007)/REP/50604 and Eurostat data. Adjusted R^2 = 0,208; F = 2,711; error probability of the entire equation = 5.6%, df = 26

in poverty reduction.

9. Conclusions

The neo-liberal agenda, emerging from the recent European Commission ECOFIN paper, which we discussed at length in this essay, maintains that EU-27 governments should, *inter alia:*

- Redirect rather than increase public expenditures.
- Make revisions in the pension systems and in the unemployment benefit schemes, which should be implemented in parallel.
- Governments should be encouraging people to work longer and be more active in order to cope with the social, economic, fiscal and

other challenges posed by ageing populations.

- ”Make work pay“ through appropriate incentives so that tax/benefit systems do not hinder labour market dynamics and actually help to facilitate structural changes.
- Governments should be pursuing further the ongoing efforts to improve cost-effectiveness and long term financial sustainability of health care.
- Governments should evaluate and screen regularly the efficiency of social policies, with a strong emphasis on value for money.

Our evidence, surveyed in this article, suggests that in terms of the efficiency and effectiveness of the European social model there is the following geography of comparative European performance in place, which again underlines the importance of the Aiginger (2008) analysis about the importance of the ”model Scandinavia“:

Applying rigorous state of the art cross-national comparative social science methodology, we arrive at the conclusion that in terms of the initial ECOFIN definition of efficiency, the data presented in this article suggest that apart from Finland and the Netherlands, three new EU-27 member countries, especially the Czech Republic and Slovenia, provide interesting answers to the old and troubling question about the ”bang“ and the ”buck“, i.e. the efficiency of state expenditures in reducing poverty rates. Italy, Spain and Greece in each case are among the worst performing countries in Europe.

The mediocre performance of the often hailed best practice model of the United Kingdom on all accounts of this study should be also taken into account.

We also could show in this paper that the direct action against social exclusion, as best evidenced by the cases of Denmark and Ireland, combines very high expenditures on housing and for the fight against social exclusion, and a very high government contribution towards the financing of the social policy model. The model has a very low share of employer’s contribution in the financing of the model, and pension expenditures are a smaller part of total benefits. The trade-off with the effectiveness of poverty reduction is significant.

Endnotes

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[1] See also Lindbeck (2006).

[2] Apart from the mentioned work of Esping-Andersen (1990) see as well e.g. Ferrara, Hemerijck and Rhodes (2000).

[3] For a discussion see for instance Boyer and Saillard (1995); Jessop and Sum (2006).

[4] See for further discussion Herrmann (2005, 2007b).

[5] On the ”reductionist approach“ see also Clesse (2008).

[6] Cf. Schmieding (2007), Herrmann (2008), Alber and Lenarz (2008).

[7] See Adema et al. (1996).

[8] See Herrmann (2007b, 2007c).

[9] For discussion of measuring aggregate social efficiency see Ravallion (2005).

[10] Herrmann (2005); for a wider analysis and debate see various contributions in Herrmann et al. (2007).

[11] See for instance Cook and Kwon (2007).

[12] See Addison (2006); Addison and Heshmati (2004); Aiginger et al. (2007); Aiginger (2008); Apps and Rees (2004); Atkinson (2005); Atkinson, et al (2002); Atkinson, Marlier and Nolan (2004); Barr (1998); Barro and Lee (2000); Bhandari and Heshmati (2007); Harris (2004); Heshmati (2003, 2006b and 2007); Heshmati and Oh (2006); Heshmati and Tausch (2007); Jayasuriya (2006 and 2008); Papadopoulos and Tsakloglou (2003); Tausch, 2006), Rein (1970 and 1976).

[13] At the usual 60% of median income threshold.

[14] For a graphical presentation, see Graph 2 of this work.

[15] Poverty is a negative phenomenon, thus the residuals had to be reversed.

[16] For recent surveys on the literature on the use of composite indices in different development research context see also Archibugi and Coco (2004), Grupp and Mogee (2004), Heshmati (2003), Andersen and Herbertsson (2003) and Nasierowski (2007).

[17] See also Andersen and Herbertsson (2003).

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Abstract

In this qualitative sociological and quantitative economic policy paper, we start out from the assumption of a very recent European Commission Background paper on the "Efficiency and effectiveness of social spending", which says the effectiveness of social spending can be defined by the degree to which the realized allocation approaches the socially desired outcome. The conclusions listed in the Commission paper are found far reaching and not supported by the empirical data. We perform such an analysis, starting from advances in recent literature. A more encompassing sociological perspective on the issue and factor analytical calculations is presented, which supports our general argument about the efficiency of the Scandinavian model. The social quality approach provides an alternative perspective on welfare system analysis, focusing on public policies rather than social policies. The empirical evidence, suggests that in terms of the efficiency of the European social model, the geography of comparative performance include: the direct action against social exclusion, health and family social expenditures, the neo-liberal approach, and the unemployment benefit centred approach. Applying rigorous comparative social science methodology, we also arrive at the conclusion that in terms of the initial ECOFIN definition of efficiency, the data presented in this article suggest that apart from Finland and the Netherlands, three new EU-27 member countries, especially the Czech Republic and Slovenia, provide interesting answers to the question about the efficiency of state expenditures in reducing poverty rates.