Quarterly
p-ISSN 1898-2255
e-ISSN 2392-1625
Vol. 15, No. 1/2016
www.economicsandlaw.pl

EKONOMIA I PRAWO
ECONOMICS AND LAW

Article details:
Received: 28.09.2015
Revised: 12.04.2016
Accepted: 18.04.2016

Czech S., Tusińska M., *Economic growth, public debt and social spending. Should welfare state take the blame?*, „Ekonomia i Prawo. Economics and Law", Polszakiewicz B., Boehlke J. (ed.), Vol. 15, No. 1/2016, pp. 33–45. DOI: http://dx.doi.org/10.12775/EiP.2016.003.

Sławomir Czech*, Magdalena Tusińska**

ECONOMIC GROWTH, PUBLIC DEBT AND SOCIAL SPENDING. SHOULD WELFARE STATE TAKE THE BLAME?

SUMMAR

In this paper we trace the relation between economic growth, public debt and social spending treated as a proxy for welfare state spending in the context of 2008+ crisis in advanced capitalist economies. We focus on the alleged causality between high welfare spending and growing public debt which is often said to have contributed to the current debt crisis experienced by many countries and we elaborate on the often heralded thesis that high social spending leads to low growth levels. By doing so we intend to find out if welfare states can indeed be identified as a source of current fiscal problems and prosperity issues. We perform our analysis on a group of 21 highly developed countries in 1991–2014 period basing on OECD data. Our findings suggest that evidence to support such theses are mixed and rather weak and do not allow for drawing firm conclusions about harmful impact of welfare state on economic performance. On this background we also comment on the usability of statistics and case studies in social sciences.

Keywords: welfare state; political economy; retrenchment; idiosyncrasy

JEL Classification: H50; P48

* Sławomir Czech, Katowice University of Economics, Faculty of Economics, Department of Economics, ul. 1 Maja 50, 40-287 Katowice, Poland, phone: +48 32 257 72 67, e-mail: slawomir.czech@ue.katowice.pl (*corresponding author*).

** Magdalena Tusińska, Katowice University of Economics, Faculty of Economics, Department of Economics, ul. 1 Maja 50, 40-287 Katowice, Poland, phone: +48 32 257 72 67, e-mail: magdalena.tusinska@ue.katowice.pl.

INTRODUCTION

Welfare state is an institution that blossomed in the post-war decades in many developed countries. Essentially it meant that the state aimed to mitigate social risks encountered by population. In solidary manner it provided citizens with poverty relief, unemployment insurance, old-age pensions, sickness and accident insurance and other measures. In some countries the state felt responsible to intervene even in such areas as housing policy, education and health services. Policy solutions differed, however, in various countries with respect to universality and generosity of allowances as well as issues tackled. For this reason scholars differentiate between distinct welfare state models that are often hardly comparable[1]. Yet whatever their form and scope, they have become a permanent component of socioeconomic landscape in developed countries and have heavily influenced economic processes and outcomes.

Recently welfare state has become an interesting example of how not only institutions evolve, but also of how our perception of institutions changes over time. Only thirty years ago welfare state was being perceived as a solution to many social and economic challenges, yet today it is often considered a source of economic and social problems regardless of the changes that took place within general institutional background and business making environment. In this paper we intend to deal with the issues that have notably been highlighted by the economic downturn that started in 2008. There have been many issues raised, but we believe that two especially did stand out: the suggestion that welfare spending induces slower economic growth and that it contributes to unsustainable public debt accumulation. In what follows we tackle these points basing on simple data analysis and conclude that the evidence to support such claims are mixed and rather weak.

The paper is organized as follows. In the second section we explain in more detail why welfare state may be perceived as a negative factor in growth and debt issues. In the third section we describe briefly our methodology of research. In the fourth section we scrutinize the gathered data and in the fifth section we discuss the results. Final section concludes.

[1] See: M. Cousins, *European Welfare States. Comparative Perspectives*, SAGE Publications, London 2005 for good introductory text.

1. THE LOGIC AND RHETORIC OF THE RETRENCHMENT

The debate around the welfare state is dominated nowadays by the narrative of retrenchment. This concept has been introduced into social sciences in 90's by Paul Pierson, who analysed how the administrations of Margaret Thatcher and Ronald Reagan planned and eventually performed the cutbacks in social policies[2]. Social spending was supposed to be scaled down as it bred dependence and indolence, eliminated pro-effective and entrepreneurial incentives and accordingly translated into poor economic performance. The logic of retrenchment in most (if not all) advanced countries proved, however, to be much different from the logic of welfare state construction. "The new politics of the welfare state" needed implicit and concealed changes, which would not cause discontent among the public[3]. Political pressure from the beneficiaries of welfare spending was too strong to be disregarded. In other words welfare states had created their own stakeholders with significant political power and for this reason the full scale retrenchment has never actually materialized[4]. In many countries welfare outlays have actually risen since 90's. Today this very issue seems to be again on the political agenda due to the financial and economic crisis that burst in 2008. Welfare spending became a promising target when seeking for the sources of poor growth and soaring debt as well as identifying the factors that hold back the recovery.

This debate is especially heated among the adversaries of welfare state. Interestingly though, most arguments are based on moral and ethical grounds originating from the political economy of liberals and libertarians such as Milton Friedman and Friedrich August von Hayek[5]. Economic arguments are rarely exposed, but it would be unwise to dismiss them. The negative impact of welfare state on economic performance can be roughly summarized as follows. Social security provided by the state eliminates or seriously damages the incentives to be an active participant on the labour market when

---

[2] P. Pierson, *Dismantling the Welfare State? Reagan, Thatcher and the Politics of Retrenchment*, Cambridge University Press, New York 1994.

[3] See P. Pierson, *The New Politics of the Welfare State*, "World Politics", Vol. 48, No. 2/1996; J.D. Levy, *Welfare Retrenchment*, [in:] F.G. Castles, S. Leibfried, J. Lewis, H. Obinger, Ch. Pierson (eds.), *The Oxford Handbook of the Welfare State*, Oxford University Press, Oxford 2012.

[4] See for example Castle's research until 2001 in: F.G. Castles, *Testing the Retrenchment Hypothesis: An Aggregate Overview*, [in:] F.G. Castles (ed.), T*he Disappearing State? Retrenchment Realities in an Age of Globalization*, Edward Elgar, Cheltenham 2007.

[5] See Ch. Pierson, *Beyond the Welfare State?*, Polity Press, London 2006, pp. 41–49, for a review of political economy approach of the New Right on this issue.

one was made redundant, recovered from an illness or reached the working age. High taxes imposed on individuals in order to finance social expenditure in fact kill productivity, creativity, risk taking and investments in human capital as they reduce the marginal benefits from them. They also leave less capital in the hands of entrepreneurs and companies that consequently have less money to take up new investments and create new jobs. This and the fact of redistribution of money from more productive to less productive individuals contributes to suboptimal allocation of resources. In effect capital tends to escape from such countries in order to find more profitable opportunities somewhere else. Thus the higher the social spending, the less effective and robust the economy is. Welfare state should be then reduced to the bare minimum (however it is defined) so that economy could flourish.

The recent debt crisis that occurred alongside the 2008 downturn brought up another issue into this argumentation. Welfare state spending has been made responsible for unsustainable government expenditures and thus public debts that are troubling advanced economies[6]. High social spending and politicians' inability to pursue necessary cuts in order to balance national budgets have resulted in debt accumulation that continues to threaten macroeconomic stability of many advanced economies. What came as a surprise, it were not only the "irresponsible" southern countries that experienced it, but also economic powerhouses like Germany or France. Apparently the many years of generous welfare have been slowly, but continually, adding to the debt, which was sustainable with turbulence-free economy, but when the conditions changed, the debt crisis appeared in full size.

2. THE METHODOLOGY OF RESEARCH

In order to deal with the two issues described above we analyze economic indicators of 20 European countries complemented with the United States. We make use of easily accessible data published by OECD concerning GDP growth, social spending, employment rate and general government debt, as presented in the tables in the following sections. Social spending is used here as a proxy for welfare state expenses although we are aware that this assumption is very simplified[7]. The period of analysis is 1991–2014 divided into three

[6] P. Lemieux, *American and European Welfare States: Similar Causes, Similar Effects*, "Cato Journal", Vol. 33, No. 2/2013.

[7] According to the OECD Social Expenditure Database the data that we use aggregates public spending within the following areas: old-age, survivors and incapacity benefits, health and family expenses, labour market programs, unemployment and housing.

distinct periods separated by the millennium year and the crisis year of 2008. Basing on the gathered data we trace the relation between their dynamics and calculate basic correlations between them. Just for the sake of transparency we decided to use the popular division into four welfare state models complemented by the group of emerging economies. The four traditional models are Nordic, Anglosaxon, Continental and Mediterranean[8]. We do realize that the assignment of some countries to a particular model may be disputable (The Netherlands, Italy), but we proceed with this simplification as it hardly matters for the issues tackled here.

3. WELFARE SPENDING, GROWTH DYNAMICS AND PUBLIC DEBT ACCUMULATION

3.1. ECONOMIC GROWTH

In this section we are trying to establish if welfare state does indeed hamper economic growth. Table 1 contains data of GDP growth and social spending, whereas table 2 contains correlations between these two variables. The results apparently do not leave much to doubt. In statistical terms we find a negative correlation between GDP growth and social spending both in 1991–2000 and 2001–2007 period. Adding emerging economies into calculations even strengthens the negative correlation in the second period. The conclusion is thus straightforward: the higher social spending, the lower average growth. Or at least it would be if correlation was causation. Yet the statistical approach does not give us evidence hard enough to draw such conclusions. It is easy to point to puzzling phenomena that contradict the above conclusion and deserve more scrutiny. How do we explain for instance the fact that Sweden had the highest growth in 2001–2007 period despite being the second highest social spender? How is it that Finland and Italy spent almost the same amount on social security, whereas their growth rates were radically different? What do we make of the fact that countries that spent on social security more in 2001–2007 than in 1991–2000 developed faster (UK, Greece, Czech Republic, Hungary, Slovenia)? Why some countries experienced slower growth even that they reduced social spending (Denmark, Norway, Ireland, The Netherlands)?

[8] Please refer to: W. Arts, J. Gelissen, *Three Worlds of Welfare Capitalism or More? A State-of-the-Art Report*, [in:] Ch. Pierson, F.G. Castles (eds.), *The Welfare State Reader*, Polity Press, London 2006 for more detailed discussion on the models of welfare capitalism.

Even more interesting riddle appears in the post-2007 period. The negative correlation between social spending and GDP growth virtually disappears (with emerging economies excluded). In fact, with the exception of the United States, it were high spending countries like Sweden, Norway and Germany that experienced highest average growth. On the other hand we may find countries with relatively low spending that also had low growth (The Netherlands, Ireland). All in all, we do not find evidence hard enough to confirm the negative relation between the level of social spending and the rate of economic growth.

Additionally we have decided to examine the relation between growth and employment rate. The reason for this was that full employment constituted the very base for the construction of welfare states after the war[9]. Thus we wanted to find out if the employment rate still matters for growth. The results are quite surprising. In the first two periods the correlation between GDP growth and employment rate was negligible, though usually positive. The post-crisis period brings a radical change as the correlation turns highly positive, especially among the traditional welfare state models. It were the countries with the highest employment rate that experienced highest growth. This finding shows how much conceptualizations matter. If welfare state was still defined as a full employment priority we could clearly claim that it rather aided the economic recovery than hampered it.

3.2. PUBLIC DEBT

The second issue we intend to explore is the relation between social spending and public debt. We are especially trying to find out if the claims that high social spending contributed to the 2008+ crisis can be confirmed by the available data. According to the data in table 3 between 1995 and 2007 in most countries public debt was falling (with the exception of countries highlighted in the table). At the same time in most countries social spending was also falling or staying largely at the same level. The exception worth noting here is the situation in most Mediterranean countries, where social spending grew at the rate between 1.1% and 2.8% yearly. However, we should also point to the fact that social expenses were usually growing where they were the lowest, that is within the Mediterranean and Anglosaxon group. As a re-

[9] In fact some scholars claim that the era of welfare states ended when the priority of full employment was abandoned. See W. Korpi, *Welfare-State Regress in Western Europe: Politics, Institutions, Globalization and Europeanization*, "Annual Review of Sociology", Vol. 29, No. 1/2003.

sult social spending in these countries reached an average level of most developed countries, but did not exceed the spending levels of most Nordic and Continental countries. An important observation here is, though, the fact that before 2008 the level of social spending was relatively stable in most, if not all, countries and we cannot find any example of an extreme spending growth. We admit though that the situation of Mediterranean countries can be seen as quite disturbing.

Table 1. GDP growth (in avg %), social spending (in % of GDP, avg.) and employment rate (in %)

Country	GDP growth			Social spending			Employment rate		
	1991–2000	2001–2007	2008–2014	1991–2000	2001–2007	2008–2014	2001	2007	2013
Denmark	2.7	1.6	-0.4	27.2	27.0	29.5	76.2	77.0	72.6
Finland	2.4	3.2	-0.7	28.7	24.3	28.7	68.1	70.3	68.9
Norway	3.7	2.3	0.9	22.8	21.8	21.7	77.2	76.8	75.4
Sweden	2.2	3.0	0.9	31.5	28.6	28.0	74.1	74.2	74.4
Nordic	**2.7**	**2.5**	**0.2**	**27.5**	**25.4**	**27.0**	**73.9**	**74.6**	**72.8**
Ireland	7.1	5.0	-0.3	16.7	15.5	21.9	65.8	69.2	60.5
UK	2.4	2.9	0.6	18.8	19.8	22.6	71.4	71.5	70.5
USA	3.4	2.5	1.1	14.6	15.6	18.5	73.1	71.8	67.4
Anglo.	**4.3**	**3.4**	**0.5**	**16.7**	**16.9**	**21.0**	**70.1**	**70.8**	**66.1**
Austria	2.6	2.2	0.6	25.7	26.7	28.0	68.4	69.9	71.4
Belgium	2.3	2.0	0.6	25.3	25.5	29.4	60.0	62.0	61.8
France	2.1	1.9	0.4	28.2	29.2	31.3	64.0	64.3	64.1
Germany	2.0	1.4	0.8	25.6	26.4	26.0	65.5	69.0	73.5
Netherlands	3.3	2.0	0.1	23.2	21.0	23.5	74.1	76.0	74.3
Contin.	**2.5**	**1.9**	**0.5**	**25.6**	**25.8**	**27.6**	**66.4**	**68.2**	**69.0**
Greece	2.5	4.1	-4.1	17.7	20.7	24.4	56.3	60.9	48.8
Italy	1.7	1.2	-1.3	22.6	24.5	27.8	54.8	58.6	55.5
Portugal	2.9	1.2	-1.1	16.1	21.6	24.8	69.0	67.6	60.6
Spain	2.8	3.6	-0.7	21.1	20.5	26.2	57.8	65.8	54.8
Medit.	**2.5**	**2.5**	**-1.8**	**19.4**	**21.8**	**25.8**	**59.5**	**63.2**	**54.9**
Czech Rep.	0.6	4.6	0.4	17.0	18.7	19.9	65.0	66.1	67.7
Hungary	1.7	3.7	0.1	20.9	21.8	22.9	56.2	57.0	58.1
Poland	3.8	4.1	3.1	22.2	21.1	20.4	53.4	57.0	60.0
Slovakia	4.0	6.3	1.9	18.3	16.6	18.0	56.8	60.7	59.9
Slovenia	1.9	4.4	-0.5	11.9	21.9	23.2	63.8	67.8	63.3
Emerg.	**2.4**	**4.6**	**1.0**	**18.0**	**20.0**	**20.9**	**59.0**	**61.7**	**61.8**

Social spending data for Hungary from 1999, for Slovakia and Slovenia from 1995. Social spending data for 2012–2014 are estimations. 2001 employment rate for France 2003 and Germany 2005.

Source: Own preparation based on OECD data: Gross Domestic Product (expenditure approach), Social Expenditure Database, and Employment Rate (2015).

Table 2. Correlations between GDP growth, social spending and employment rate

Countries	GDP and Social spending			GDP and Employment rate					
	1991–2000	2001–2007	2008–2014	1991–2000	2001	2001–2007	2007	2008–2014	2013
Four traditional models	-0.527	-0.548	-0.092	0.210		0.003		0.752	
Emerging economies included	-0.251	-0.613	-0.321	0.132		-0.310		0.492	

Social spending data for Hungary from 1999, for Slovakia and Slovenia from 1995. Social spending data for 2012–2014 are estimations. 2001 employment rate for France 2003 and Germany 2005.

Source: Own preparation based on OECD data: Gross Domestic Product (expenditure approach), Social Expenditure Database, and Employment Rate (2015).

Now what happened after the crisis burst? Can the public debt growth be attributed to the rise in social spending? It is true that after 2008 social spending grew in almost all analyzed countries (with the only exception of Norway). The rate of growth was, however, very differentiated. There were countries with relatively slow debt growth (like Sweden, Belgium, Austria, Germany, Italy, Poland and Hungary) and there were countries in which the debt grew at great pace (Ireland, Slovenia, the UK, Spain, Portugal, Czech Republic). Many countries have also reached or exceeded the barrier of 100% of GDP. In the post-crisis period we could also witness growth of social spending in all of the analyzed countries. The dynamics of this growth was not that differentiated as in the case of public debt, but we can point to countries with relatively low rate of growth (Sweden, Germany, Poland, Austria) and relatively high rate of growth (Ireland, Finland, Belgium, Spain, Hungary, Slovakia). Even though the dynamics of debt and social spending do bear similarities, it is hard to conclude that the growth of the latter was the main cause of public growth debt. It could have contributed to it naturally, but the rate of growth of debt was much higher than the rate of growth of social spending even if we exclude the extreme examples of Ireland and Slovenia which experienced a very severe downturn. Moreover, one could rather claim that in comparison to the dynamics of public debt, the levels of social spending were quite stable with an exception of very few countries.

Table 3. General government debt and social spending 1995–2013 (avg. change and % of GDP)

Country	General government debt					Social spending				
	1995–2007	2008–2013	1995	2007	2013	1995–2007	2008–2013	1995	2007	2013
Denmark	-6.8	9.2	81.6	34.6	57.3	-0.8	2.6	28.7	26.0	30.2
Finland	-3.8	9.2	62.8	39.1	64.7	-1.8	4.5	29.7	23.7	30.6
Norway	4.2	-6.7	37.3	55.6	34.8	-1.0	1.8	22.9	20.0	22.0
Sweden	-2.9	1.3	76.0	51.8	55.6	-1.3	0.8	31.8	27.0	28.2
Nordic	**-2.3**	**3.2**	**64.4**	**45.3**	**53.1**	**-1.2**	**2.4**	**28.3**	**24.2**	**27.8**
Ireland	-8.2	32.4	61.5	27.5	136.7	-0.5	5.2	17.9	16.6	21.9
UK	-0.8	12.8	54.8	50.1	100.8	0.4	2.0	19.2	20.1	22.5
USA	-0.6	8.5	83.1	75.7	121.9	0.5	2.9	15.0	15.8	18.6
Anglo.	**-3.2**	**17.9**	**66.4**	**51.1**	**119.8**	**0.1**	**3.4**	**17.4**	**17.5**	**21.0**
Austria	0.0	4.5	69.3	68.7	89.2	-0.1	1.5	26.1	25.9	28.3
Belgium	-3.3	4.0	140.6	93.5	117.6	0.0	3.4	25.6	25.4	30.9
France	1.1	6.6	66.6	75.6	110.4	0.0	1.8	29.0	28.8	32.0
Germany	1.4	4.3	54.2	64.0	81.5	-0.3	0.6	25.9	24.8	25.6
Netherlands	-4.5	8.2	85.3	48.2	76.0	-0.9	2.5	23.8	21.3	24.6
Contin.	**-1.0**	**5.5**	**83.2**	**70.0**	**95.0**	**-0.3**	**2.0**	**26.1**	**25.2**	**28.3**
Greece	1.4	9.7	97.5	112.8	179.2	1.8	2.2	17.4	21.5	24.3
Italy	-0.7	4.6	121.2	110.6	143.0	1.1	2.5	21.7	24.8	28.7
Portugal	1.3	10.7	67.5	78.1	141.2	2.8	2.5	16.2	22.4	25.8
Spain	-3.8	16.3	67.5	41.7	102.0	0.0	4.3	21.3	21.35	27.3
Medit.	**-0.5**	**10.3**	**88.4**	**85.8**	**141.4**	**1.4**	**2.9**	**19.2**	**22.5**	**26.5**
Czech Rep.	5.1	11.9	17.6	30.3	58.8	0.7	2.4	16.6	17.9	20.5
Hungary	-1.5	5.2	88.6	71.7	96.6	1.0	3.5	21.2	22.9	22.1
Poland	-1.8	3.5	54.9	50.9	62.3	-1.1	1.1	22.3	19.4	20.7
Slovakia	-0.3	10.5	37.6	33.8	60.3	-1.5	3.3	18.8	15.6	18.7
Slovenia	1.9	19.3	33.0	29.1	79.0	-1.0	3.1	5.8	20.0	23.8
Emerg.	**-0.1**	**10.1**	**46.3**	**43.2**	**71.4**	**-0.4**	**1.9**	**17.0**	**19.2**	**21.2**

Data for general government debt for Ireland from 1999, for UK from 1998, for Poland from 2004, for Slovenia from 2002. Social spending data for Hungary from 2000. Social spending data for 2012–2014 are estimations.

Source: Own preparation based on OECD data: General Government Debt (2015) and Social Expenditure Database.

The presented data provide us with additional interesting puzzle that would require more detailed explanations. We notice, for example, that the level of public debt has risen the least in the Nordic countries where the levels of social spending are very high. Contrastingly, the public debt rate of growth was the highest in the Anglosaxon group, which at the same time had the lowest social spending levels. It does not imply, however, that high social spending leads to lower public debt growth, even though statistical analysis could suggest such a relation. What it does show is that the link between social spending and public debt is much more complex than is usually suggested. How could we explain then that even though the growth of social spending in Anglosaxon and Emerging groups was quite similar, the pace of public debt growth differed substantially?

4. THE RESULTS OF RESEARCH AND DISCUSSION

The data presented in the previous section suggest that the relations between social expenditure, economic growth and public debt are far from being obvious and straightforward. Even though one can find statistical evidence to support the thesis that social spending has negative effects on economic growth and contributes to public debt growth, we do not find it convincing when it comes to more detailed analysis and formulation of universal regularities. There are just too many questions left open and answering them eludes statistical methods. Moreover, the alleged link between social expenses and poor economic performance is untenable simply because there are many other factors that both trigger and hamper economic growth and debt dynamics. Monocausal explanations hardly allow us to understand social reality. We believe instead that we should ask different questions rather than seek for general regularities. For example how is it possible to combine economic growth and generous welfare spending? What kind of institutions do we need to follow such policies? What can we learn from other countries that manage to be successful in these terms? Are there other ways of promoting growth and sound public finances instead of expenditure cuts?

We do agree that a strong case could be built within the Mediterranean countries group suggesting that welfare state expansion brought adverse effects, but this is not enough to translate it into general theory. Besides, according to the logic of orthodox economic theory dismantling of welfare states should result in more robust economic growth, but there is actually no empirical proof of this. If there are many factors that influence growth then why should we believe that triggering just one of them would automatically bring us prosperity? Similarly, why should we assume that benefits from dismantling the welfare state would be higher than costs of this step?

Also, in the case of public debt perhaps it would be better to admit that unstable public finances and thus rising public debt are primarily political, not economic, issue[10]. Otherwise even if we cut some social expenses, we cannot be certain the general expenditure will fall if there is no political will. Additionally, some scholars have recently stressed that the public debt growth during the crisis was in fact caused by the downturn itself (lower tax incomes, etc.), not social spending[11].

With such inconclusive and mixed evidence we are inclined to believe that this assault on welfare state ought to be treated as another round of the political economy of retrenchment. The blame for poor growth and excessive public debt is put on welfare state as if other factors had not existed. This is indeed an easy ride now when welfare state has lost its legitimization among substantial groups within advanced societies. Paradoxically, welfare state seems to be a victim of its own success when combined with Keynesian closed economy policies it had created considerable wealth and well-being of most citizens who began to ask for more freedom and consumer choice being able to pay for private services. Yet we tend to forget that welfare state offers important economic institutions that matter for growth like risk relief, specific skill formation and systemic complementarities[12]. In fact, economic consequences of welfare state deconstruction would be much higher than is commonly expected due to our inability to calculate all the possible implications[13].

The last point we would like to mention is that this particular case shows us the limitations of analyzing institutions with statistical toolbox. We have an impression that many scholars just too often treat institutions like aggregates which they are not[14]. It is easy to notice that welfare states differ from each other. The nature and structure of social spending in, let's say, Sweden, UK and Portugal is most certainly far from being uniform. It creates thus different incentives and serves various goals determined by social and cultural factors. It is only the case study approach that will allow us to understand

[10] L. Calmfors, S. Wren-Lewis, *What should fiscal councils do?*, "Economic Policy", Vol. 26, No. 68/2011.

[11] C.M. Reinhart, K.S. Rogoff, *Financial and Sovereign Debt Crises: Some Lessons Learned and Those Forgotten*, IMF Working Paper, Vol. 13, No. 266/2013.

[12] For a wider discussion see: N. Barr, *Economics of the Welfare State*, Oxford University Press, Oxford 2012 and Part I of P.A. Hall, D. Soskice (eds.), *Varieties of Capitalism. The Institutional Foundations of Comparative Advantage*, Oxford University Press, Oxford 2001.

[13] A.B. Atkinson, *The Economic Consequences of Rolling Back the Welfare State*, MIT Press, Cambridge 1999.

[14] See: A.N. Sindzingre, *Institutions as a Composite Concept: Explaining Their Indeterminate Relationship with Economic Development*, paper presented at the WINIR Conference "Institutions that Change the World", London-Greenwich 2014.

these particular phenomena and consequences of their functioning and possibly of their modification as well[15]. The case approach has its own drawbacks and limitations naturally, but will spare us from drawing simplified conclusions solely on the basis of amassed data. And this is a crucial factor when we intend to wisely learn from the experiences of other countries.

CONCLUSIONS

In this paper we have tried to demonstrate that putting the blame on welfare state for poor growth and excessive public debt in the context of 2008+ crisis is oversimplification. It is true that welfare spending could have contributed to these phenomena in some (usually Mediterranean) countries, but we can hardly agree with it in respect to other (for example Nordic) societies. Idiosyncrasy of each and every economy prohibits us thus from drawing unambiguous conclusions, which by the way is often done on the basis of statistical approach. We believe that the latter should be rather a guidance tool for detailed case analysis which offers more extensive and circumstantial insights. The problem with welfare states lies rather in its poor legitimacy within modern societies which welcomes a hunt for a promising scapegoat. However, we do not claim that welfare states are free from deficiencies and adverse outgrowths — they certainly are not. We rather object the unjustified and one-sided criticism that grows on shallowly verified data which results in throwing the baby out with the bath water.

BIBLIOGRAPHY

Arts W., Gelissen J., *Three Worlds of Welfare Capitalism or More? A State-of-the-Art Report*, [in:] Ch. Pierson, F.G. Castles (eds.), *The Welfare State Reader*, Polity Press, London 2006.

Atkinson A.B., *The Economic Consequences of Rolling Back the Welfare State*, MIT Press, Cambridge 1999.

Barr N., *Economics of the Welfare State*, Oxford University Press, Oxford 2012.

Calmfors L., Wren-Lewis S., *What should fiscal councils do?*, “Economic Policy”, Vol. 26, No. 68/2011, http://dx.doi.org/10.1111/j.1468-0327.2011.00273.x.

[15] See J. Gerring, *What Is a Case Study and What It Is Good for?*, “American Political Science Review”, Vol. 98, No. 02/2004.

Castles F.G., *Testing the Retrenchment Hypothesis: An Aggregate Overview*, [in:] F.G. Castles (ed.), *The Disappearing State? Retrenchment Realities in an Age of Globalization*, Edward Elgar, Cheltenham 2007.

Cousins M., *European Welfare States. Comparative Perspectives*, SAGE Publications, London 2005.

Gerring J., *What Is a Case Study and What It Is Good for?*, "American Political Science Review", Vol. 98, No. 02/2004, http://dx.doi.org/10.1017/s0003055404001182.

Hall P.A., Soskice D. (eds.), *Varieties of Capitalism. The Institutional Foundations of Comparative Advantage*, Oxford University Press, Oxford 2001.

Korpi W., *Welfare-State Regress in Western Europe: Politics, Institutions, Globalization and Europeanization*, "Annual Review of Sociology", Vol. 29, No. 1/2003, http://dx.doi.org/10.1146/annurev.soc.29.010202.095943.

Lemieux P., *American and European Welfare States: Similar Causes, Similar Effects*, "Cato Journal", Vol. 33, No. 2/2013.

Levy J.D., *Welfare Retrenchment*, [in:] F.G. Castles, S. Leibfried, J. Lewis, H. Obinger, Ch. Pierson (eds.), *The Oxford Handbook of the Welfare State*, Oxford University Press, Oxford 2012.

Pierson Ch., *Beyond the Welfare State?*, Polity Press, London 2006.

Pierson P., *Dismantling the Welfare State? Reagan, Thatcher and the Politics of Retrenchment*, Cambridge University Press, New York 1994.

Pierson P., *The New Politics of the Welfare State*, "World Politics", Vol. 48, No. 2/1996.

Reinhart C.M., Rogoff K.S., *Financial and Sovereign Debt Crises: Some Lessons Learned and Those Forgotten*, IMF Working Paper, Vol. 13, No. 266/2013, http://dx.doi.org/10.5089/9781475552874.001.

Sindzingre A.N., *Institutions as a Composite Concept: Explaining Their Indeterminate Relationship with Economic Development*, paper presented at the WINIR Conference "Institutions that Change the World", London-Greenwich 2014.