

**Narmin BAGHIRZADE**

*The Károly Ihrig Doctoral School of Management and Business, University of Debrecen*

# GLOBAL CHALLENGES ON THE WELFARE STATES; THE COVID-19 CRISIS

**K**eywords  
*Welfare stat;*  
*Pandemic;*

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## Abstract

*Welfare states are tools dealing with risk-sharing, not only involving everyday risks but also risks related to major global events. Nowadays the global economy is experiencing one of the biggest crises – the Covid-19 crisis. While affecting millions of lives, the pandemic could change attitudes associated with economic, political, and social points of view. The welfare state and its efficiency have been brought to the table with this major historical event. The economic impacts of the Covid-19 crisis and how the approaches toward welfare states were changed will be analyzed in this paper.*

## WELFARE STATE CONTEXT

As has been mentioned by many scholars, welfare states are the results of industrial changes and coping mechanisms. They are supporting to deal with risks indirectly, through welfare policies and implementations of them.

Nowadays the global economy is experiencing one of the major historical events that affected nearly all sectors – the Covid-19 crisis. Numerous developed countries started to consider Keynesian ideas and their applications more actively. In addition, the struggle shows once again how welfare states are crucial to the global economy.

All countries are affected by the pandemic, but in the countries where welfare states are relatively stronger, the policies may decrease the economic pressure and assist citizens to deal with it more effectively. It can be explained in many ways, however, one of them is welfare states' one of the most crucial characteristics - de-commodification. As noted in the research "The Study of Welfare State Regimes" by Esping-Andersen (1990), a state supports citizens so that they will not fear possible financial losses, and not be heavily dependent on a market. Nordic countries are supposed to be mentioned specially, as in these countries the de-commodification level is higher than in other developed countries.

"Increasingly, 'productivist' welfare states not only view market participation as the end of welfare provision. They also organise and deploy the commodifying power of the state via social services markets that extend the commodification of claimants in important ways" (McGann, 2020).

Nowadays the following questions are critical to be answered: When will the pandemic end? When will the global economy recover?

More generous governments and more efficient welfare policies may help to cope with this situation, and support citizens to continue to act as economic agents without fear of the future and uncertainty. States being more generous can decrease economic pressure on citizens, and everyone can benefit from it. From the beginning of the pandemic, many governments started to pursue politics supporting generous policies, and it is one of the lessons taken from the crisis.

"The Novel Coronavirus Pandemic causes individuals to experience heightened social risks, particularly related to health and finance. Normally, the social welfare state determines the degree of risk faced by individuals in a given society. Stronger social policies lead to reduced risk perceptions and higher well-being among the population. The welfare state impact depends on how quickly a government introduced strong 'lockdown' measures, and in doing so how effectively they contained or appear to be

containing the virus. The longer it took a government to respond the more the welfare state reduces risk perceptions. Governments that took lockdown measures in advance of the virus show no variation in risk perceptions, whereas governments that took 30 days to respond have publics with up to 1.5 standard deviations lower marginal risk perceptions in the case of the strongest welfare states. The welfare state matters very much when governments fail to take effective intervention measures in a global emergency" (Breznau, 2020).

It can be expected that the impacts of the Covid-19 crisis on economic and social aspects will last years, and as per some scholars, neither economy nor social life would be the same again. The Covid-19 crisis impacts are on a much broader scale if it would be compared to the 2008 crisis and the Great Depression of 1929.

Covid-19 enforced changes from medical to business spheres; the benevolence of the governments and welfare policies were enlarged but at the same time, the unemployment rate increased drastically. The questions can arise, if this trend with the positive attitudes towards welfare states will continue or not, if it is permanent or temporary, it can be observed over time. Nevertheless, it is clear that from a political point of view, as citizens enjoy benefits from welfare policies, to get more voters' support this trend may keep continuing.

"An obvious question that arises is whether and how this experience will change public attitudes towards the two arms of the welfare state: the provision of public services, such as the health service and social care; and the distribution of transfer payments to those on low incomes. Maybe voters will draw the conclusion that the Covid-19 experience has uncovered a country that lacks the resilience needed to cope with misfortune and be willing to support more generous welfare provision. Or perhaps they will prefer to forget what might prove to be a temporary interruption to the regular rhythms of economic life, and look for a return to the status quo ante" (Curtice, 2020).

## COVID-19 CRISIS AND POST-PANDEMIC ECONOMIC ENVIRONMENT

The World has experienced drastic downturns since the pandemic broke out: the unemployment rate increased, many small or medium businesses across the world were closed, and budget deficits increased.

Gurria A. OECD, 2020:

- "On the economic front, the 6% annual decline in global GDP that we foresee in 2020 is larger by far than any we have projected in the 60 years that the OECD has existed. And that is in the scenario with

*no second wave of infections, requiring renewed lockdowns. In the event of such a “double hit”, the fall in global GDP would be over 7½ per cent, and we would be looking at more than 40 million additional people being unemployed in OECD economies by the end of this year. Critical sectors for our economies and societies have been hard hit, tourism, air travel and SMEs, to name but a few. In addition, global trade volumes, which were already stagnating when the outbreak began, are expected to contract by about 10% this year, similar to 2009.”*

Most of the businesses were able to change work environments quickly, and the comprehensive home office era started. However, not all the jobs can be performed from home, consequently, thousands of people lost their jobs. For many scholars, the unemployment rate in the US will hit 20% and above, nonetheless it was less than 4% before the pandemic. In the EU, with relatively stronger welfare states and governmental programs, the impact and the pressure on the citizens would be less than in the US. However, all countries experienced increased unemployment rates.

As has been noted by scholars, one of the drawbacks of welfare states is state intervention. However, during the pandemic this feature became crucial. “It appears that an early intervention by the government is enough to alleviate potentially heightened risk perceptions due to the pandemic, net of the timing and severity of the virus in a given country; hence the Swedish Paradox. However, when the government fails to intervene, the longer term risk perception consequences are higher and then the welfare state becomes the next line of defense. All else equal, comparing countries with the strongest and the weakest welfare states whose governments failed to take strong intervention measures, suggests that publics range from “barely concerned” to “very concerned”. This is a massive predicted difference across welfare states” (Brenzau, 2020).

It can be one of the main drivers for post-pandemic policies, as citizens’ opinions towards welfare states and welfare policies changed. Moreover, in terms of medical care, the countries where government expenditures on health and medicine are higher, consequently, where citizens are paying higher taxes than in other countries, are dealing with the pandemic relatively better. The main question is: will these policies be permanent or temporary? To answer the question still much more time and investigations are needed.

*“After several decades of talk about the imminent collapse of welfare states and the triumph of the market economy, what we have seen in recent months could be called a renaissance of state paternalism. More and more countries are introducing measures to support enterprises and citizens, lowering taxes, and dipping into*

*stabilization and reserve funds, thus increasing public debt. In other words, they are doing what seemed utterly impossible before the current emergency situation. It must be kept in mind that two big threats to welfare states—the aging of the populations and the technological revolution—have not gone away. Therefore, the coronavirus pandemic will not change the long-term trend towards governments’ rethinking social spending obligations” (Sinyavskaya, 2020).*

## **ECONOMIC DATA ON CORONAVIRUS**

As it was mentioned above, the COVID-19 crisis affected the global economy extremely. And to analyze the impacts to what extent it has been, the following data will be considered.

Figures 1.1 and 1.2 show the real GDP growth (percentage change) over the years; the data for 2020 – estimates, the data for 2021 and 2022-forecast. From the figures it can be seen that the whole world was impacted by the pandemic, the average downfall was -4.30. And the fact that one of the most developed economies – the US, experienced a -3.60 downfall during 2020 can clarify the scale of the crises. Regarding the data from the World Bank, in the consecutive two years, the downfall will be replaced by a rise again.

Figures 2.1 and 2.2 show the data for the global GDP growth (Aggregate growth rates calculated using GDP weights at 2010 prices and market exchange rates) comparing the average for the whole world, advanced economies, and EMDEs (Emerging Markets and Developing Economies). From this data, it can be noted that both, developed and developing countries were heavily impacted in 2020 (the data for 2020 – estimates, the data for 2021 and 2022 - forecast).

Figures 3.1 and 3.2 show government debts since 1970 (aggregates calculated using current GDP in U.S. dollars as weights, the data for 2020 – estimates). It can be observed that for both developed and developing economies it peaked at almost, the highest rate ever in 2020; for EMDEs the highest rate was in 1987 - 66.7, which can be associated with the stock market crash, and consequently 60.8 in 2020 (Global economic prospects, 2020; The IMF and COVID-19 (Coronavirus), 2020).

## **LESSONS FROM COVID-19 CRISIS**

The crisis did not only test the economic aspects of the whole world, but one of the most crucial impacts was on medicine. The weakness in the healthcare systems across the world was brought to light by this pandemic. And as it was observed that not only developing countries but also developed

countries struggled with it. One of the lessons to be taken into account for further policymaking is supposed to be related to the healthcare systems. The more specific case for it can be the US case, where the healthcare system and the provisions of the welfare state were too weak to deal with the pandemic in a timely manner. The high level of inequality in society also contributed to more fatal results in the US, and people in a low-income category could not get treatments due to financial situations.

The next point would be the aging problem and the policies associated with it. Strong welfare states provide elderly people with more complex and satisfying provisions of care and “guardianship”. And in most cases, it is related to higher taxation, which has always been mentioned as a side effect of welfare states. Being one of the most affected categories of the society by the pandemic, due to lack of welfare provisions of care, elderly people coped with it more tragically in the weak welfare states.

“A few years ago, a sudden increase in welfare provision to those of working age would have truly cut across the grain of public opinion. But, as it happens, the past few years have witnessed something of a change in public attitudes towards aspects of the welfare state. Although the provision of benefits for retired people remains relatively popular, voters now seem to be rather more sympathetic to the position of those of working age who find themselves in need. That may make it more likely that the public will accept the cost – in terms of taxation and/or borrowing – that will be occasioned by the government’s attempt to provide relief for workers during the coronavirus public health crisis. Meanwhile, it seems unlikely that there will be much opposition to the inevitable increase in health service spending that will be occasioned by Covid-19 in the short run at least, though whether it will help bring about a change in the funding of social care is less clear” (Curtice, 2020).

The following lesson can be mentioned is solidarity on a global level. Probably, the only positive aspect of the Covid-19 crisis was to bring the whole world together, in order to fight and defeat the deadly virus: countries, regardless of the regions or background helped each other, shared the medical practices, and the researchers all over the world got involved in the projects to develop vaccines, consequently, universal values were spread globally.

“At the same time the current crisis has emphasized the benefits of universal welfare states. Among developed countries, Scandinavians have adopted the fewest number of new measures to support their citizens. This is not because they care less about their people. On the contrary, because of a large variety and broad coverage of existing social

programs, which allow people from all walks of life to maintain a decent standard of living in various circumstances, these countries have no need to resort to extraordinary measures to address the current crisis. Their versatility and flexibility have insured them against force majeure circumstances” (Sinyavskaya, 2020).

## CONCLUSIONS

Nowadays the global economy is experiencing one of the major historical events that affected nearly all sectors – the Covid-19 crisis. All countries are affected by the pandemic, but in the countries where welfare states are relatively stronger, the policies may decrease the economic pressure and assist citizens to deal with it more effectively. It can be explained in many ways, however, one of them is welfare states’ one of the crucial characteristics - de-commodification. As noted in the research “The Study of Welfare State Regimes” by Esping-Andersen (1990), a state supports citizens so that they will not fear possible financial losses, and not be heavily dependent on a market. Nordic countries are supposed to be mentioned specially, as in these countries the de-commodification level is higher than in other developed countries. Governments that are more generous may help to cope with this situation, and support citizens to continue to act as economic agents without fear of the future and uncertainty. States being more generous may decrease economic pressure on citizens, and everyone can benefit from it. From the beginning of the pandemic, many governments started to pursue politics supporting generous policies towards citizens, and it is one of the lessons taken from the crisis.

It can be expected that the impacts of the Covid-19 crisis on economic and social aspects will last years, and for some scholars, neither economy nor social life would be the same again. Moreover, its impacts are on a much broader scale if it would be compared to the 2008 crisis and the Great Depression of 1929.

The Covid-19 crisis enforced changes from medical to business spheres: the benevolence of the governments and welfare policies were enlarged, but at the same time, the unemployment rate increased drastically. The question can arise whether this trend with the positive attitude towards welfare states will continue or not. If it is permanent or temporary, it can be observed over time. However, it is clear that from a political point of view, as citizens enjoy benefits from welfare policies, to get more voters this trend may keep continuing. The World has experienced drastic downturns since the pandemic broke out: the unemployment rate increased, many small or

medium businesses across the world were closed, budget deficits increased.

Most of the businesses were able to change work environments quickly, and the comprehensive home office era had started. However, not all jobs can be performed from home, therefore thousands of people lost their jobs. For many scholars, the unemployment rate in the US will hit 20% and above, nonetheless it was less than 4% before the pandemic. In the EU, with relatively stronger welfare states and governmental programs, the impact and the pressure on the citizens would be less than in the US case; however, all the countries experienced increased unemployment rates.

It has been mentioned by scholars, one of the drawbacks of welfare states is state intervention. However, during the pandemic this feature became crucial. It can be one of the main drivers for post-pandemic policies, as citizens' opinions towards welfare states and welfare policies changed. Moreover, in terms of medical care, the countries where government expenditures on health and medicine are higher, consequently, where citizens are paying higher taxes than in other countries, are dealing with the pandemic relatively more efficiently. The main question is: will these policies be permanent or temporary? To answer the question still much more time and investigations are needed.

The crisis did not only test the economic aspects of the whole world, but one of the most crucial impacts was on medicine. The weakness in the healthcare systems across the world was brought to light by this pandemic. And as it was observed, not only developing countries but also developed countries struggled with it. One of the lessons to be taken into account for further policymaking is supposed to be related to the healthcare systems: the high level of inequality in societies also contributed to more fatal results. Strong welfare states provide elderly people with more complex and satisfying provisions of care and "guardianship". In addition, in most cases it is related to higher taxation, which has always been mentioned as a side effect of welfare states. Being one of the most affected categories of the society by the pandemic, due to lack of welfare provisions of care, elderly people coped with it more tragically in the weak welfare states.

Probably the only positive aspect of the Covid-19 crisis was to bring the whole world together, in order to fight and defeat the deadly virus: countries, regardless of the regions or background helped

each other, shared the medical practices, and the researchers all over the world got involved in the projects to develop vaccines, consequently universal values were spread globally.

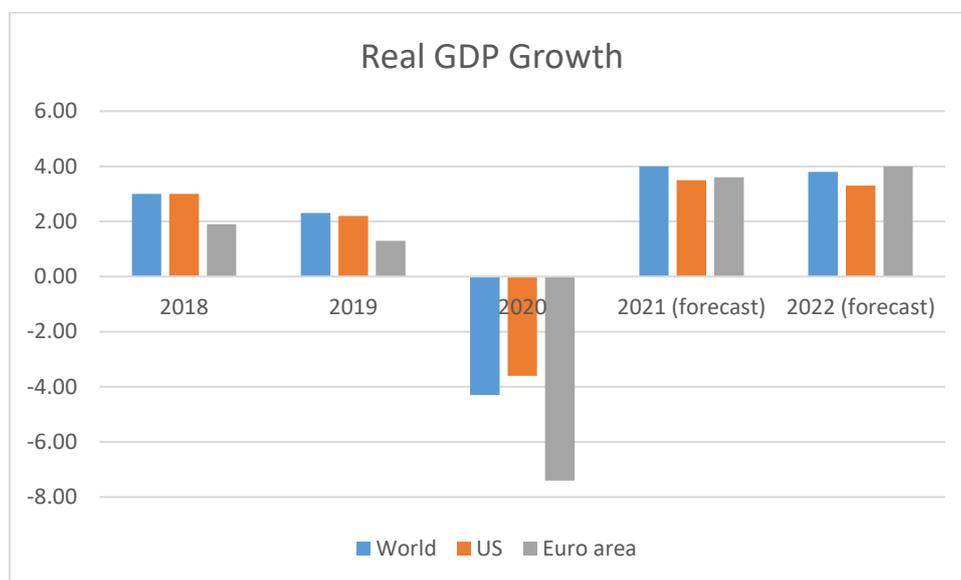
In conclusion, as it has been observed so far, the pandemic changed the attitudes towards welfare states in a positive manner: including all of the welfare provisions that were tested all over the world during the crisis. But, will these changes be permanent or not, is still not clear.

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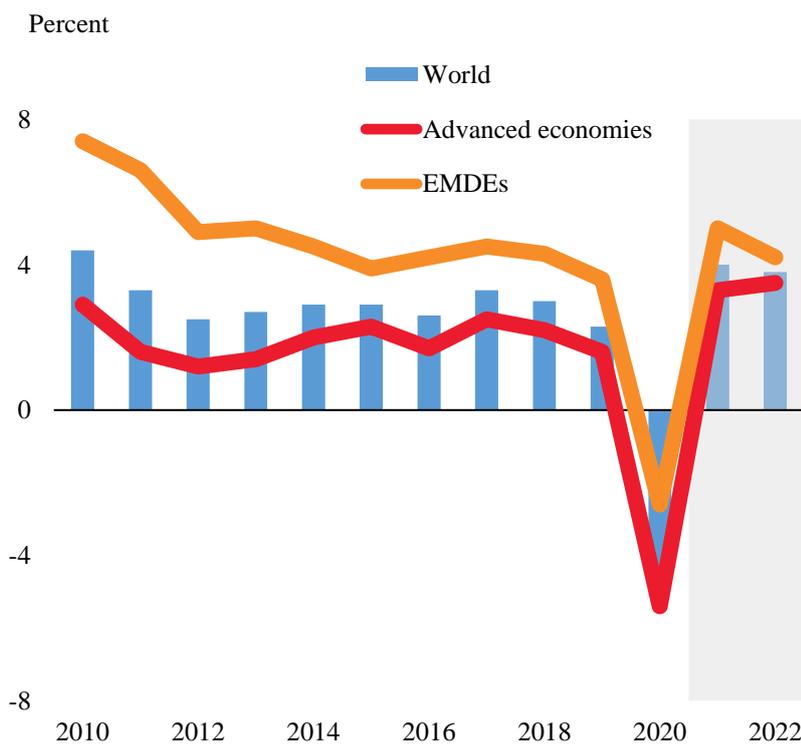
## LIST OF FIGURES

	2018	2019	2020	2021 (forecast)	2022 (forecast)
World	3.00	2.30	-4.30	4.00	3.80
US	3.00	2.20	-3.60	3.50	3.30
Euro area	1.90	1.30	-7.40	3.60	4.00



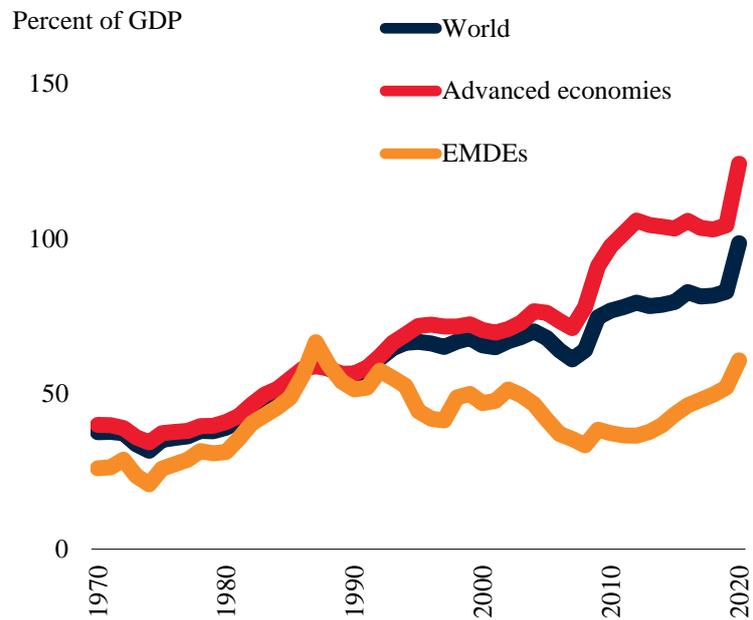
Figures.1.1 and 1.2  
**Real GDP Growth. Annual estimates and forecasts (percentage change)**  
*Sources: World Bank*

	World	Advanced economies	EMDEs
2010	4.4	2.9	7.4
2011	3.3	1.6	6.6
2012	2.5	1.2	4.9
2013	2.7	1.4	5
2014	2.9	2	4.5
2015	2.9	2.3	3.9
2016	2.6	1.7	4.2
2017	3.3	2.5	4.5
2018	3	2.2	4.3
2019	2.3	1.6	3.6
2020	-4.3	-5.4	-2.6
2021	4	3.3	5
2022	3.8	3.5	4.2



Figures 2.1 and 2.2  
**Global Growth**  
 (Aggregate growth rates calculated using GDP weights at 2010 prices and market exchange rates)  
 Source: World Bank

	World	Advanced economies	EMDEs
1970	37.7	40.1	26.1
1971	37.8	40	26.4
1972	37.4	39	28.8
1973	33.8	36	23.6
1974	31.7	34.4	20.9
1975	35.2	37.4	26
1976	35.8	37.8	27.4
1977	36.4	38.1	28.8
1978	38.1	39.6	31.6
1979	38	39.7	30.9
1980	39.1	41	31.3
1981	41.3	42.9	35.6
1982	45.3	46.6	40.6
1983	48.5	49.8	43.1
1984	50.6	51.7	45.7
1985	53.8	54.9	48.8
1986	57.8	58.2	56.1
1987	60.1	59	66.7
1988	58.3	58.2	59.4
1989	56.1	56.5	54
1990	55.8	56.6	51.5
1991	57.6	58.6	52.1
1992	61.5	62.2	57.5
1993	64.7	66.5	55.2
1994	66.5	69.2	52.6
1995	66.8	71.9	44.5
1996	66.3	72.4	42
1997	65.2	71.7	41.5
1998	66.9	71.7	48.9
1999	68	72.5	50
2000	65.7	70.6	47.1
2001	65.1	69.8	47.8
2002	67	70.9	51.5
2003	68.3	73	49.6
2004	70.2	76.7	46.7
2005	68	76.2	41.7
2006	64	73.5	37.1
2007	61.1	71.2	35.5
2008	64.1	78	33.5
2009	74.7	91.2	38.5
2010	76.9	97.7	37.4
2011	78	101.8	36.7
2012	79.5	105.9	36.6
2013	78.3	104.5	37.8
2014	78.7	103.9	39.9
2015	79.7	103.3	43.5
2016	82.8	105.8	46.3
2017	81.4	103.5	48.1
2018	81.7	103	49.8
2019	83	104.3	52.1
2020	98.6	124.2	60.8



Figures 3.1 and 3.2  
**Government Debt**  
(Aggregates calculated using current GDP in U.S. dollars as weights)  
*Sources: International Monetary Fund; World Bank.*