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Welfare States vs. States of Resources: A Question of Governance

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***Abstract*—**The present paper aims to present the significant role that the concept of governance can play in order to combine naturals resources as useful funding basis for the formation of a stable and effective welfare state model. The combination of those two different fields aims to represent the modern trends of our era as the means to solve the severe financial and economic issues caused mostly due to the malfunction of the welfare state and its public sector. European Union and Asian countries (especially China) are the main areas of interest since EU experiences a fiscal and economic crisis while China rules the area of the natural resources exploiting 97% of rare earths elements worldwide.

***Keywords*—**Governance, natural resources, rare earths elements, welfare state.

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I. Introduction

THE world, as we know it, has survived many great challenges and even more significant changes. The past years have been a key-period for the formation of the states as they are now. There is no doubt that the humanistic of the previous century has led to the creation of the various state forms.

The present paper aims to present a comparative analysis between a "State of welfare" and a "State of resources". The first part of the paper will consist of a brief presentation of the welfare state (definition and main characteristics of the modern form) and then an analysis of the reasons and the causes of the general financial crisis that has stroke European Union (the "hyper-welfare-state" model). The second part of the paper will be a brief explanation of the term "State of resources" introduced in this paper which will be completed by an analysis of the means, achievements and the purposes of such a state.

The paper will cover a wide area of the world considering the models that will be studied and analyzed. European Union's model (the Mediterranean and Scandinavian states) will be analyzed, presented and compared in parallel to the Asian countries' one, which are leading the revolutionary development of the emerging economies called as BRICS.

Primary questions to be answered through this comparative paper are the reasons of the financial crisis as far as the parameter welfare state is being concerned and which aspects of the welfare state are in jeopardy due to the failure of the economic model that has been applied for years, mainly focusing on the region of the European Union. Significant questions will be posed so as to examine the consequences of the Asian development through a more severe economic and financial model and the exploitation of the new technological achievements. Based on this, natural resources will be studied as the driving force behind the whole process.

The main guide to this comparative analysis of the two exact opposite types of states will be the fashionable term of "Governance". Modern schools of International Relations and political think-tanks have accepted and presented the notion of governance as the new term that has replaced the meaning of government in some aspects. Governance is a different system of approaching politics, economy, social issues etc. while at the same time differentiating the governmental duties in such a way so as to make them more effective and resulting. Governance is by definition the act and the way of governing. What makes governance and government different is the fact that the first one refers to the action of mutually overlapping and complex relations where new actors are involved, actors that are not members of the political arena. That means that we have in that case, a horizontal self-organization between mutually depended actors from whom the typical form of government and administration is one and has, actually, incomplete possibilities of control [1].

Not only that, but through a qualitative explanation of the definition one may realize that the real difference, the hallmark, of the governance and management lies in the various and different functions they effect. Governance provides a substantive and vital guidance, sources and structures in order to satisfy the societal needs. These needs may be the strategic guidance, the sources development, management of financial resources, leadership and human resources factor. On the other hand, management provides a program of activities and supports the goal's achievement. It includes also, the design, the implementation of programs and the administration reassuring the effective management [2]. Governance is in fact, the proper policies and procedures that reassure the well function while management is the means that constitute the well function itself.

It is obvious from these definitions, as well as the significance of the term, that the models of governance while also, the significance of the term, are available for any state or organization that wants to provide its citizens/members with the proper lifestyle and in adequate societal structure. Modern

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states organize their policies based on these principles. The European States have been familiar with these terms and their meaning. What is the next step now? The next step and most important to do is for the states to operate in a better form of governance. This way, the welfare states will be more organized and more effective, will be able to examine the needs and respond whenever it is possible being aware of their potential. Through such governance, functions the current welfare states may be able to synchronize their economies with the allowances and provisions they wish to offer to their citizens.

There are several models of governance. Three are the most influential. The first one is the model of SMART governance. That means that the governance has to have a smart goal which identifies a Specific action or event that will take place. The goal of that governance project has to be Measurable and the governing must be Achievable. "R" stands for the nature of the goals which have to be realistic and "T" stands for the time limits that need to be set and respected. Each smart goal needs to state the time period in which it will be accomplished.

The second most known model of governance is the sound governance. That type of governance has three specific principles that need to be kept in mind commonly known as the three "Es". That type of governance needs to have Economy, Efficiency and Effectiveness.

The "Economy" aspect relates planned input of resources to the actual input, determining whether the least expensive means of achieving a given target have been used or not (examination of alternatives). The "Efficiency" aspect concerns the relationship between actual input (resources) and actual output (results achieved), determining whether the means adopted were employed in the most appropriate manner (examination of performance). "Effectiveness" is measured by comparing actual output with planned output, determining whether the purpose has been achieved or not (success rate).

Last but not least, is the model of good governance that European Union introduced in the White Paper on Good Governance and tries to implement on its policies.

There is nothing to guarantee that those models, each one separately, may result in the creation of a welfare state and it is too soon to predict that it will be easy to do so in the natural resources field. It is more realistic and productive to draw a model of governance based on the above mentioned typology which will be oriented to the exploitation of the natural resources as a way of stabilizing the economy of a state and funding the welfare state program of the state.

One of the most significant challenges of the new global economy is the future of the welfare state. The "Father State" [3] of the European continent and the welfare state of the USA or the Scandinavian countries, have been important achievements of the human rights movement having also an important impact on the labor market and the way of governing. Many States of Europe have exploited to the maximum the various provisions of labor law and the benefits predicted therein. Society has gained schools, hospitals, insurance, education, social protection and welfare. Whenever there was a problem, people knew that the state would have a scheme waiting for them. In some cases this has been the holistic approach of the States (Greece, Spain, Italy). The 80s and the 90s were characterized by a powerful movement towards legalism: the goal of social Europe being not only to imagine European solidarity but also to build common social rights throughout Europe. The European social model, as described in the White Paper on social policy [4], is a common vision in terms of values that include democracy and individual rights, free collective bargaining, the market economy, equal opportunities for all, and social protection and solidarity.

The question of whether there is such thing as the single European Social Model has been widely debated over the last decade. 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 [5]. As a result of later research, the fourth Mediterranean model was separately identified. Nevertheless, there are probably shared characteristically European values, such as solidarity and social cohesion in all four models. We can also classify the European Member States Into clusters of Scandinavian universalistic, Continental corporatist, Anglo-Saxon liberal and Mediterranean welfare regimes. The Scandinavian model is the most comprehensive one, with a high degree of emphasis on redistribution, social inclusion and universality. The countries that can be subsumed under this ideal-type (Denmark, Finland and Sweden) are characterized by a strong social dialogue and close cooperation of the social partners with the government, with trade unions prominently involved in economic life at large. The Continental model (Netherlands, Germany, Belgium, France and Austria) emphasizes employment as the basis of social transfers, benefits are at a more moderate level and they are linked to income. The liberal or Anglo-Saxon model (United Kingdom and Ireland), emphasizes the responsibility of individuals for themselves; social transfers are smaller than in other countries, more targeted and "means tested" [6]. In the Mediterranean model (embodied by Spain, Portugal, Italy and Greece), the low level of social transfers is partly counterbalanced by the strong supportive role of family networks [7]. From a general point of view, the European social model today can be defined as "a set of principles and values, common to all European regions".

National welfare states are legally and economically constrained by European rules of economic integration, liberalization and competition law, whereas efforts to adopt European social policies are politically impeded by the diversity of national welfare states, differing not only in levels of economic development and hence in their ability to pay for social transfers and services but, even more significantly, in their normative aspirations and institutional structures [8].

Europe seemed to be a newly developed and mostly promising land of opportunities and chances since the welfare

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sector improved the public sector of employment through allowances and new job places designed to support the welfare state itself. A European miracle that would be fed by the strong economy and industry of the continent was expected to happen. A miracle that would care for the citizens and would return the allowances proportionally and equally to the people that would consist it.

That miracle though was not as stable as many have considered it to be. In fact many welfare organized states have nowadays to pay the price of their choice. What happened? The economy was not able to afford the burden of a state whose main concern was the human aspect. When discussing such core topics of international relations, as the impact of the various trends on security challenges, (global or regional level) there is one key concept that formulates the context of action and dictates political choices: power [9]. After the economic crisis of 2008-2009, all trends in international economy relate to maintaining or restoring positions of power and influence in the new, volatile environment that has emerged.

It was the 15th of September 2008 when one of the biggest banks worldwide, Lehman Brothers Holdings Inc., filed for Chapter 11 Bankruptcy protection, thus signifying the start of a – till then dormant [10; There have been warning signs for the upcoming crisis, in the form of financial imbalances caused by factors such as rising global imbalances (capital flows), monetary policy that might have been too loose, or inadequate supervision and regulation. For a detailed analysis of these causes of the global financial crisis see *O. Merrouche, E, Nier*, What Caused the Global Financial Crisis?—Evidence on the Drivers of Financial Imbalances 1999–2007, IMF Working Paper**,** WP/10/265, December 2010] financial and economic turmoil, with enormous social and political implications. This has been the culmination of a dramatic situation developing since 2002, as the inflow of funds in the U.S. economy allowed for low interest rates, thus facilitating loans of various types with easy credit conditions, and "motivating" consumers to assume unprecedented debt loads. The U.S. housing market developed the scheme of mortgage-backed securities, deriving their value from mortgage payments and housing prices, which attracted investors from all over the world. But as housing prices declined, reaching values below those of the mortgage loans, those participating in such schemes suffered significant losses, causing a foreclosure wave, which hit both consumers and financial institutions. It was not difficult for the crisis to expand to other sectors of the economy throughout the world, reaching "pandemic" proportions [11].

The impact of the crisis reached Europe through three "channels": a) the connections between the European and the American financial systems, b) the wealth and confidence effects on demand and c) the global trade [3 European Commission, *Economic Crisis in Europe: Causes, Consequences and Responses*, European Economy 7/2009, p. 24]. The real GDP was reduced in 2009 by around 4% on average in the EU, making this recession clearly deeper than any recession since World War II, however the effects were not similar in all Member States, as in some the recession was more than the EU average (i.e. Hungary, Germany, Ireland) while others were much less affected, at least at the time (i.e. Poland, Cyprus, Malta) [12]. The crisis is expected to have a long-lasting impact on the potential growth rate in the immediate future, given that financial crises weaken investment opportunities as demand prospects are likely to be poor, real cost of borrowing is high and credit is in short supply. In addition, a significant part of the unemployment caused by the crisis might prove to be structural, as displaced workers may find it hard to return to the labor market due to the new outlook caused by the structural economic changes, and the reduction of wages [13].

On the one hand, the EU entered the current crisis without a social agenda. Keeping the social dimension out of the discussion about financial consolidation will prove increasingly difficult. Member states that are in an extremely precarious situation will not be able to guarantee the long-term stability of their social security systems. Poverty in old age and extreme social distortion will be the result. The ability of the EU as a whole to make progress in these areas as originally planned is extremely limited. The compatibility of the social security systems within the EU will be more difficult to guarantee in the future. Unemployment, social exclusion, lack of efficiency in social services provided, despite the high cost are the most severe "failures" of the European social model. Popular belief blames welfare generosity as the main reason which slows down economic growth and employment. Scandinavian countries have the most generous benefit system while it is rather thrift in the Anglo-Saxon countries. Both systems boast of high employment rates and low long-term unemployment rates. On the contrary, Mediterranean countries which offer a benefit-level just enough to satisfy basic needs are not as successful as the countries of the North.

On the other hand, according to OECD Social Expenditure Database, with the recent crisis that started in 2007/08, social spending increased to 22% of GDP on average across the OECD in 2009 and it has not gone down since. Population ageing is also set to drive up pension and health spending in the years ahead. The challenge now is to safeguard social support for future generations. New OECD social expenditure data show that, on average across the OECD, public social spending-to-GDP ratios increased from around 19% in 2007 to 22% of GDP in 2009/11 and suggests it has remained high since. In an economic downturn, spending-to-GDP ratios can rise because public spending goes up to address the greater need for social support, such as unemployment or housing benefit and GDP grows slowly or declines. In general, the lowest figures are currently found in Anglo-Saxon countries, while the highest appear in the Nordic countries – with other countries in Western Europe somewhere in-between [14].

Last but not least, it is a commonplace that recent and predicted future changes in demography in developed countries, in particular the "ageing" of the population,

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simultaneously boost social spending and have a negative impact on the tax base – since there are seldom automatic adjustments of social security fees and benefit rules in response to changes in demography. In recent years, the globalization of national economies has become perhaps the most intensively debated exogenous factor behind actual and predicted future welfare-state problems in developed countries. International trade theory predicts that the entry into the world economy of a number of countries with abundant low-wage labor (including China, India, the former Soviet republics, and countries in Eastern Europe) will reduce both the wage-income share of national income and the relative wages of low-skilled workers.

Over the 1950s and 1960s there was a widespread perception that the free market could not provide adequate Welfare State services and that government interventions were therefore required. These interventions, however, reduced private incentives to engage in productive activity, restricted personal freedoms, and captured an ever larger share of governments' budgets. The central problem of providing Welfare State services is that their cost has mounted faster than the rate of inflation. This problem is expected to become progressively worse with the passage of time. Thus average productivity in most Welfare State services may be expected to grow much more slowly than average productivity in the economy overall. And since wages in the Welfare State services will not fall significantly behind the average wage level, the cost of the Welfare State will rise inexorably relative to the costs of other commodities. But as economic growth proceeds, the demand for health services, education, insurance against poverty and unemployment, etc., will naturally expand. And since the costs of Welfare State services rise compared to the costs of other commodities, society must consequently allocate an ever-increasing share of GNP to Welfare State services [15].

As the above analysis demonstrates, it is imperative for the modern welfare state to seek long term reliable funding. In that direction it is common truth that, nowadays, sustainability and energy efficiency seem to be the “hottest trends” when discussing about societal issues and the future. Economic aspects linked strongly with those terms and the natural resources worldwide have increased the political issues that need to be addressed so as nations live in a peaceful global neighbor. Rare Elements [16] have been the most outstanding paradigm of gaining political power in a short period of time. China’s rise has been accompanied by a frenetic development of all its aspects. China’s wealth has been a great tool that provides more and more power in the International Relations field. Is that only a great opportunity that will drift all the other BRICS or a major threat that will jeopardize the US and European stability? Rare Earths, as a part of the road to sustainability and energy efficiency, do have the power to destroy any sense of trust among the nations?

That model may be a pattern that the European Union States should follow so as to survive their economic crisis. It is totally understandable for both the European Union and the rest of the world to feel threatened by this rapid development of the Asian tiger, but they do have to elaborate on the question of whether the Chinese threat only US/Europe or the entire Asia, as Japan is its main and older opponent. It is too soon to estimate if the smart and energy efficient cities that are built, the hybrid cars and the new technologies friendly to the environment, are the sufficient results of a grandiose plan to rule the world or simply a way to establish trust and peace in the world under the “commands” of a strong Chinese economy. Is there a threat for a Chinese “jingsoism”? Is not there too much power to be re-distributed and so few precious resources to fight for? What if Japan, is not simply an opponent for China, but an Asian “partner by chance” who may not assist China but will aim to imitate it, then who will be able enough to stop that Asian overrule/political and financial domination? Does the creation of a state of resources provide enough power to its leaders?

The EU, on the other hand, entangled into a complicate effort to control the swelling of the sovereign debt in several Eurozone countries, has lost its momentum. The financial and economic instabilities have engendered political and social tensions which have deconstructed the efforts of many decades. An eventual failure of the European Integration experiment, with all its political and economic consequences, poses a quite significant threat to the stability, not only at regional, but also at global level.

The scales of economic development have titled in favor of China, whose economic growth rate could not be restrained for the last years. 2012 has been a turning point as China's growth trajectory was lower. A new generation of leaders seeks to leave its mark. Nevertheless, China has managed to obtain regional security through its economic growth, the outstretching of the real estate sector, the expansion of the constructions sector and the almost total control of the new energy sources around the world (95-96% of rare elements).

Comparing to that, the Asian countries not only seem to be familiar to the governance as a term but also as a procedure, since their strict and huge states are not easy to be satisfied by the policies. Asian countries and especially China have boosted their economy in frenetic pace when no other state has ever been able to do so despite the infrastructure and the financial means provided. Their concentration to the main goal, their ability to catch the more appealing trends of the markets and their capacity to combine novel sectors, have been factors assisting their effort to develop their economy. The last two years have been indicative of their plan, since China has applied a program for the restriction of the economic advance in order to let the “numbers” stabilize. Their fear of losing what they have managed to achieve in a decade of development and hard work has been the main reason for that program which finally was unable to function.

So, China keeps developing frenetically! Natural resources are not only a factor. It is a sector that plays the master role. China has attracted many great companies and multinational industries from all over the world. In fact half of America and Europe have relocated their businesses so as to exploit the

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great advantages that China provides. Wealth of China has mostly been imported. "Wealth made in Europe or USA". The decision of the Chinese governments to rule the natural resources globally, especially the resources of the rare elements has been a crucial one, since the land now has not only cheap labor hands to offer, but resources and extremely advanced facilities too [17]. Can you think of something more appealing? China was never a promising land. But now, it seems to be a "land of money".

Chinese jingoism and all the threats that arise from this perception are simply a way of managing the profile of the Asian state of resources. Many states are afraid of being overruled. But is that domination that everybody seems so scared of the real purpose of China? One strategist may say yes, for the most obvious reasons: power. Comparing though the European model of welfare state which aimed to be habited by happy and satisfied people to the model of the state of resources which products pure development and novel, exclusive investments it is more than obvious that power is not the only thing to be gained. China has made a state form that causes admiration. That is the main purpose of China, and the rest of the Asian countries (Japan, N. Korea etc.): to exercise power to a world that is speechless, to a world that knees in front of their ability. It is not only a matter of political and economic domination, but mostly a matter of self-esteem.

This concept justifies the almost absolute lack of welfare state characteristics in the Asian model. There have been various incidents in the last decade proving this lack. For example there have been many suicides registered due to hard working conditions (on some occasions even inhuman) and multinational companies located in Asian were forced to take strict measures afterwards. Or even the example of the teacher that physically abused the children. In this case, the state had to enact law in order to avoid similar incidents. The state of resources is severe, lacks sensitivity and respects the human rights whenever somebody brings charges against a company. The importance of the natural resources is more than obvious when it comes to business. The world's largest companies depend on Chinas control on rare earth elements. The world has been more than anxious about this progress. USA as the "global hegemon" according to Mearsheimer has to deal with the "nightmare" of losing its power in geostrategic terms. European Union is unable to confront an advancing economy considering that its main and most vital problem is the fiscal and economic crisis. The BRICS are promising lands, some of them filled with the "treasure" of natural resources. This is a brief description of the actors that share the global power. For none of those actors, the social issue of welfare state seems to be a solution or a parameter to be exclusively focused on. Even though many governments include the welfare program in their pre-elections agenda, they sooner or later realize the hard truth that this goal is more than difficult to be fulfilled. The welfare state needs first of all a strong and credible state, with a stronger and attractive economy and population willing to share some of its gains so as to help the re-distribution of the welfare resources (pensions, allowances etc). During the global silent war on the natural resources stocks, even the most promising model of governance seems to be hard to apply in order to create a welfare state. That is why the present paper proposes the creation of a model of governance which will transform the natural resources into a stepping stone towards the welfare state of the future. Thus, in order to have an economic, efficient and effective governance of natural resources with regard to their use as funding sources of the welfare state, it is suggested to employ the principles of SMART governance, so as to identify the needs of the welfare state as an achievable and realistic objective while at the same time, specific measures would be implemented on time in order for the social structures to deliver measurable services to the people of the states. The money deriving from the exploitation of natural resources such as rare earths elements will form a social "capital" to be invested in improving the living conditions of all those states concerned.

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