



## CHANGING CONTOURS OF CONCEPT OF WELFARE STATE IN INDIA – AN INSIGHT INTO NORDIC MODEL

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### INTRODUCTION

Aristotle's observation that, "state comes into existence originating in the bare needs of life and continuing in existence for the sake of good life" reflects the spirit of welfare state.

A **welfare state** is a concept of government where the state plays a key role in the protection and promotion of the economic and social well-being of its citizens. It is based on the principles of equality of opportunity, equitable distribution of wealth, and public responsibility for those unable to avail themselves of the minimal provisions for a good life<sup>1</sup>. As defined by Kent, "Welfare state is a state that provides for its citizens a wide range of social services." All modern states have metamorphosed from Police States to Welfare States. The genesis and development of the concept of the welfare state lay in the interaction of ideas, mainly, conservatism, liberalism and socialism.

"Power has only one duty – to secure the social welfare of the people" as stated by Benjamin Disraeli in his novel *Sybil: or The Two Nations* (1845), out folds the emerging change in public policy that the objective of the Government is not 'power' but 'welfare'. During the period of Great Depression, the welfare state was seen as a "middle way" between the extremes of Communism on the left and unregulated laissez-faire capitalism on the right. In the period following World War II, many countries in Europe moved from partial or selective provision of social services to relatively comprehensive "cradle-to-grave" coverage of the population..The welfare state provides education, housing, sustenance, healthcare, pensions, unemployment insurance, sick leave or time off due to injury, supplemental income in some cases, and equal wages through price and wage controls. It also provides for public transportation, childcare, social amenities such as public parks and libraries, as well as many other goods and services. Some of these items are paid for via government insurance programs while others are paid for by taxes.

There are two main interpretations of the idea of a welfare state:

1. A model in which the state assumes primary responsibility for the welfare of its citizens. This responsibility in theory ought to be comprehensive, because all aspects of welfare are considered and universally applied to citizens as a "right".
2. Welfare state can also mean the creation of a "social safety net" of minimum standards of varying forms of welfare.<sup>2</sup>

## FORMS OF THE WELFARE STATE

There are two ways of organizing a welfare state:

1. According to the first model the state is primarily concerned with directing the resources to "the people most in need". This requires a tight bureaucratic control over the people concerned, with a maximum of interference in their lives to establish who are "in need" and minimize cheating. The unintended result is that there is a sharp divide between the receivers and the producers of social welfare, between "us" and "them", the producers tending to dismiss the whole idea of social welfare because they will not receive anything of it. This model is dominant in the US.<sup>3</sup>
2. According to the second model the state distributes welfare with as little bureaucratic interference as possible, to all people who fulfil easily established criteria (e.g. receiving medical treatment, having children etc). This requires high taxing, of which almost everything is channelled back to the taxpayers with minimum expenses for bureaucratic personnel. The intended – and also largely achieved – result is that there will be a broad support for the system since most people will receive at least something. This model was constructed by the Scandinavian ministers Karl Kristian Steincke and Gustav Möller in the 30s and is dominant in Scandinavia.<sup>4</sup>

## Objectives:

1. To analyze the journey of the ideal of welfare state during pre and post New Economic Policy – 1991.
2. To study the characteristic features of Nordic Model of welfare state.
3. To assess the feasibility of implementation of Nordic Model of welfare state in India.
4. To identify the obstacles in the realisation of welfare state in India.

## India as a welfare state

“*Sarve jana Sukhino bhavantu*” (Let the entire world be happy) a well noted ancient Sanskrit sloka reflects the ideal of welfare state in Indian tradition. Ancient Indian political philosophy and history has myriad glimpses of the ideals of welfare state. Renowned Indian political philosopher Kautilya, in his book Arthashastra said, “In the happiness of his population, rests the ruler’s own happiness, in their welfare lies his welfare, he shall not necessarily consider as good whatever pleases him but he shall consider as good whatever pleases his population”.<sup>5</sup>

The Preamble of the Indian constitution declared India as a “Sovereign, socialist, secular, democratic and republic” state. And it also promises to provide to people justice, liberty and equality alongside promoting the feeling of fraternity and national integration. The essence of the preamble itself reflects the avowed objective of the framers of the Indian constitution to usher the era of service state in the newly emerged independent nation. In this regard two specific provisions have been made, one in the form of Fundamental Rights and the other as Directive Principles of state policy.

India, not only is a welfare state, but also the largest democracy in the world. The sentence “we the people of India” in the preamble declared that sovereignty vest not in the parliament but in the people of the union of India. “Social Welfare” has been at the centre of our policy making from the time of independence itself. From the “First Five Year Plan” itself Programmes and schemes have been launched related to social welfare issues as like agriculture and rural development, employment and labour welfare, healthcare, education, etc. In spite of scarcity of economic means the government was focussed on the welfare policies and inclusive development.

The Fundamental Rights embodied in Part III of the Indian constitution act as a guarantee that all Indian citizens can and will enjoy civil liberties and basic rights. These civil liberties take precedence over any other law of the land. They are individual rights commonly included in the constitutions of liberal democracies. Fundamental Rights enshrined in the Indian constitution are: Right to Equality, Right to Liberty, Right against Exploitation, Right to Freedom of Religion, Cultural and Educational Right and Right to Constitutional Remedies.

Directive Principles of state policy enshrined in Part IV of the Indian constitution can be considered as a pivot in achieving the objective of a welfare state. They are the instruments of instructions to the central and state governments to bring forth an egalitarian society and a welfare state. These principles aim at manifestation of social and economic democracy. Article 38 provides a mandate for the State to ‘secure a social order for the promotion of welfare of the people’. In a sense the directive principles of state policy epitomize the ideals, the aspirations, the sentiments, the precepts, and the goals of our entire freedom movement. In another sense, they represent a compromise between the ideals and reality. Though the

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Directive Principles are not enforceable by any court of law, these principles are fundamental in the governance of the country.

The spirit of **social justice** subsequently was infused into the constitution by the initiation of judiciary. This it did in a series of cases of which *Maneka Gandhi v. Union of India (1978)* was significant. This case is a landmark judgement which played most remarkable role towards the transformation of judicial view on Article 21, so as to imply more fundamental rights. In this case the courts decided that limitations have to be posted on the formation of laws that deprived individuals of life and liberty. The procedure prescribed by the law should also satisfy the test of reasonableness, justice and fairness.

In *Francis Coralie Mullin* case (1981) the court declared, “the right to life includes the right to live with human dignity and all that goes with it, namely, the bare necessities of life such as adequate nutrition, clothing and shelter and facilities for reading, writing and expressing oneself in diverse forms, freely moving about and mixing and commingling with fellow human beings. The magnitude and components of this right would depend upon the extent of economic development of the country, but it must, in any view of the matter, include the bare necessities of life and also the right to carry on such functions and activities as constitute the bare minimum expression of the human self.”<sup>6</sup>

### **Models of Welfare State:**

Among numerous studies that have advanced distinct regime theory, the most influential contribution to date is Esping-Anderson’s (1990) “*Three Worlds of Welfare Capitalism*”. The distinct regime model identifies three subtypes of welfare state models which can be mentioned as below:

1. Social-Democratic Welfare State model: Denmark, England, Netherlands, Norway and Sweden.
2. Christian-Democratic (Corporatist) Welfare State Model: Austria, Belgium, France, Germany, Italy and Spain.
3. The Liberal Model: Australia, Canada, Japan, New Zealand, Switzerland and US.

In this scheme, the Liberal regime is associated with poor relief that maintains class distinctions based on income: the Corporatist regime is identified with contributory social insurance that sustains differentiation based on occupational status: and Social Democratic regime is linked to middle-class universalism and social equality. A rigorous study of three countries in the Esping-Anderson sample identified as liberal (U.S), social democratic (Netherlands) and corporatist (Germany) regimes.<sup>7</sup>

## The Nordic Model of Welfare State (Social-Democratic model)

The Scandinavian welfare states have enjoyed an international reputation for combining generous welfare state entitlements with rapid economic growth, low unemployment and very high levels of labour force participation, particularly among women. They seemed to have achieved the elusive combination of social equality and economic efficiency.<sup>8</sup>

The Nordic Model refers to the economic and social policies common to the Nordic or Scandinavian countries like Denmark, Finland, Norway, Iceland and Sweden. This includes a combination of free market capitalism with a comprehensive welfare state and collective bargaining at the national level. The Nordic model began to earn attention after World War II.

Although there are significant differences among the Nordic countries, they all share some common traits. These include support for a ‘universalist’ welfare state aimed specifically at enhancing individual autonomy and promoting social mobility, a corporatist system involving a tripartite arrangement where representatives of labour and employers negotiate wages and labour market policy mediated by the government, and a commitment to widespread private ownership, free markets and free trade.<sup>9</sup> In simple terms ‘universalist welfare state’ means everyone—rich and poor—gets free higher education, free medical services, free eldercare, etc. Universal totally beats the means-testing characteristic of their dreadful old welfare system that they discarded and that the United States still has. It is observed that welfare state entitlements have played little part in the current economic problems of the Scandinavian countries.

Each of the Nordic countries has its own economic and social models, sometimes with large differences from its neighbours. According to sociologist Lane Kenworthy, in the context of the Nordic model, “social democracy” refers to a set of policies for promoting economic security and opportunity within the framework of capitalism rather than a system to replace capitalism.<sup>10</sup>

The Nordic Model characterises the system as follows.

1. An elaborate social safety net in addition to public services such as free education and universal healthcare.
2. Strong property rights, contract enforcement, and overall ease of doing business.
3. Public pension plans.

4. Low barriers to free trade. This combined with collective risk sharing (social programs, labour market institutions) which has provided a form of protection against the risks associated with economic openness.
5. Little product market regulations. Nordic countries rank very high in product market freedom according to OECD rankings.
6. Low levels of corruption. In Transparency International's 2015 Corruption Perceptions Index, Denmark, Finland, Sweden, and Norway were ranked among the top 10 least corrupt of the 167 countries evaluated.<sup>11</sup>
7. High percentage of workers belonging to a labour union. In 2013, labour union density was 85.5% in Iceland, 69% in Finland, 67.7% in Sweden, 66.8% in Denmark, and 52.1% in Norway. In comparison, labour union density was 13.6% in Mexico and 10.8% in the United States.<sup>12</sup> The lower union density in Norway is mainly explained by the absence of a Ghent system since 1938. In contrast, Denmark, Finland and Sweden all have union-run unemployment funds.
8. A partnership between employers, trade unions and the government, whereby these social partners negotiate the terms to regulating the workplace among themselves, rather than the terms being imposed by law. Sweden has decentralised wage co-ordination, while Finland is ranked the least flexible. The changing economic conditions have given rise to fear among workers as well as resistance by trade unions in regards to reforms.<sup>1</sup> At the same time, reforms and favourable economic development seem to have reduced unemployment, which has traditionally been higher. Denmark's Social Democrats managed to push through reforms in 1994 and 1996.
9. Sweden at 56.6% of GDP, Denmark at 51.7%, and Finland at 48.6% reflect very high public spending.<sup>13</sup> One key reason for public spending is the large number of public employees. These employees work in various fields including education, healthcare, and for the government itself. They often have greater job security and make up around a third of the workforce (more than 38% in Denmark). Public spending in social transfers such as unemployment benefits and early-retirement programmes is high. In 2001, the wage-based unemployment benefits were around 90% of wage in Denmark and 80% in Sweden, compared to 75% in the Netherlands and 60% in Germany. The unemployed were also able to receive benefits several years before reductions, compared to quick benefit reduction in other countries.
10. Public expenditure for health and education is significantly higher in Denmark, Sweden, and Norway in comparison to the OECD average.<sup>14</sup>
11. Overall tax burdens (as a percentage of GDP) are among the world's highest; Sweden (51.1%), Denmark (46% in 2011), and Finland (43.3%). The Nordic countries have relatively flat tax rates, meaning that even those on medium and low incomes are taxed at relatively high levels.<sup>15</sup>

12. The United Nations *World Happiness Report 2013* shows that the happiest nations are concentrated in Northern Europe. The Nordics ranked highest on the metrics of real GDP per capita, healthy life expectancy, having someone to count on, perceived freedom to make life choices, generosity and freedom from corruption. The Nordic countries also place in the top 10 of the *World Happiness Report 2017*, with Norway and Denmark taking the top spots.<sup>16</sup>
13. The Nordic countries received the highest ranking for protecting workers rights on the International Trade Union Confederation's 2014 Global Rights Index, with Denmark being the only nation to receive a perfect score.<sup>17</sup>

### **Feasibility of Nordic Welfare State Model in India:**

Globalisation, Liberalization and Privatisation introduced by New Economic Policy in 1991 has tilted India towards capitalist economy withholding its socialistic roots. This transfigured the idea of welfare state adopted since independence in the framework of mixed economy with an inclination towards socialistic ideology. New Economic Policy has now become the prism from which all the policies of the government, particularly the economic policies are focussed. The New Economic Policy has brought a paradigm shift from state-centred welfare state to citizen-centred welfare state, with state playing the role of a facilitator.

As per the date report of National Sample Survey Office (NSSO) on Health and Morbidity known as 'Social Consumption on Health' conducted during NSS 71<sup>st</sup> round (2014), 'percentage of persons having covered under any health insurance scheme is 14.1% in rural areas and 18.1 % in urban areas'. The country's public financing for health care is less than 1% of the world's total health expenditure, although it is home to over 16% of world's population. Families meet almost 70% of their health expenses out of their own pockets. These statistics on health insurance throw light on the fact that majority of the people still rely on individual security. This hinders the purchasing capacity of the people and promotes polarization of income.

The New Economic Policy of India equates to the dual policies of 'Perestroika' and 'Glasnost' introduced in erstwhile Soviet Union in 1985 by Mikhail S. Gorbachev, the General Secretary of Communist Party of the Soviet Union. According to Naomi Klein, former Soviet leader Mikhail Gorbachev sought to move the USSR in a similar direction to the Nordic system, combining free markets with a social safety net—but still retaining public ownership of key sectors—ingredients that he believed would transform the USSR into "a socialist beacon for all mankind."<sup>18</sup>

The recent fiscal reforms like Demonetization Policy (8<sup>th</sup> November, 2016) and tax reforms like Goods and Services Tax - GST (1<sup>st</sup> July, 2017) launched by the union government in the recent past opened the gates to discuss the pros and cons of

the feasibility of implementation of Nordic Model of welfare state in India. Impact of tax policy on income and wealth redistribution is profound in realizing the objective of welfare state. Redistribution through transfer has a major contribution to reducing inequality and polarization of income. The fiscal reforms in present-day circumstances imply as outcome to the so called 'tax uniformity', embedding income redistribution through budgetary mechanisms, an arrangement that greatly depends on the alternative chosen by the authorities for the distribution of tax burden among various categories of contributors.<sup>18(a)</sup>

Calls have been made among policy makers in India, with special mention to Nobel prize winning welfare economist Amartya Sen, to implement reforms along the Nordic lines in India. On the question of the idea of justice, Amartya Sen said, "we should organize society so that people are given the opportunity to realize their own life projects". But, the need of the hour is a 'welfare state coupled with responsibility'. State directed welfare will never achieve its avowed objective, unless and until the citizens go hand in hand with the government and acknowledge their responsibilities to make it a success.

Nordic Welfare State Model requires a strong runway of concrete tax structure and effective fiscal policy to give buoyancy to welfare state to takeoff. In this direction, the introduction of Goods and Services Tax on 7<sup>th</sup> July, 2017 by the Indian government replaced a slew of indirect taxes with a unified tax and is therefore set to dramatically reshape the country's 2 trillion dollar economy. GST is expected to bring a better taxation system, increase in country's GDP, same price for goods across the country, reduced tax on manufacturers ect.

Besides streamlining the slabs on GST, it is required to stabilise the direct tax system to garner funds for the provision of more welfare facilities to the people. Scandinavian countries are known for having high taxes on income. According to OECD, Denmark (26.4%). Norway (19.7%) and Sweden (22.1%) all raise a high amount of tax revenue as percent of GDP from individual income taxes and payroll taxes. According to Income Tax data published for the first time in India in 16 years state that a total of 28.7 million individuals filed income tax returns, of which 16.2 million did not pay any tax, leaving only about 12.5 million tax-paying individuals, which is just about 1% of the 1.23 billion population of India in the year 2013. Low levels of tax collections could be challenge in realizing the objectives of a welfare state.<sup>19</sup>

### **Conclusion:**

Indian proponents of Nordic model advocate establishing a state along the social democracy lines. But the truth is that Scandinavia isn't really all that socialist. Scandinavian countries have certain socialist characteristics such as high taxes and extensive welfare systems. However, these countries have relatively capitalistic

markets. Scandinavian businesses are mostly free from regulation, nationalization and protectionism. Sweden, Denmark and Finland rank higher than US in business freedom, monetary freedom, investment freedom, fiscal freedom, property freedom and freedom from corruption. Norway ranks higher than the US in trade freedom, property freedom and freedom from corruption.

Journey towards Nordic model could be too long owing to Indian socio-economic conditions like huge population, vast diversities among people, stagnant economy, corruption, lack of transparency among political leaders and bureaucracy, ineffective tax structure and lack of commitment among the people for collective benefits. But the journey always has a destination to reach, though not Nordic model of welfare state, the destination could be a state in which people have effective social security and improved quality of life.

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