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# **MACROECONOMIC THEORY AND THE EUROZONE CRISIS**

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## **Social spending as a driver of economic growth: Has the theoretical consensus of the 1980s led to successful economic policies?**

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### **Social spending: what are we talking about?**

Since the emergence of social spending at the end of the 19th century, the question of how it affects economic growth has been considered from two angles. First of all, *why* does it increase? The causality from social spending to economic growth gives priority to arguments such as population structure (Monnier 2006), the conflictual nature of social relations and the adoption of social protection standards based on renewed income distribution (André 2002) or the institutional context, whereby social spending would stem from typified, historically defined social arrangements (Esping-Andersen 1990, Castel 2003). Conversely, the causal relationship from growth to social spending emphasises the latter's contribution to lessening the effects of declining income when economic conditions are unfavourable (Myrdal 1960), but also the burden such expenditures can represent for capital accumulation (Mazier et al. 1999).

A second question deal with *when* social spending increases. On this issue, and without looking for (nonexistent) consensus, the literature nonetheless indicates that its peak periods occur during economic crises and that once there is a return to growth, its long-term trend shows that it is maintained at roughly the level reached during the preceding crisis (Wagner 1983, Michel 2017). As an offshoot of economic conditions, social spending is thus a result of crises and growth alike, a kind of by-product that has taken dizzying proportions and that macroeconomic policies everywhere attempt to contain (Barbier 2013).

The present period of generalised economic crisis sheds light, in a specific context, on the long-standing dilemma that social spending constitutes for the economy. Indeed, it is argued on the one hand that these expenditures permit investments that are necessary for the future but which the market cannot identify as such and also, through income-based contributions, the creation of safety nets to protect against the social risks tied to a more complex growth (Atkinson 2005). But on the other hand, it is maintained that these safety nets act as a disincentive, for both the individuals funding them and those benefiting from them (Nervole et al. 1993); they would thus generate inequities while their cost would constitute a threat to growth (Razin and Saka 2005). Throughout Europe, 'austerity plans' attempt to rationalise social spending, whether by limiting the means allocated (for public

services and protection against social risks alike) or by limiting the entitlements provided (retirement pensions).

This highly polarised debate was punctuated by a singular episode in the late 1980s, when advocates of two extremely different theoretical positions – the theory of endogenous growth (Lucas 1988) and *régulation* theory (Fontvieille 1990) – formulated the same hypothesis, namely that social spending had become an economic growth engine. This hypothesis suggests that social spending might no longer result from growth, whether because of crises or the relative ratchet effects following them, but rather, would generate it. Consequently, its conceptualisation in economic policies might be completely turned around so as to raise the question of sustaining it, rather than that of constantly seeking to reduce it.

This article aims to reconstitute the factors that led to formulating such a hypothesis and then consider how they have been put to the test by economic crisis. To that end, we rely on a diachronic reading of social spending in Europe, which is usually defined by social protection expenditures but which we have also taken to include those for education. In other words, we have opted for a human development approach (Ranis et al. 2000).

### **A hypothesis formulated simultaneously within two highly different theoretical approaches**

In the late 1980s, the hypothesis of social spending as a growth engine was thus advanced in a context where the question of controlling public expenditures and social spending was already well established in macroeconomic debate. This hypothesis was singular in two respects. First of all, it reversed the most frequent terms of the political economy debate. But in addition, it was set out in two very different bodies of theoretical literature.

#### *Endogenous growth: the role of human capital and public expenditures in long-term self-sustained growth*

Endogenous growth theories improved the standard theory of growth (Solow 1956) in several respects: a theoretical representation of growth more consistent with international dynamics, as supported by the conditional end of constant returns to scale, and an endogenous technological advance made possible in particular by the ability to accumulate human capital, which is the qualitative component of labour.

In his model, Lucas (1988) bases his reasoning on a two-sector economy. In each period, the human capital stock is allocated to the production sector and the human capital production sector in the form of working time, along with the labour and capital factors. The proportion of human capital assigned to one or the other functions as a kind of investment rate for each person because the time devoted to human capital serves to increase future production. The marginal return in human capital production is positive. Over the long term, it is constant and therefore guarantees self-sustained growth. In addition, however, the returns of the human capital production system improve with time. Indeed, at every point in time, the knowledge transmitted is better than that of the earlier periods, which increases the productivity gaps between different generations. Even if the average level of human capital production is constant over time, the human capital stock might thus grow to the point of influencing the growth rate.

Lucas also insists on the fact that individual choices in the allocation of time between the

two sectors affect not only the individuals themselves but the economy as a whole because of the spread of human capital. This externality has no effect on the growth rate of human capital based on individual decisions, which is always positive. However, the scope of these external effects permits the justification of public funding for educational policy. In the end, for Lucas, the human capital growth rate determines economic growth over the long term.

Romer (1986) had already shown that human capital plays an essential role in the production of new ideas. He demonstrates that innovation increases the stock of knowledge and that this increase will have a beneficial effect not only for the company generating it but for the firms as a whole (positive externality), which will stimulate growth. As a result, in his view, even an occasional increase, and not a general one as in the case of Lucas, leads to an acceleration of the growth rate.

Endogenous growth theories permit a new understanding of the appropriateness of public policies, which are envisaged differently insofar as they involve subsidising the growth factors or internalising the externalities. Thus, the impact of public funding on growth will be even less negative because it will be obtained through a levy on factors that do not generate externalities, such as physical capital, where an increase in efficiency is systematically sought in order to finance, for example, education (Glomm and Ravikumar 1997).

*Régulation theory: in an unstable long-term accumulation process, increased social spending leads to structural change<sup>i</sup>*

Régulationist studies periodise structural changes in long-term growth by analysing its instability in terms of accumulation regimes (Labrousse and Michel 2017) and their crises (Aglietta 2000; Jessop and Sum 2016; Boyer 2015). Each accumulation regime is characterised by a historically contextualised arrangement of five institutional forms, or fundamental social relations: the *wage-labour nexus* (capital-labour relations), the *forms of competition*, the *financial/monetary regime*, the *relationship between state and economy* and the nature of *integration in the international regime*. The mode of *régulation* coordinates the linking of institutional forms through the production of regularities that ensure economic growth. By its very nature, this linking process is antagonistic because is intended to make largely incompatible economic decisions compatible within the accumulation regime. When the mode of *régulation* no longer allows the conflicts to be maintained, the economy plunges into a structural crisis during which its institutional architecture undergoes radical change.

In these studies, social spending appears first of all in research on the historical regimes of the development of wage labour, which is the dominant form of the wage-labour nexus (Boyer 2000). From the beginning of the 19th century to the Great Depression between the two World Wars, the rise of wage labour was considered competitive insofar as the buying and selling of labour power were determined by the fluctuating conditions of extensive accumulation, with employment level and wage rate functioning as adjustment variables. Wages constituted a cost to be permanently combated (Boyer 1979). After the end of the Second World War, a so-called monopolistic wage regime emerged owing to the decreased flexibility of the wage rate (Boyer 1979). The factors involved in the reproduction of labour power were integrated into the circuit of capital. This form of wage labour depended on the spread of a reproduction of labour power based on a norm of the broadest possible private commodity consumption and on collective consumption based on deferred wages



(healthcare and retirement pensions) (Aglietta 2000).

Within *régulation* theory, an early group of studies maintained that, in a critical phase, the spending attributed to the deferred wage contributed to decreasing the profitability of capital and as such, constituted an obstacle to accumulation (Mazier et al. 1999). The commodification of the public services covered by social spending was therefore considered as a possible solution to the sharp increase in such expenditures. But this was not the case (Billaudot et al. 1979; Moulier-Boutang 2011).

As a result, this initial interpretation has come to be modified by a more recent group of studies. The analysis of the historical pace of the rise in social spending led to the hypothesis that when this spending attains a certain level it can be considered an engine for long-term growth. This research shows that the increase in social spending is neither continuous nor proportionate to growth. Nor is it random. This has been demonstrated, in the French case, by a study of social spending over the long term, from 1850 to the present (Michel and Vallade 2007, 2010). Similar results have been observed empirically for other developed countries such as Germany (Diebolt 1997) or the UK (Carpentier 2003).

The evolution of social spending is marked by two salient features. First, all categories of these expenditures – education, health, retirement pensions – fluctuate in an identical way, with the same phases of accelerated and reduced growth. Second, their fluctuations in relation to the GDP are significant. Historically, they assume two different relationships to the long waves. From the mid-19th century to 1945, their growth is countercyclical. Each of their expansion phases corresponds to the long depression phases of the GDP (1873-1890 and 1928-1939). The justification for this expansion must therefore be sought in the causes of barriers to growth. The expenditures are funded by the devalorisation of over-accumulated capital (Marx 1894; Harvey 1982; Fontvieille 1999; Boccara 2013). After 1945, their fluctuations become procyclical, which signifies, beyond the sector-based contributions of each of these expenditures, their joint action within the mode of *régulation*. The synchronous fluctuations of all of these expenditures over the long-term economic cycle allows us to characterise them as human development. In fact, they constitute various solutions for social problems. However, the reversal of the direction of their fluctuations relative to the GDP after the Second World War also indicates a lasting change in accumulation, which now depends on social spending. This observation permits the hypothesis that social spending has become a growth engine.

Régulationist research explains the sharp rise in social spending by the fact that these collective services, including education, lead to a differentiation between individuals in the labour market. The standardisation of these expenditures by the public authorities then ensures the social cohesion of wage societies through a political process (Aglietta and Brender 1984; Amable 2017).

#### *Common points and differences within the shared hypothesis*

In their respective formulations of the hypothesis of social spending as a growth engine, the two theoretical approaches under consideration here manifest a number of common points. First of all, these expenditures are tied to the production of workforce quality as a factor for increasing the productivity of labour and capital. Second, time contributes to this production by improving the level of the initial stock before any general or targeted productive activity.

Social spending thus develops a principle of self-accumulation that can be apprehended in the quality of the population. Last of all, this accumulation process is analysed as a levy on the resources available for capital accumulation.

At the same time, certain differences must be singled out. Endogenous growth theories reason in terms of a time frame differentiated solely by the quality of the human capital stock in each period, while *régulation* theory associates time with an ability to generate structural change through long-term transformations of the accumulation regimes and their institutional architecture. In this context, social spending depends on two distinct time frames, that of the business cycle for questions of capital accumulation and distribution and that of the long waves for structural changes, which are defined in terms of accumulation regimes and modes of *régulation*.

### The rise of social spending in Europe

The empirical trajectory of social spending in the European countries has given rise to several theoretical interpretations.

#### *An empirical view*

**Table 1. Increased social spending in empirical terms**

Periods of social spending development		What kind of social spending ?	Causes	Pace (rhythm)
1880-1930 Very slow take-off [from 0.5 % to 2 % of GDP] (Lindert 2004)		From poor relief to education, emerging social risk	1. Ageing 2. GDP growth 3. Voice	Expansion during depression phase of the business cycle (stabilisers)
After WW II	Accelerated growth after WW II [from 10 % to 29 % of GDP] (Lindert 2004)	Broad-based	1. Voice 2. GDP growth 3. Quality of working population 4. Ageing	Mixed: permanence of business cycle fluctuations but with a changing structure over the long term: changing dynamics (large increases during economic growth) (Michel and Vallade 2010)
	Since the end of the 1980s: social spending in an in-between	Broad-based social spending still increasing	1. Ageing 2. GDP growth 3. Inequalities 4. Voice	Return of the single business cycle (Darby and Melitz 2008) but with the emerging notion of acyclicity (Arze del Granado et al. 2010; Afonso and Tovar Jalles 2013; D'Addio 2015)

**Source:** Author synthesis based on sources cited.

There is no consensus concerning the pace of increases in social spending insofar as it has long been associated with the business cycle in a counter-cyclical approach. These expenditures are then essentially conceived on the basis of income stabilisers in the Keynesian sense, which are made automatic by economic policies instituted in the European social model. Such an approach has been reinforced by studies over the long term, which bring out the fact that the dynamics tied to the business cycles are integrated into longer-term dynamics that are close to the long waves. Since the end of the 1980s – and thus during the extended depression phase of the present long wave – the business cycle is once again relevant for characterising the rhythm of social spending but this time, it is associated with fluctuations that are acyclical and not only counter-cyclical. Consequently, in the recent period, the long-term dynamics associating social spending with a possible structural change can be examined in terms of the transitions affecting shorter dynamics.

### *Theoretical views*

Insofar as social spending was initially introduced as an income correction vector during phases of economic hardship, the redistribution factor predominates when we consider the long term. And for this reason, debates over the relations between social spending and economic growth go back to the 19th century. Thus, Wagner (1883) maintained that increasingly sophisticated economic growth necessitated greater public expenditures in order to provide national economies with collective infrastructures and meet the population's needs for better-quality goods. The debates persist since that time and far from reaching any consensus, they continue to oppose different visions of the impact of the relationship between social spending and growth and the direction it takes.

#### ● **Social spending as a by-product of growth**

Key studies carried out in the mid 20th century have shown that the historical increase in public spending followed a particular model alternating periodic increases and ratchet effects (Peacock and Wiseman 1961). In order to explain this growth pattern, the authors advanced the hypothesis of a displacement effect whereby wars and economic crises would lead to accepting a higher tax level in order to finance the increase in new public expenditures needed to stimulate growth and then stabilise it. As a result, public spending was seen as a burden for economic growth. This ambivalence towards the impact of public spending on growth can be seen in Peacock and Wiseman's concept of 'limits to public expenditure' (1961) and, more recently, the search for the appropriate size of sustainable government (Flavin et al. 2014, Bakija et al. 2016). At all events, in this context, the structure of public spending is as important as its volume; historically, transfer expenditures have risen more quickly than all the other spending categories (Rowley and Tollison 1994).

More broadly, in the view of standard economists today, redistributive policies now result in net losses in terms of the community's well-being and/or a decline in growth which are accepted because of the lasting gains they are expected to promote in terms of equity. Population ageing (Nagarajan et al. 2017), the slowdown in the rise of per capita income for the lowest incomes (Dabla-Norris et al. 2015) and the increasing taxation and social competition associated with the present form of globalisation (Escudero and Lopez 2017) all



lead to an unsustainable rise in social costs and an increasingly inequitable distribution of expenditure. Consequently, the protection from economic instability provided by the social systems is no longer viewed as an adequate reason for postponing structural reforms in a system pressured by a public sector held to be ineffective (Karabarbounis and Neiman 2014).

- **Beyond social spending as a by-product of growth: alternative historical approaches**

Several historical interpretations have contradicted the idea that the development of social systems essentially constitutes a burden on economic growth. These studies bring out the cumulative nature of social spending and its low sensitivity to setbacks in the economic situation. In *Growing Public*, Lindert (2004) shows that social spending has zero cost for growth: over the long term, the costs of social transfers and the gains they permit are equivalent, making social spending a 'free lunch' for the community. Indeed, as costly as this spending may be for growth, it permits labour productivity gains (education, health, etc.) and provides social support for workers excluded from the production system (retirement pensions, unemployment compensation). Lindert also considers the development of social spending as the result of the increase in political participation. He identifies a 'Robin Hood paradox' illustrated by the fact that social spending had historically grown when wealth has increased the most (i.e.. industrial society) and where the political voice was most active.

*Régulation* theory has advanced another historical argument against 'limits to public expenditure' by showing that public spending on social development contributes to the dynamics of crisis recovery (Fontvieille 1990). In the developed countries, from the Industrial Revolution to 1945, each long period of economic depression coincided with the transfer of a share of overaccumulated capital to the funding of social spending through taxation or voluntary contributions, which thus helped to create a new growth regime. Following each of these long depression phases, increased social expenditures supported more complex social activities (healthcare, retirement pensions, education, family, etc.) that were integrated into the growth regime. Initially countercyclical, this relationship becomes procyclical after 1945. Such a reversal reflects the increasing autonomy of social spending in relation to growth, thus supporting the hypothesis of the transformation of these expenditures into a growth engine (Michel 1999).

These historical approaches show that the cost of social spending for growth does not suffice to account for the economic phenomenon it represents. Indeed, its cost must be considered in relation to the growth of productivity it permits, for labour and capital alike, as well as the new social arrangements it allows, whether within the employment sphere (education, healthcare, etc.) or outside of it (retirement pensions, unemployment). By highlighting the economic contribution of social spending, these approaches provide arguments against the decline of the redistribution system (Atkinson 2016) and the welfare state (Barr 1992; Barbier 2013) and in favour of social innovation (Nolan 2013).

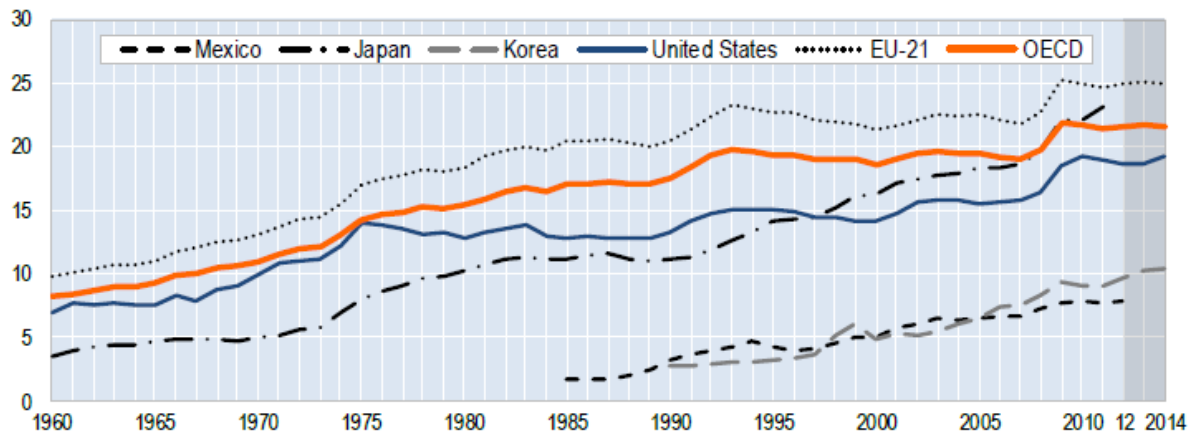
The historical analyses also single out the recurrences of social spending in the advanced economies and thus shed further light on its role in past growth regimes and the roles it could assume in the future. In this respect, these recurrences constitute a powerful incentive for debating the way social development influences the nature of growth.

## **European social spending today**

Since the hypothesis of social spending as a growth engine was formulated at the end of the 1980s, these expenditures have continued to grow, in all countries and economic areas, whatever the economic situation. And Europe is no exception.

### *Aggregate social spending*

Figure 1. Aggregate social spending in % of GDP



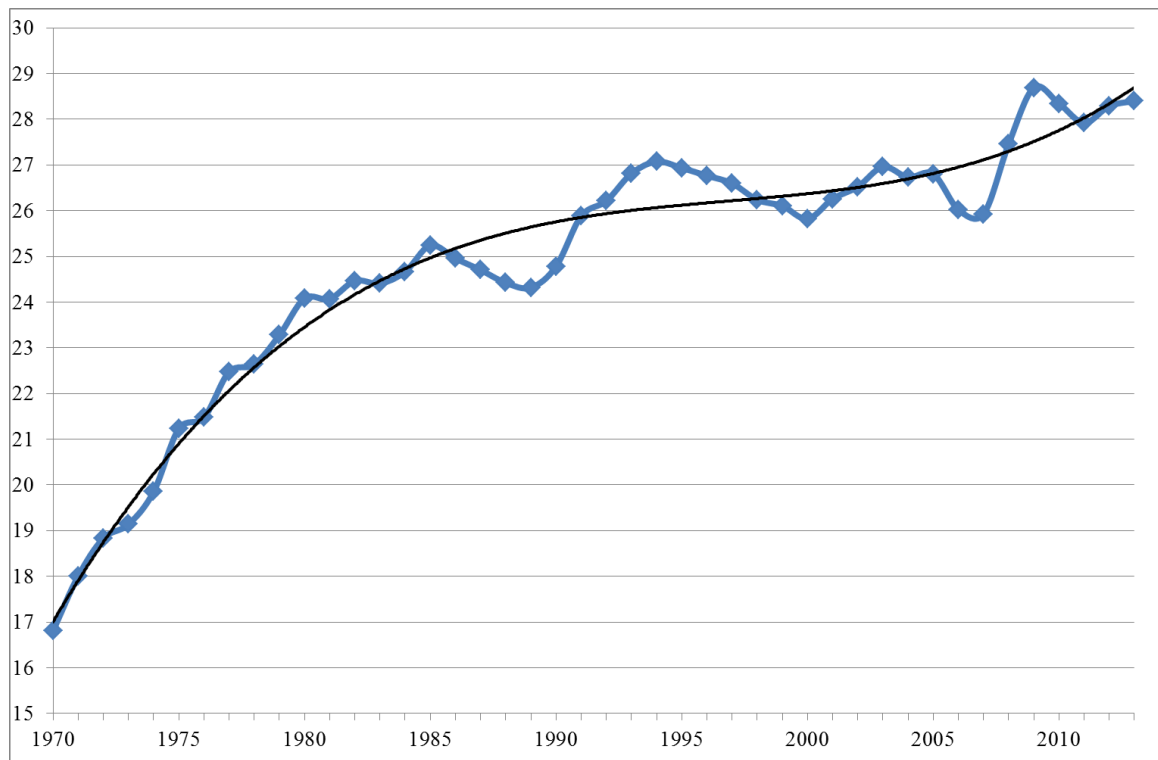
Source: OECD (2014): 2

In the EU-21, the evolution of the share of aggregate social protection expenditures alone indicates that the welfare state has expanded there during the past 50 years (Adema, Fron and Ladaïque 2011), whether the context is one of economic growth or one of crisis. During the structural crisis that emerged in the beginning of the 1970s, the European countries maintained the programmes set up in the 1960s. New programmes were subsequently added, including active employment policies and social policies targeting new publics or specific social risks such as retirement (because of the retirement of the post-World War II baby-boom generation [Monnier 2006]. The activation of automatic stabilisers in response to the 2007 financial crisis constituted a final cause of rising social expenditures.

As of the 1980s, the general trend towards increased social spending developed in successive stages. The persistence of ratchet effects following the depression phases of the business cycle contradicts the theoretical hypothesis of social spending as a growth engine.

For a more complete picture of social spending that is open to the conceptualisation of human development, it is necessary to add expenditures for education. The theoretical justification for this argument is based on the fact of not limiting the analysis to the types of economic policies sustained by social spending but rather, reversing the perspective by associating these expenditures with the population quality they produce.

Figure 2. EU-21 – Total social spending for human development 1970-2013 –  
% of market GDP –  $R^2 = 0.97$



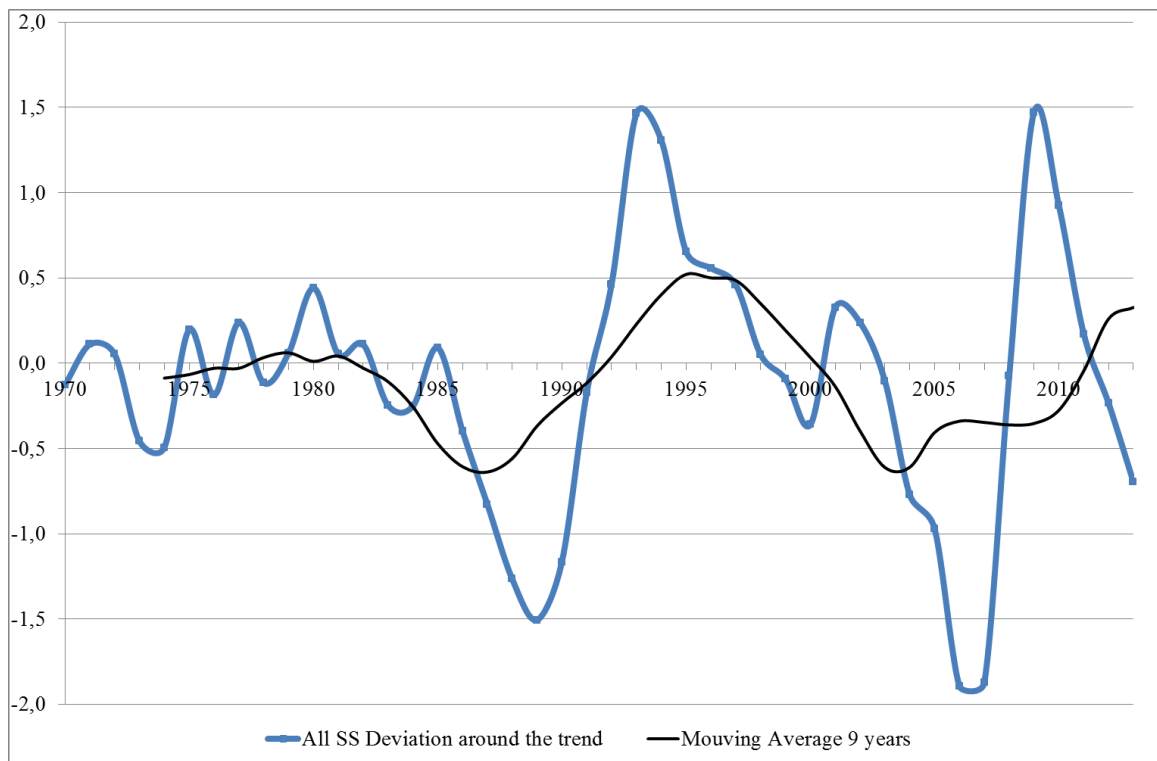
*Source:* Author, based on OECD SocX and the World Bank Education database

Careful attention must be paid to the data used. The time series presented in Figure 2 is derived from the merger of two series, both of which are reprocessed from the non-market GDP in order to control serial correlation biases.

- The market GDP was obtained from total GDP values less expenditures for social protection and education.
- Social protection expenditures are net values, corrected for taxation, drawn from the OECD SocX base (retrieved on 10 October 2017). Twenty-one EU countries are included but the data provided does not cover identical periods. Missing variables have been reconstituted from country-specific trends. In order to evaluate the quality of the data, the series obtained has been compared to that obtained by Eurostat. The trends converge, although some significant variations cannot be overlooked.
- For the same EU-21 countries, the education expenditures used are drawn from the World Bank database (retrieved 10 October 2017).

According to this definition of human development, the behaviour of aggregate social spending remains heavily marked by the business cycle. All the episodes of business cycle depression in Europe are represented. The hypothesis attributing the increase in the share of social spending within the GDP during the depressive phases to fluctuations of the GDP alone must be rejected (Bird 1972). On the contrary, social spending increases in real terms between 1989 and 1993 and between 2007 and 2009.

Figure 3. Total social spending as a percentage of market GDP 1970-2013 –  
Deviation around the trend



Source: Idem, processing by the author.

The periodisation of the business cycles brings out the following points:

- The crises in international oil prices during the 1973-1980 period. The rise in social spending is stable while the growth of the GDP declines.
- The crisis related to the extend of inflation, leading to the beginning of financial deregulation in the mid 1980s. There is a simultaneous slowdown in the growth of social spending and that of the GDP.
- With the bursting of the technology bubble in 2000-2004, the rise in social spending compensates for the slowdown in the growth of the GDP and its effects on household income but subsequently converge once again with that of the GDP.
- The 2007 financial crisis spurs an immediate rise in social spending, while the EU shows a negative GDP growth rate in 2008 and 2009. During the years that follow, both the GDP and social spending stagnate.

Fluctuations in social spending relative to the GDP can be cyclical, counter-cyclical or stabilised by ratchet effects. These findings do not support the hypothesis advanced at the end of the 1980s but rather, appear to indicate the sensitivity of aggregate social spending behaviour to the severity of the crisis, as expressed by a return to pure counter-cyclicity at the very end of the period. But the period observed also indicates that social spending might occasionally experience procyclical growth, which is contrary to the strict historical knowledge of their behaviour over business cycles.

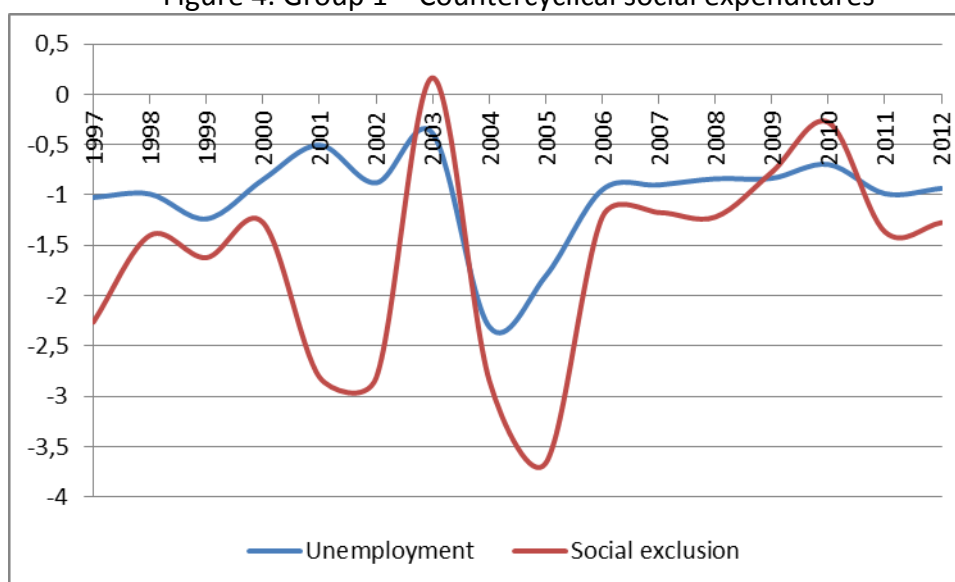
Consequently, if social spending does not seem to have become a growth engine, the fact remains that its overall contribution to growth does not strictly reproduce historical contingencies either. This in-between scenario calls for further investigation.

### *Sector-by-sector evolution of social spending*

In order to establish a typology of the fluctuations proper to the different social expenditures, we assume that each one represents a particular function. We calculate their respective trends and the deviation around this trend over time. The difference of the deviations between each sector's social expenditure is then divided by the deviation around the aggregate social spending trend, over time as well.

In the case of the short-term fluctuations, the sector-based social expenditures do not all show the same behaviours. Two groups can be distinguished. The first includes social expenditures that clearly function countercyclically, while the second escapes this countercyclicality and can be characterised by an acyclicity.

Figure 4. Group 1 – Countercyclical social expenditures



Source: Idem. Processing by the author.

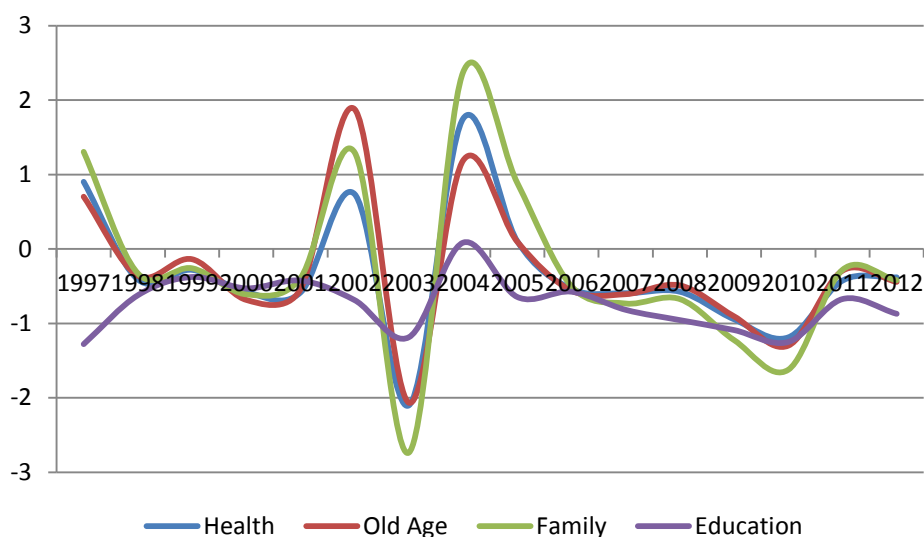
Figure 4 brings together social expenditures for protection against a risk of income loss tied to the economic context. They preserve their countercyclical nature by substituting, at least partially, public coverage of the loss of income related to economic developments. When these expenditures are considered in relation to the business cycle, they are immediate (i.e., either compensation for job loss or the struggle against social exclusion). Unemployment-related expenditures are engaged over increasingly short time periods, which underscores a choice in favour of labour-market mechanisms. There is nevertheless a gap between them, indicating that the second may well be substituted for the first once the cyclical peak is over. They are both likely to decline during cyclical upturns.

Historically, these expenditures are the closest to the welfare-related spending introduced throughout the 19th century. Institutionalised during the 20th century in response to business cycle risk, they support the overall demand function through the so-called automatic household income stabilisers. This function, which is inherently countercyclical, has persisted in the recent period. Today, these expenditures represent the long-term

stratification of income inequalities and the growing relative poverty in the EU countries.

A second group of social expenditures has also emerged however. Their behaviour is essentially acyclical in the sense that the effort in their favour is largely maintained across the different cycles.

Figure 5. Group 2 – Acyclical social expenditures



Source: Idem. Processing by the author.

These social expenditures operate over the long term in the sense that they have delayed effects. Education or health expenditures depend on a production apparatus – the education system or the health system – which is funded immediately, but the effects of these expenditures are accumulated by the individuals benefiting from them throughout their entire lifespans. Over the long term, these are the expenditures that sustain the post-World War II reversal (i.e., the shift from a countercyclical development of social spending relative to the long-term economic situation from the mid 19th century to 1945 to a procyclical development after that date. Their present relationship to the economic situation is characterised by a certain desynchronisation, brought out by their acyclical behaviour.

These social expenditures assist structural changes in the labour market, such as women's employment or the increasing qualification level of the workforce. They also reflect demographic changes, insofar as population ageing has led to the growth of spending for old-age care, which is the largest social expenditure category at European level.

In economic terms, these social expenditures are tied to the production of the quality of the population. Their increasingly acyclical nature attests to their insensitivity to the business-cycle fluctuations. This acyclicity probably indicates their growing importance in the efficiency of both labour and capital, through the productive combinations of these two factors. It can be connected with the many questions now being raised about the limitations of growth measurement indicators (Insee 2009; Jany-Catrice and Méda 2013). Thus, standard measures of the productivity of the labour factor, essentially based on time, are unable to reflect the productive effects of its quality. Present measures of capital performance are also relatively incapable of accounting for its growing efficiency in relation to the increase in the quality of labour. In addition, these expenditures integrate the quality



of social life as well, through spending on retirement pensions or family assistance, which are not included in standard measures of wealth creation.

### **Findings and conclusion**

Before assessing the hypothesis advanced in the late 1980s by both the theory of endogenous growth and *régulation* theory, namely that social spending can be a growth engine, it is necessary to recall that a certain degree of caution is required concerning the data. Much remains to be done in order to compare the available databases, which are generally designed by separating expenditures related to social protection, on the one hand, and education, on the other. In both cases, moreover, the country effects are often neglected despite the fact that welfare states, which are themselves always distinctive, emerge from the nations and their singular histories. The nature of national financing, whether public, private or mixed, also impacts the dynamics of funding in a given economic context, but this is not adequately taken into account by the international databases.

That said, the results obtained support a certain number of observations concerning the evolution of social spending over business cycles. Trends in the rise of social expenditures remain sensitive to business-cycle variations and countercyclicality is still the characteristic principle of the evolution during short-term economically adverse contexts. Social expenditures thus play their full role in income stabilisation through public transfer policies.

Since the 1980s, however, new trends have somewhat modified the historically accumulated findings on business cycles. First of all, while the countercyclicality of social expenditures during phases of business cycle slowdown is still confirmed, it now intervenes over shorter periods. More rapid cuts in income support programmes during crisis phases reflect faster recourse to the labour market to maintain the income of the populations and limit the time frame of the social effort.

Second, the emergence of the acyclical behaviour of certain social expenditures supports the hypothesis formulated in the late 1980s. Two of these expenditures, education and healthcare, are particularly insensitive to the fluctuations in activity manifested by the business cycle. On this point, the temporality of the business cycle converges with that of the long period. This convergence lends substance to the hypothesis advanced by the endogenous growth and *régulation* theories that social spending assumes an increasing role in economic growth and performance through the qualitative development of the labour force and thus also promotes this quality through better living standards. In the European countries, and in spite of considerable national differences, these expenditures remain far from a market regulation. Their organisation as a growth engine thus reflects the fact that they cannot be separated from the institutional arrangements permitting their organisation and the fact that they stem from the democratic vitality of the social compromises which have historically shaped them.

The hypothesis advanced at the end of the 1980s has not been completely verified in that social expenditures as a whole cannot be assimilated to a growth engine. It must be recognised nevertheless that some of them, in particular education and healthcare, support that hypothesis, as well as the fact that the growth of the advanced economies now depends on them. Consequently, the question of improvements in the efficiency of the institutional mechanisms through which these expenditures are organised and contribute to growth

remains part of debates on the ways social spending influences growth.

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*i* The French term *régulation* as used here does not refer to politico-legal ‘regulation’ in the English sense but rather, the ‘regularisation’ or ‘normalisation’ of economic activities through economic and extra-economic mechanisms (Jessop and Sum 2006: 4). Following the English translation of Robert Boyer and Yves Saillard’s overview, *Régulation Theory: The state of the art* (Boyer and Saillard 2002b), we have left *régulation* in French to indicate the original term.