

Social Protection Reforms in Europe: Strategies for a New Social Model

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By

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Foreword

In every society, there are four sources of well-being for citizens: market income, non-market care and support within the family, state-sponsored services and income transfers, and community services and supports. The roles and responsibilities of actors in markets, states, communities and families vary considerably from one country to another, and they can change over time. Certainly, all four sources of well-being have been transformed by economic, demographic, political and social trends both within and beyond Canada's borders in recent years.

During the 1940s, as government leaders looked ahead to the post-war period, they were convinced that fundamental changes would be needed to ensure that Canada would avoid another Depression and begin to create a better life for all Canadians. They therefore commissioned Leonard Marsh, a young McGill professor who was an advisor to the federal Committee on Post-War Reconstruction, to write a report on social security for Canada. Marsh had been educated in England and was influenced by William Beveridge, the architect of the British welfare regime. The *Marsh Report*, as we have come to call it, was published in 1943 and had a major impact on the design of Canada's social policies over the next three decades.

Since 1980, governments have tinkered with many of the policies put in place in the first two decades after the war. They have recognized the existence of new realities and tried to address them. But the underlying principles governing the roles for market, family, communities and state have not been thoroughly discussed since the years of the *Marsh Report*. Canada again, therefore, needs to go back to first principles. CPRN has commissioned the Social Architecture Papers, a series of nine research reports, all designed to undertake a serious look at these issues. Some research reports examine Canada's history and others look to the experience of neighbouring countries and jurisdictions. A final synthesis report will summarize what this research suggests for a basic social architecture that will maximize well-being for all Canadians in the 21st century.

The third Social Architecture Paper has been provided by Bruno Palier, a permanent Research Fellow of the Centre national de recherche scientifique (CNRS) in France and a researcher at Centre d'Étude de la Vie Politique Française (CEVIPOF) of the Fondation nationale des sciences politiques, Paris. By examining both the national level and that of the European Union, Palier provides a two-level analysis of the patterns of challenge and change in the many systems of social protection in Europe. He also considers in detail the politics of reform, including the strategies used within countries and those deployed within the institutions of the European Union so as to ensure a modernization of the European Social Model.

I want to thank Jane Jenson, who directs the Social Architecture Papers, those who provided peer reviews of this paper and the four members of the Advisory Team as well as the participants at a CPRN roundtable in October for their helpful comments and advice on the paper. We are also grateful for the funding provided by six federal departments and agencies, and three provincial ministries, listed at the back of this document.

All nine Social Architecture Papers will be released in the first six months of 2004, including a final synthesis report that will summarize the findings and propose the building blocks for a new social architecture for Canada. Stay tuned.

Judith Maxwell
January 2004

Executive Summary

Western European countries have their own “social model,” one that differentiates them from other industrialized countries. Established during the boom period after 1945, this social model included full employment and Keynesian policies to stimulate demand, as well as welfare and social rights. However, all Western European countries also adapted this framework by introducing policy compromises, approaches and institutions for social protection tailored to their own needs and contexts. Consequently, the European social model can be subdivided into four types or regimes: British, Nordic, Continental and Mediterranean. Since the middle of the 1970s, this model has been in crisis and much reformed. Some people even suggest that a new social model for Europe is needed. Since the late 1990s, the institutions of the European Union, in particular, have been working to build the foundations of a new model.

The objective of this research report is to isolate the major trends that are reshaping social policies (that is, the search for a new social model) as well as policy methods and concrete reform processes (that is, national strategies). It documents the changes in European social policy in two steps.

First, it focuses on national-level policy changes, describing reforms driven by both institutional constraints and policy choices. Despite differences across countries, this section reveals a broad trend of a growing orientation of policies towards fostering employment and focused on the supply-side. The section also analyzes the policy strategies used to achieve these complex reforms. Second, the paper examines actions by the European Union, in particular the role of European institutions and their contributions to the new social model, as well as the consensus-building strategies employed to co-ordinate movement towards this new model.

Institutional Constraints and Policy Choices

Inherited differences among regimes are a major constraint on present actions. Diversity among systems of social protection exists in both the problems each country faces and the solutions selected. Not all options are open; each country is obliged to work with existing institutions.

In most cases, the reforms carried out over the last twenty years have reinforced the logic of each regime. By further commodifying their social policies, liberal welfare regimes have become even more liberal and even more residual. Thanks to the egalitarian distribution of reductions in benefits (a reduction of 10 percent for all benefits) and the revival of a “work orientation,” social democratic welfare regimes have managed to retain their egalitarian approach to social protection. Most continental welfare regimes remain unchanged, not only because the handful of measures that have been undertaken reinforce their existing characteristics, but also – and primarily – because they have been unable to implement significant reform.

Such observations of stability and reinforcement teach that it is foolhardy to try to introduce a policy “as is” into another institutional context. They also highlight the impossibility of designing a single, universal solution to current challenges. There is no “one best way” to reform social architecture.

Despite this, however, it would also be a mistake to only emphasize the mechanisms of institutional inertia, while neglecting reforms that are *actually* occurring. A detailed analysis of recent reforms in Europe reveals that, notwithstanding differences in their approaches, the measures adopted share important *common trends*: to make social policies more employment-oriented and to institute supply-side social policy instruments. There is, then, the potential for a new, shared approach to social policy in Europe.

Whatever the regime, its survival depends on preserving or returning to high levels of employment. The result is that the objective of reforms has gradually changed, focusing on *both* increasing the employment rate and decreasing the unemployment rate. Three main sets of reforms have been undertaken: (i) changes in funding; (ii) introduction of conditions for training (or for other occupationally related activities) in return for benefits; and (iii) increased public services designed to increase women's labour force participation.

Efforts to implement reform bring political challenges. In its efforts to successfully implement this new social policy orientation, each government has had its own particular room to manoeuvre. In spite of economic and demographic pressures, in spite of the fact that the past weighs heavily on efforts to introduce reforms, and in spite of the dearth of readily available solutions, some governments have been able to develop and implement coherent policy strategies to reform social policy.

In order to explicate the political prerequisites for a legitimate reconceptualization of the national social contract, this research report reviews the political processes involved in basic structural reforms in several countries. These include the transformation of Southern Europe's health care systems, the reform of pension systems in Italy and Sweden, social pacts employed as part of the framework for introducing the single currency, and the "national miracle" involving the reform of wage policies, social protection and the labour market in the Netherlands.

Comparison of reform efforts reveals the political prerequisites for successful transformation of social protection systems: involving all stakeholders; seeking consensus on the diagnosis, principles and objectives of reform; negotiating; developing the basis for a political trade-off on reform among the various actors; developing a public and explicit discourse to justify the reform; developing a global and integrated strategy on areas of intervention (particularly wage policy, social policy and labour market policy); and transforming but not reducing benefits. By contrast, where there was no overall coherence and no strategy to clarify and justify their objectives, reform has resulted in an undisciplined transformation of the system, and often in a worsening of the social circumstances of their citizens (as is the case of France and Germany).

The Growing Role of the European Union

The research report focuses on the European Union in order to assess a quasi-federal relationship in social policy redesign. In order to understand the social architecture of European countries today, it is absolutely necessary to pay attention to the European Union's activities and institutions. The European Union has become increasingly active in social policy in the last years, in large part to fill a growing gap between European-level economic policies and national-level social policies. Despite the lack of clear constitutional responsibility for social policy, from

now on it is at the European level that any new social model will be designed. Institutions for coordinating national policies and for fostering a back-and-forth interaction among European and national institutions and actors are constructing a new mode of governance for social policy regimes.

Since the mid-1990s, the major governing bodies of the European Union – the European Commission, the European Court of Justice, and the European Council – have adopted positions on the “reforms required” in the fields of pensions, health and, most importantly, employment policy (including the links to family policy via guarantees of gender equality and work-family balance). These actions are unintended consequences, or spill-over, from the institutionalization of the Single Market and the European Monetary Union (EMU). The new economic institutions drastically reduced the room for manoeuvre that had previously been available to Member State governments via their control over exchange rates, interest rates, and public spending, as well as policies affecting prices. They therefore created challenges to national-level social policy practices.

In the 1980s, the dynamics of construction of the European economy had resulted in pressures for neo-liberal social policy redesign. In the 1990s, however, a number of actors more attentive to the social consequences of economic adjustments – left-wing governments in particular as well as unions and other non-governmental organizations – sought better control over social policy reform in order to modernize the European social model. European institutions have tried in recent years to influence the vision and discourse on social policy redesign rather than attempting to impose any particular changes on national governments.

Moves towards a common European framework for social policy, now termed the Open Method of Co-ordination (OMC), provide a novel form of intervention governance. Rather than seeking to “harmonize” legislation or programs, the goal is to harmonize ideas, knowledge and norms of action, so that policies will converge towards a common political vision. Therefore, the main task of the European institutions is to work at the elaboration of a common vision for social policy, that is, a new European social model, and ensure this vision is shared by all Member States and informs the benchmarks used. The aim of the OMC is “to organise a learning process about how to cope with the common challenges of the global economy in a co-ordinated way while also respecting national diversity.”

For the European Union, promoting quality in employment and social policy is a key element in reaching the goals of building more and better jobs, creating a competitive and cohesive knowledge-based economy, and ensuring a positive mutual interaction among economic, employment and social policies. As such, quality goes hand in hand with improving efficiency, especially as far as public finances and labour market incentives are concerned. For the European Union, social policies are not simply an outcome of good economic performance and policies but are at the same time an input and a framework. Hence the pursuit of more and better employment and higher levels of economic performance cannot be separated from the overall aims of the modernization of the European Social model.

Conclusion

By the end of the 1990s, there was increasing evidence that social policy reforms were driven by a desire to redesign social spending patterns and not simply to cut them back. Despite the diversity of the reforms and the processes leading to them, the reform objectives (more than their outcomes) exhibited several common trends. In the various European countries, they reflected an attempt to adapt welfare regimes to new macro-economic norms, putting more emphasis on the market and sound public finances, employment, and so on.

In the area of old-age pensions, and despite using different paths to get there, most European countries are now developing a multi-pillar system, one that combines pay-as-you-go and fully-funded methods with a tight link between the level of pension payment and the amount of the contribution made. In health care systems, the introduction of managed competition seems to be spreading to all national health systems; it has also penetrated health insurance systems through competition among insurers. Employment policies founded on the concept of activation are widely shared despite big differences in the ways policies are implemented.

This picture, although very general, provides an opportunity to see the emergence of new concerns and the foundations for a redesigned social architecture. Nowadays, all national European governments, as well as the European Union, seem to recognize that social policy must be compatible with achieving international competitiveness. It should also be “employment friendly,” reducing costs (especially non-wage costs) and offering benefits that are incentives to take up employment.

One might argue that these challenges and shifts are due more to “globalization” than to European integration per se. However, it is within the European single market that European firms and states have encountered increased economic competition. It is also under pressure from the criteria of the European Monetary Union that many countries have changed their social policies. The search for new solutions has become, in this way, central in the European agenda, which is now able to call the tune for national social policy reforms.

Social Protection Reforms in Europe: Strategies for a New Social Model

Western European countries have their own “social model,” one that differentiates them from other industrialized countries. Established during the boom period after 1945, the foundations of the European social model were shared. The model included the pursuit of full employment and Keynesian policies to stimulate demand and guaranteed social welfare and social rights. However, all Western European countries also adapted this framework by introducing their own policy compromises, approaches and institutions for social protection, tailored to their own needs and context. Consequently, the European social model can be subdivided into four types, or regimes: British, Nordic, Continental and Mediterranean.

Since the middle of the 1970s, the general model has been in crisis and much reformed. Some people even suggest a new social model for Europe is needed. Since the late 1990s, the institutions of the European Union in particular have been trying to build the foundations of a new model. The objective of this research report is not to describe the reform of European employment policies and social protection policies in detail. Rather, it seeks to isolate the major trends that are re-shaping social policies (that is, the search for a new social model) as well as policy methods and concrete reform processes (that is, national strategies).

We will document the changes that have occurred in social policy in Europe in two steps. Section one focuses on *national-level* policy changes, describing reform being driven by both institutional constraints and policy choices. This section shows that beyond remaining differences due to their institutional arrangements, there is a broad trend that distinguishes recent policies, namely, a growing orientation towards employment and the supply-side. The section also analyzes the policy strategies that have succeeded in getting complex reforms adopted. The second section presents *European-level* action. It considers the role of the institutions of the European Union, the EU’s contribution to the new social model, and the consensus-building strategies employed in attempting to steer Member States towards this new model.

1.0 Institutional Constraints and Policy Choices

In order to understand changes in Europe's national systems of social protection, we must first sketch the basic features of the "European social model," both the shared foundation and the policies that differentiate the four basic types. In essence, past differences weigh heavily on recent changes to social policy; the inherited differences among regimes are a major constraint on present actions. Differences among systems of social protection exist both in the problems each country faces and in the solutions selected. Not all options are possible, because each country is obliged to work with already existing institutions.

In its efforts to successfully implement this new social policy orientation, each government has had its own particular room to manoeuvre. In spite of economic and demographic pressures, in spite of the fact that the past weighs heavily on efforts to introduce reforms, and in spite of the dearth of readily available solutions, some governments have been able to develop and implement coherent policy strategies to reform social policy.

Beyond the differences, moreover, we can isolate an important common trend in Europe's social protection reforms: making social protection more employment oriented and instituting supply-side social policy instruments. In this common trend, there is the potential for a new, and again shared approach to social policy in Europe.

1.1 Past Social Protection Regimes Weigh Heavily on Reform

Any social protection system is significantly more than several separate government programs designed to deal with specific social problems, such as poverty, care for dependent persons, ensuring adequate retirement income, etc. It is also the expression of overarching normative concepts that define the desired social objectives, the economic functions of social policy and the appropriate role of the state. To use an architectural metaphor, the edifice of social protection is based on an overall blueprint, and that gives it coherence. We can call this blueprint the social protection paradigm. Social protection paradigms that have been developed in Europe have two principle features: (i) they are all founded on similar fundamental social and economic principles, and (ii) they follow policy principles and compromises specific to their particular system.

The Common Foundation: Pursuit of Full Employment through Demand-side Stimulation; Social Rights; and Protection from the Laws of the Market

European systems of social protection grew considerably between 1945-1975, the years of post-war boom. Economic and social policies were oriented toward achieving full employment. If in the beginning serious shortages in labour and the need to rebuild countries devastated by the war brought full employment, in later decades social policies became one of the instruments for maintaining full employment. They created jobs (within the health care and social protection systems), they allowed those who could no longer work due to sickness, unemployment, age or disability sufficient income to be consumers, they maintained demand (through an increase in social security benefits and job creation in social services provided by governments). Economic

growth in the 1945-1975 period was based largely on a virtuous circle of industrial development, mass consumption and the widespread implementation of social protection.

While social policies underpinned economic growth, economic growth (and especially the major productivity gains in the industrial sector) in turn generated the resources for unprecedented expansion of social policies.¹ Social transfer payments stemming from social policies guaranteed social rights to European citizens, without making their well-being dependent on their labour force status alone. In the 1940s, Karl Polanyi (1944) identified a principle that all social protection systems had in common: they helped to liberate individuals from the laws of the market, both by striving for full employment and by guaranteeing a replacement income should it be needed. As a response to industrialization, and to the development of market economy, many countries introduced collective interventions that had the effect of allowing people to free themselves from the laws of the market, especially the labour market. Gøsta Esping-Andersen describes social protection systems as “decommodifying” individuals: “The outstanding criterion for social rights must be the degree to which they permit people to make their living standards independent of pure market forces. It is in this sense that social rights diminish citizens’ status as ‘commodities’” (Esping-Andersen: 1990: 3).

Different Political Approaches to Social Protection

Despite this commonality, every social protection system has a greater or lesser capacity to provide people with replacement income and a measure of independence from market forces. This capacity depends on the specific role, principles and objectives assigned to social protection. All welfare states shared a common objective, that of making individual welfare as independent of the laws of the market as possible. However, each country developed its own specific political approach to social protection. The visions may be differentiated on the basis of (i) the role that the state plays, together with other sources of welfare, that is the other components of the “welfare diamond,” composed of the family, the market and community; (ii) collective objectives, expressed in terms of the specific social welfare circumstances of its citizens; (iii) the family model and the gender relationships it promotes; (iv) the desire to transform social stratification, and (v) the political ideologies underlying each approach.

In *The Three Worlds of Welfare Capitalism*, Gøsta Esping-Andersen argued that social protection systems could be divided into three major families or regimes: the social democratic regime in Nordic countries, the liberal regime in English-speaking countries and Canada, and the conservative-corporatist regime in the countries of continental Europe. These regimes are differentiated on the basis of (a) the political and social objectives they seek (respectively: equality for their citizens, a single social security protection for the very poor, income maintenance for workers), and (b) the methods they use to attain these objectives (respectively: universal policies and free social services, targeted social policies, and social insurance financed by payroll taxes).

¹ In Western Europe, statutory public expenditures for social insurance alone increased on average from 9.3 percent of the Gross Domestic Product (GDP) in 1950 to 19.2 percent in 1974 (Flora, 1986: xxii), with social expenditures (understood in the broad sense, including expenditures for housing and education) increasing from 10 to 20 percent of the GDP to more than a quarter – or even a third – of GDP, depending on the country. Social expenditures accounted for nearly all increases in government expenditure during these years.

Since the late 1980s, reforms of Europe's social protection systems have increased exponentially, and observation reveals that each exhibited an overall logic as well as institutional arrangements that create constraints at least as important as economic, demographic or technological changes.

The "Crisis of the Welfare State" Varies Across Regime Type

The economic environment in Europe – and indeed around the world – has changed over the last thirty years. These changes include:

- More open economies, increased cost competition among firms, particularly over salary costs, and fiscal competition among states.
- Shifts in the international division of labour, pushing developed economies toward post-industrialism and an expanding service sector.
- More flexible ways of producing and organizing work, bringing with it non-standard work.

There have been shifts in social trends as well. These include:

- A challenge to the traditional male-breadwinner family. There are now a variety of family models, including an increase in lone-parent families.
- An influx of women onto the labour market.
- Population ageing due to an increase in life expectancy and a decline in the birth rate.

These changes call for new social policies to allow society to adapt to the new lifestyles and to the transformations in social risk, while limiting or even reducing the fiscal burden and economic cost.

While the various social protection systems exhibit somewhat similar trends, methods are regime-specific, in large part because each regime confronts its own challenges, indeed the impact of the new (more open) economic environment on the labour market varies according to the social protection regime. Existing institutional arrangements determine both the kinds of problems that will arise and how solutions to these problems will be identified.

Each social protection system has different vulnerabilities, in particular for maintaining employment (Scharpf and Schmidt, 2000). In the service sector, the vulnerability to globalization for the low-skill labour market depends both on whether jobs are in the private or public sector and on the methods of funding social expenditures. Comparison included in *Welfare and Work in the Open Economy* reveals that English-speaking countries are less vulnerable, because their low-skilled jobs are in the private sector, and social expenditures are low, and thus taxes and contributions do not place a strain on labour costs. In the Nordic countries these jobs are in the public sector and financed by taxes, but they are also less vulnerable inasmuch as countries have made collective choices to pay high taxes and have thereby protected such jobs (held primarily by women) from international competition. The countries that are the most vulnerable are those where employment (especially personal services) is either underdeveloped or concentrated in the

private sector, and where social expenditures are funded through payroll taxes, which put a strain on labour costs. This is the situation in continental Europe.

In the area of social policy, too, we can differentiate what is at stake based on the institutional arrangements of the various social protection systems of Europe. In Great Britain, the basic challenge was two-fold: (i) to reduce the costs of social policy (so as to reduce government deficits and taxation), and (ii) to increase the system's efficiency (especially to shorten the queues in the National Health Service and to decrease work disincentives). These problems stem from an institutional characteristic of the British system: social expenditures have direct effects on the government's budget because they are funded by taxes and distributed as public services. The country's sizeable income support benefits account for the growing rhetoric about recipients' "culture of dependency" and concerns with work disincentives. For example, income support benefits are said to provide the poorest individuals with "something for nothing," in contrast to benefits provided to individuals who have been contributors to the system, or compared to benefits available to all citizens.

The Nordic countries, with small national economies open to international economic competition, were particularly affected by changes in the international economic environment. In the late 1980s and early 1990s, they experienced marked increases in unemployment and interest rates, and these challenged their commitments to full employment.

In the social protection regimes of continental Europe (including Southern Europe), two main problems emerged: the presumed impact of payroll taxes on labour costs (which supposedly strained firms' competitiveness and created a barrier to hiring new employees); and the exclusion of more and more people from social insurance. In a system in which access to social rights is based on employment, exclusion from the labour market reinforces exclusion from the social protection system. These two types of problems stem from the institutional characteristics of continental social protection systems, that is the importance of funding through payroll taxes and social rights acquired through work.

The Changes that Occur Vary According to the Regime

If the challenges vary, then so too do the solutions, each of which depends on the particular social protection system. We can identify three approaches to reform, with each reflecting the distinctive historical and institutional challenges of a particular social protection regime.²

In Great Britain, the policies implemented included: (i) increasing the role of the market in social protection (health and pensions); (ii) developing policies that targeted the most disadvantaged and the most "deserving" individuals; (iii) reinforcing workfare measures, and (iv) promoting labour market flexibility. All of these policies simply reinforced the social protection

² In 1996, Esping-Andersen was already pointing out that welfare regimes were responding differently to the challenges raised by globalization (Esping-Andersen, 1996). Paul Pierson argues that one type of social protection reform dominates each regime: in liberal regimes reform is based on recommodification; in social democratic regimes reform is based on cost-containment; and in continental systems, reform is based on recalibration, which adjusts social programs to the new risks and needs (Pierson, 2001: Conclusion).

system's residual and liberal characteristics, not to mention the social control and repressive features of policies directed towards the poor.

The Nordic countries first sought to maintain full employment, introducing policies in which the state intervened as the employer of first resort. They provided sabbatical leaves (for training, taking care of children or others; these leaves were paid if they led to an unemployed person being hired), new training opportunities and greater public sector employment. However, in the early 1990s these countries were obliged to come to terms with the costs and government deficits associated with full-employment policies. Consequently, they (and especially Sweden) designed policies to privatize, decentralize and de-bureaucratize certain services as well as to reduce social expenditures, such as restricting the eligibility criteria for benefits and lowering benefit and service levels.

Accompanying across-the-board cuts in their social expenditures, these countries tried establish the underpinnings of a "working society," especially with their employment policies. They placed new emphasis on the "activation" potential of social expenditures. By the end of the 1990s, the Nordic countries had returned to very low levels of unemployment and high employment rates, while generally observing conservative budget practices. Though their taxes are very high, their populations accept them in exchange for evidence that everyone works, is helping to finance social expenditures and is also receiving generous benefits.

In continental Europe, changes were rare, they came later than elsewhere and were more limited in scope. Yet for the most part these changes, too, exemplify the logic of the continental systems. Throughout the 1990s, pension reform in France and Germany primarily involved changing methods for calculating pensions, rather than changing the logic of their respective systems. Similarly, measures taken in France and Germany to control health costs remained within the framework of the institutions providing health insurance. Indeed, in 1995 Germany exhibited continuing confidence in its approach to social protection by creating a new social insurance scheme for long-term care, with a design in keeping with other parts of the German social protection system.

Very often, however, policies introduced in these countries to deal with their problems have worsened the situation. For example, in social protection systems based on social insurance, the approach chosen to deal with the unemployment problem has often been "labour shedding," which includes encouraging women to be homemakers without attachment to the labour force, young people to delay their entry into the labour market by extending their studies, and older workers to take early retirement, disability leave or extended sick leave. Germany applied this approach extensively, using early retirement (funded through the system of unemployment insurance) and extended sick leave; France took a similar road, using various forms of early retirement and lowering the legal age for retirement to 60 years of age. This was also the approach chosen by the Netherlands, through a disability system that had accepted de facto the responsibility for many of the country's unemployed. One result of such policies was a reduction in the workforce (which finances the growing social expenditures) and therefore less people paying into general taxation while the smaller workforce required higher payroll taxes, which then discouraged job creation. Overall, the continental systems of social protection have

had the greatest difficulty adapting to the new social and economic conditions, are least suited to meeting new challenges, and are the least capable of implementing the required reforms.

The most recent comparative studies³ all conclude that the reforms carried out in Europe over the last 20 years have not altered the basic nature of the systems. Rather, reforms have reinforced the logic built into each system. By commodifying their social policies, liberal regimes have become even more liberal and even more residual. Thanks to the egalitarian distribution of reductions in benefits (a reduction of 10 percent for all benefits) and the revival of the notion of a “working society,” social democratic regimes have returned to their traditional approach to social protection. If most continental regimes are the least changed, it is not only because the handful of measures that have been undertaken reinforce their existing characteristics but also – and primarily – because they have lacked the capacity to implement significant reform.

These comparisons teach several lessons, then. One is that any effort to introduce a policy “as is” into a new institutional context is foolhardy. Another is that it would be equally misguided to attempt to design a single, global solution to the problems encountered by social protection systems. There is no “one best way” in the world of social protection reform.

Such observations might lead us to conclude that any comparison among different social protection systems is of questionable value. This is not our position, however. Without disputing that there are continuities within regime types and differences across types, we also argue that many studies place excessive emphasis on the mechanisms of institutional inertia, while neglecting aspects of change that are *actually* occurring. A more general analysis of recent reforms reveals that, notwithstanding differences in the details of their design, the measures adopted in Europe reveal important *common trends*.

1.2 From Decommodification to Activation: In Search of the New Underlying Logic of the Welfare State

A comparison of the reforms implemented in a number of European countries reveals common trends. In the decade from 1990 to 2000, social policies previously formulated in Keynesian terms were adjusted to a new economic framework characterized by the domination of neo-classical, supply-side policies and conservative budget practices. Beginning in the late 1970s, new economic conditions altered the operation of social protection mechanisms and convinced many governments that they should reconsider their social policies. Out of this process have come two general trends that characterize all the policies implemented in the European countries: (i) the desire to limit government social expenditures and to redefine the role of the state, and (ii) the re-alignment of social programs with the circumstances of the labour market.

³ In addition to the studies cited previously, see also: Ferrera and Rhodes (2000); Huber and Stephens (2001); Leibfried (2001); Sykes, Palier, and Prior (2001); Taylor-Gooby (2001); Daniel and Palier (2001); Palier and Viossat (2001); Ebbinghaus and Manow (2001); Swank (2001); Wilensky (2002).

Limiting Growth in Spending and the Role of the State: The Era of Retrenchment

Whereas from the 1950s to the 1970s, social protection policies extended and increased social security coverage, the late 1980s and the 1990s were characterized by reductions in the levels of social spending. *These changes marked a transformation in the economic role of social protection, a change in the way the state's role was formulated and the end of Keynesian compromises between the economic sphere and the social sphere.*

The 1970s brought increased demand for social assistance, due in part to the economic downturn; the latter in turn reduced tax revenues and payroll taxes. The deficits created by this drift toward higher expenditures and lower revenues became a central problem for governments, challenging among other things their macro-economic analysis. New macro-economic policies gradually became the norm in Europe, placing the emphasis on budgetary rigour, wage restraint, monetarism and corporate competitiveness. There was a growing demand for the role of the state to be downgraded, since it was perceived as too costly and inefficient, and for a reallocation of social responsibilities towards other social forces, such as the market, the family or community associations.⁴

The state's role and economic objectives were modified. Full employment was no longer a direct objective of macro-economic policy. It was conceived instead as the future payoff of a virtuous chain of events triggered by the new policies. This chain of events included: a slowdown in price and wage increases; gains in competitiveness and productivity; a rise in corporate profit margins and in value-added not redistributed in wages; investment and job creation. An expression often used in the 1980s – “today's profits will be tomorrow's investments, which will create the jobs for the day after tomorrow” – captures the idea that battling unemployment had become of secondary importance in the state's economic policy objectives. Government spending, and in particular spending on social programs was less important than private investments that were supposed to create jobs. In this macro-economic thinking, social policies no longer played a central role in ensuring economic well-being.⁵ In this view, social expenditures had become *a cost rather than a stimulator* of economic growth or a promoter of political and social stability.

Given this new attitude, cost reduction became a priority for most European governments, beginning in Margaret Thatcher's United Kingdom (Pierson, 1994). Since then, comparative studies⁶ have demonstrated that, beyond the institutional differences and diverse social policies applied in various European countries over the last fifteen years, all have used the same methods to cut back the Welfare State, including:

⁴ These adjustments in macro-economic thinking were driven by several disastrous efforts to apply Keynesianism. The experience of France loomed large. Two attempts at economic recovery based on increases in social security benefits, tried in 1974-1975 and 1981-1982, did not have the results predicted by Keynesian theory. To be sure, they boosted consumption, but primarily consumption of imported goods, and thus did not generate a national economic upturn nor increase tax receipts. The result was that government deficits worsened, the trade balance deteriorated, there was an exodus of capital and exchange rates worsened. To attack these problems, the French *franc* was devaluated several times and taxes increased. However, both greater inflation and unemployment accompanied these measures, generating “stagflation.”

⁵ See especially OECD (1981); Hecló (1981: 383-406).

⁶ See George and Taylor-Gooby (1996: especially Chapter 1).

- Restricting eligibility for benefits. The unemployed and disabled have been particularly affected by these restrictions.
- Using targeted benefits instead of universal benefits. Such targeting is advocated as a way to reduce expenditures and, theoretically, ensure better redistribution to the neediest individuals.
- Reducing the benefit level. This can involve changing methods for indexing cash benefits, changing methods of calculating pensions (length of payment, baseline reference year), or toughening criteria for establishing levels of disability.
- Increasing (or introducing) user fees for services, particularly in health services. This often involves introducing a lump sum fee as a “deterrent fee.”
- Developing private services and insurance. Fiscal incentives have been set up to encourage people to take out private insurance, to make the transition towards partial or even total private protection, especially in the fields of health and pensions.
- Introducing management methods used in the private sector so as to control the volume of expenses incurred by public agencies. In particular, this involves limiting annual budgets and delegating financial responsibility and autonomy to institutions such as schools and hospitals.
- Shedding governmental responsibility in the area of social protection, downloading towards families and civil society.
- Reducing or stabilizing wages paid to public servants. This generates significant economies in sectors where most of the costs are payroll costs (schools, hospitals, social services).
- Establishing non-state agencies and transfers to businesses. Countries in which social protection services are subject to significant state control have occasionally transferred some of the administrative and financial responsibilities for social protection to non-state agencies. In other cases, responsibility for the funding and management of certain social security benefits (such as absences due to sickness or maternity leave) has been transferred to the employer.

While the primary objective of these shifts was to reduce social expenditures,⁷ they also affected overall approaches to social protection in two ways. First, to the extent that they frequently reduced public spending, they had an impact on the division of responsibilities among the state, the family, the market and civil society (the “welfare diamond”). In most cases, this involved the partial privatization of social protection functions. Second, retrenchment indicated that social spending was no longer seen as an underpinning of economic growth, but as a cost factor that needed to be reduced. Retrenchment signaled the end of Keynesian compromise, thereby setting the stage for finding a new economic role for social protection.

⁷ This objective was in part met. Following a rise in the early 1990s that was linked to the economic recession in Europe, social expenditures stabilized in most European countries, although they often increased again in the early 2000s.

It would be a mistake, however, to assume that these two changes have ushered in an out-right dismantling of European welfare regimes. Radical neo-liberalism was not on the agenda, and institutional and political resistance reflected the attachment of Europeans to their “social model.” This opposition has brought a kind of reform that focuses on being “employment friendly.” In this way social policy is again seen to have a constructive economic function.

The Emphasis on Employment in Social Protection Reform⁸

Whatever the social protection system, maintaining it has seemed to depend on preserving or returning to high levels of employment. The result is that the objective of social protection reforms gradually changed, focusing *both* on increasing the employment rate and decreasing the unemployment rate.⁹

Three main sets of reforms – all giving priority to employment – were undertaken: (i) reforms in the way social protection was funded; (ii) the introduction of stricter conditions for training (or other occupationally related activities) in return for benefits, and (iii) increased public services designed to increase the rate of women’s labour force participation.

The first set of reforms involved funding forms, because of the belief that the predominant method used in continental Europe – based on payment of payroll taxes – penalized employment. Consequently, several countries moved to funding from general revenues or taxation, thereby broadening the funding base. These methods were employed in France, which in 1991 introduced a new form of social protection funding, the General Social Contribution (*Contribution sociale généralisée*, or CSG). Germany too focused on the burden of payroll taxes, while in 1998, creating a new type of ecological tax, levied on polluting activities and earmarked for social expenditures.

The second set of reforms of European social policy involved the introduction of stricter controls on training (or other occupationally related activities) requirements in return for benefits. These involved, among other things, setting out new requirements for training or job searches for recipients of unemployment insurance or social assistance. Policies of this type are found in all social protection systems.

The Nordic countries, for their part, sought to recapture the basic aim of a “working society.” For these countries, this meant that everyone who was able to work, should work. For example, in Denmark, the so-called activation policies played an important role. These involved reforming the employment policies introduced in 1994. The reform was in three parts, and involved increasing eligible categories for leave and time-off (this, of course, was of benefit only to employed workers), restrictions on compensation, and strengthening the requirement to participate in activation schemes. In 1997, Denmark also reformed its social assistance policy,

⁸ This section continues work carried out in collaboration with Christine Daniel, and published as Daniel and Palier (2001: Chapter 1).

⁹ This change in objective represented a major turning point for many countries, including France, the Netherlands and Germany, which had initially responded, as noted above, to the rise in unemployment in the 1980s by removing certain categories of persons from the labour market in order to lower the unemployment rate, while providing relatively generous replacement income to individuals who, as a result of this policy, had lost their jobs.

placing even greater emphasis than did unemployment insurance on the requirement to participate in work-oriented activities organized by municipalities.

Activation policies also involved developing types of employment that were less standard than those found in full-time work contracts. In the Netherlands, this approach was implemented in several ways. First, there was part-time work. Although the country had a weak preschool system, this type of work enabled women to gain entry to the labour market. Second, the government placed certain restrictions on benefits paid to individuals of labour force age, especially in the case of disability benefits, but also in the case of unemployment benefits.

In the United Kingdom, the incentives were of a more restrictive or conditional type, somewhat resembling workfare. The slogan of British Conservative governments had been to “make work pay” by creating or increasing income tax credits, and by greatly reducing social security benefits to levels that were well below the lowest salaries. In addition, Conservative governments increasingly made benefits conditional upon training or job search activities; in 1996, unemployment compensation was replaced by the Job Seekers’ Allowance, which could be cut-off if the recipient refused several job offers. Since 1997, the Labour government has not radically changed this overall approach in employment policy. However, it did shift the emphasis somewhat, accepting the need to improve training for job seekers, while continuing, within the framework of the New Deal launched in late 1997, to subject training and job search programs to effective monitoring.

In continental Europe, the incentives were more timid. In most cases, employment policies were paradoxical. Governments would continue to apply labour shedding measures (especially early retirement), even as they provided claimants with incentives to return to work. The incentives included reforming unemployment compensation systems (increasing the compensation given to claimants who agreed to take training or pursue other occupationally related activities), increasing training expenses and creating subsidized jobs.

The third set of reforms designed to encourage work was based on a very different kind of approach. It did not aim to restrict access to monetary benefits but, rather, to facilitate access to services designed to balance work and family life. Strategies focused on creating personal social services (for children, the elderly, or the disabled, etc.). First, this strategy was seen to have an effect on employment rates, in two ways. Women are more readily available for work, thanks to child care and services for taking care of vulnerable seniors. Second, such services are themselves sources of jobs. In addition, this strategy has been identified as one likely to foster higher birth rates. Women wishing to work but without access to social services often give up the idea of having children, as the situation in southern Europe seems to indicate. Third, such services combat child poverty. Women’s labour force participation is one of the best defences against child poverty, whether involving lone-parent families or couples. Levels of poverty are lower in families with employed parents.

This third set of reforms was adopted in different ways across Europe. Social services, which were already highly developed in Nordic countries, stayed at a high level, while labour market participation by women increased. On the other hand, only a minority of southern European countries were fully committed to this approach. Indeed, the situation in France reveals a paradox.

On the one hand, it increased support for various forms of child care, both regulated and informal, which helped high skilled women to enter or remain in the labour market. On the other hand, it also instituted a major “labour-shedding” benefit, which encouraged low-skilled women to withdraw from the labour force to care for their own children.

The Shift Toward Supply-Side Policies

A neo-liberal shift in Europe started in the late 1970s and was implemented throughout the 1980s in various European countries’ macro-economic and fiscal policies, but social policy continued for a long time to operate according to the Keynesian logic of the past, and therefore was in misalignment with the emerging economic logic. Indeed, there were several signs that, in the area of macro-economic policy, Europe was collectively adopting a new paradigm very different from Keynesian. These included the establishment of a single European market guaranteeing free competition among all European firms as well as acceptance of the criteria set by the Maastricht Treaty and the Stability and Growth Pact (to ensure the stability of the Euro). They were designed to promote coherent macro-economic and fiscal policies, emphasizing reduced public debt and deficit, controlled inflation and fixed exchange rates.

There are three reasons for the persistence of this misalignment throughout the 1980s and 1990s. First, as noted, institutional constraints and the influence of the past made fundamental reform difficult. Second, many countries used traditional social policies as a buffer to mitigate the social effects (especially higher unemployment) of economic policies associated with tight budget and wage policies and industrial restructuring. Third, while macro-economic policy was increasingly defined at the European level, particularly following the introduction of a single currency, social policies remained within the jurisdiction of national governments, thereby making it more difficult to collectively identify social policies that would be consistent with economic policies.

Towards the end of the 1990s and following studies carried out by numerous economists – backed up first by reports published by the OECD and then the European Union – new standards for social protection began to circulate in Europe. They revolved around adapting social protection systems to supply-side rather than demand-side policies, and therefore emphasizing expenditures less. The reforms were supposed to make social protection systems more conducive to employment by reducing costs to employers. Another general principle of the reforms, consistent with the need to control spending, was to direct government intervention towards individuals who needed it the most, instead of relying on universal programs. Thirdly, there was a call for everyone who played a role in social protection – not only the state but also the private sector, families and community associations – to promote a system of social protection that would be more efficient and closer to the individuals affected than that delivered by governments alone.

Implemented across Europe as we have shown, these measures marked a fundamental reform in social protection. They did not simply modify existing parameters and instruments of social policy. They changed the intent, the overall logic and the orientation of established social protection. They provided a fundamentally different foundation for social protection.

Regardless of whether these policies were totally new or simply reformed existing programs, they were based on an approach to social protection whose function was no longer to protect individuals against risk, but to change their behaviour. This was frequently referred to as changing social protection expenditures *from a passive to an active form*. Less emphasis was placed on providing replacement income than on providing incentives (in a more or less coercive fashion) for a return to the labour market. It was a question of moving from a guarantee of replacement income outside of the market (decommodification) to a strategy of providing incentives designed to promote a return to employment and of bringing people back to the labour market (recommodification).

In Europe, many denounced this return to the market, since it often embraced neo-liberal workfare policies. Others, however, advanced a more positive interpretation of these trends, seeing in them the signal of a transition from compensating, passive and corrective action to *prevention*, with an emphasis on investing in the future. Thus, the investments would be designed to help children and women (policies to combat child poverty, educational policies and orientation training, policies to balance work and family life).¹⁰

However, framing new social policy in this way turned out to be a political challenge. While this new direction for social policy appeared to be increasingly necessary, it was also very difficult to implement institutionally, and above all politically. Thus, it all depended on the ability of the reformers to set up political mechanisms likely to obtain the backing of the various stakeholders and populations in their countries.

1.3 Room to Manoeuvre: Working Out Political Strategies and Compromises at the National Level

While many countries experienced the same barriers to reform and the same limited repertoire of solutions, changes varied from one country to the next, both in content and in the degree of success they enjoyed politically. In the previous section, we saw that general challenge was to demonstrate that economic and social policies could be compatible rather than competitive. In analytic terms, the need was for a substitute logic of that of decommodification. We also saw that the concepts available to serve as this overall logic included at least recommodification, activation and social investment. However, each country also had to find a new political compromise on which to found constructive interaction between the economic sphere and the social sphere. Not all countries succeeded in gaining acceptance for their approach, or in justifying new compromises.

A comparison of reform experiences reveals the political prerequisites for successful transformation of social protection systems: involving all stakeholders; negotiating and seeking consensus on the diagnosis, principles and objectives of reform; building a basis for political trade-offs among the various actors; developing a public and shared justification for the reform; putting into place a global and integrated strategy on areas of intervention (particularly wage policy, social protection reform and labour market policy); and transforming but not necessarily reducing benefits.

¹⁰ See, for example, Esping-Andersen (2002), in collaboration with Duncan Gallie, Anton Hemerijck, and John Myles; and Jenson and Saint-Martin (2003).

In order to explicate the political prerequisites for a legitimate reconceptualization of the national social pact, or simply the political prerequisites for reforming a specific area of social policy, we will now review the political processes associated with the basic structural reforms that have marked European systems of social protection in recent years. These include the transformation of Southern Europe's health care systems, the reform of pension and unemployment systems, and the "Dutch miracle" based on the reform of wage policies, social protection and the labour market policies in the Netherlands.

Involving All Stakeholders

During the 1970s and 1980s, the Southern European countries of Italy, Greece, Spain and Portugal all undertook fundamental modifications of their health care systems, setting up universal ones. Comparison of four Southern European countries revealed varied outcomes. Spain and Italy guaranteed equal (and almost free) universal access to health care. Portugal and Greece attained this outcome only in the case of hospital care, with numerous health insurance regimes covering different occupational categories. The private sector continued to play an important role in these two countries, as well.

Ana Guillen (2001: 209-224) has demonstrated that in this area it is not enough to simply adopt a law providing universal access to a health care; successful implementation is a further challenge. Even a popular reform will face many barriers inasmuch as it is necessary to challenge existing institutions, especially social insurance funds and private stakeholders (clinics and private practices). The comparison revealed that for the reform to succeed, all stakeholders had to take part in the reform process. Whenever the state found itself isolated and attempting to impose reform on the other – and reticent – stakeholders, it failed to achieve its objective. In the case of Portugal and Greece, the influence that the private sector and insurance funds wielded in health care hindered the implementation of a universal system. In the case of Italy and Spain, however, regional stakeholders played a decisive role in the process, actively supporting the reform, particularly since they would become key players in any universal health system. These examples teach that the state will encounter difficulties in gaining legitimacy and implementing the changes efficiently if it tries to carry out the reforms alone or by fiat.

Negotiating and Seeking Consensus on the Diagnosis, Principles and Objectives

Negotiation mechanisms that involve all stakeholders are also important, as studies of pension reform have shown.¹¹ The challenge of reform in this sector is not only to define the best reform possible, but also to determine the appropriate path for carrying it out. Any reform that has been adopted and that provides a significant level of collective social protection is almost certainly a reform that has been negotiated.

¹¹ This section draws on work carried out for the Conseil d'orientation des retraites, published in COR (2001). On the substance of pension reform, see Myles and Pierson (2001); Bonoli (2000); and Palier (2003).

As Emmanuel Reynaud (1999) has shown regarding measures taken by various countries in the area of pensions, in the vast majority of cases, measures were adopted following consultation, negotiation and public debate. Included in the concept of “public debate” are forms of collective action such as demonstrations and strikes, both of which have made a significant contribution to the process of reform in several countries.

Two important features of the reform process should be emphasized. First, most countries have demonstrated the desire to arrive at a consensus on pension reform – a consensus based on a shared diagnosis and built into institutions designed to prepare, steer and monitor reforms. Second, in countries that have transformed their pension system the most, there has been a key main issue, that is addressing principles of equity and redistribution. All attempts to fundamentally reform social protection systems must deal with this issue.

As Emmanuel Reynaud notes, Italy serves as a good illustration of the central importance of this issue. One of the major features of the Italian reform consisted in its breaking with the logic of client-centred differentiation, and in making the pension system more equitable. This desire for equity, shared by all participants in the process, essentially involved harmonizing the systems employed by different occupational categories and abolishing redistribution mechanisms that gave preference to those who were better off. The equity concept on which the reform was based consisted in establishing a precise proportionality between the benefits provided and the efforts made by the recipient of the benefits. Limits were placed on the system’s internal redistribution mechanism, while a social assistance mechanism, completely separate from the insurance system, was introduced in order to guarantee a minimum pension with income support.

Equity is also involved in the trend that consists in establishing a more direct link between benefits and contributions, a trend found in most industrialized country reforms of unemployment compensation and pensions. A central issue is finding the right balance between benefits that are conditional on contributions and those that are not strictly based on past contributions. A particularly important issue has been raised in this connection, namely how to cover certain situations, such as unemployment, maternity, extremely laborious or difficult jobs, training, child-rearing, caring for an elderly or disabled relative, etc. Such programs are very visible, and therefore immediately raise questions about the “proper” relationship between contributions and benefits, and force explicit choices regarding issues of redistribution and justice. These choices may involve both the scope and form of the solidarity sought, and the financial responsibility of each stakeholder (workers, employers, the family the state...) for the choices made.

Developing the Terms of a Political Trade-off Among the Various Players

Analysis of reforms that have been adopted reveals that there has been a political trade-off that satisfies at least some of the needs of the various stakeholders and thereby reduces the likelihood of a veto. Comparative studies show that the reforms that some governments have sought to impose without concessions, in particular to unionized workers, have failed: the Berlusconi plan in Italy 1995, the Juppé plan in France in 1995 and the Kohl reform of 1997 in Germany.

Most major reforms of pension systems were based on the introduction of atypical procedures and practices. For example, government majorities and oppositions have often negotiated agreements on pension policy together. In June 1998, Sweden passed a far-reaching reform – the outcome of a long process initiated in 1984, during which the main parties advanced common positions. In 1994, when the Swedish parliament changed from a liberal-conservative majority to a social democratic majority, pension reform was not substantially affected. The composition of the parliamentary committee in charge of introducing bills was not modified in any significant way. In 1995, all parliamentary groups in Spain decided to conclude a pact dealing with pension issues, and the “Toledo Pact,” excluded partisan dispute from the process. In 1983, reform in the United States resulted from a highly unusual agreement between Republicans and Democrats.

More often than not, the search for an agreement started with a brainstorming session comprised of all stakeholders: labour and management, political parties and representatives of civil society. As Emmanuel Reynaud notes, in a technical field such as pensions it is essential to have credible information on the financial state of and outlook for the pension system, that is, information that is both reliable and accepted by the various players. This kind of information provided the basis for discussion, and facilitates intelligent selection of policy alternatives among available options.¹²

There was also a tendency to form advisory bodies or working groups (task forces) to participate permanently, or on an occasional basis, in the decision-making process on pensions. Wherever they exist, the composition of advisory bodies is quite similar: they include, among others, representatives of employer organizations and trade unions, academics and other experts. In a field as complex and technical as pensions, these bodies constituted a forum for examining the system and working out compromises that contributed to the legislative decision-making process. In several countries, parliamentary task forces (special committees) also played a major role in the reform process, facilitating consensus-building on potentially divisive issues. For example, in 1994 a group composed of representatives of the four parties then in power and the main opposition party, the Social Democratic Party, developed Sweden’s reform proposals. Within these bodies, the preparatory work began by developing a shared analysis of the difficulties of the existing system. It also developed the terms of a political trade-off that would make the reform acceptable to all affected parties.

The players involved and the terms of the trade-off depend largely on the political system and social protection system. Federal systems are often obliged to obtain the consent of state or provincial authorities. In political systems where a political coalition is needed to form a government, success often depends on wide cross-party agreements. In continental systems of social protection, funded by payroll taxes and in which management and labour play an important role, negotiations aim for agreement between employers and unions.

¹² The means by which the technical information is obtained varies from one country to the next. In the United Kingdom, it involves an independent institution working within a government structure, the Government Actuary. In the United States, financial responsibility belongs to the board of trustees of the country’s social security funds (on which the opposition party is obliged to serve). In Germany, the data is produced by institutions whose reputation ensures their reliability – the Office for Statistics and the Federal Central Bank.

To allow greater room for negotiation, it is also helpful to phase-in reforms. As Emmanuel Reynaud points out, the transition from an old system to a new one raises the issue of commitments made and rights acquired, on which, for reasons of credibility, it would be inconceivable to suddenly renege. In the major 1995 reform of Italian pensions,¹³ the solution was to make a distinction among three categories of workers: (i) new labour force entrants; (ii) workers with less than 18 years of contributions at the end of 1995, and (iii) workers with at least 18 years of contributions at the end of 1995. The first category is covered completely by the new system. The second category uses the old system for rights acquired as of 1995, and the new system for rights protected as of 1996. The third category uses only the old system. Similarly, the Swedish reform made provision for a gradual introduction of its new system, based on the year of birth of those who were eligible for the system, as well certain guarantees for those straddling the new and old systems.

However, negotiations do not simply focus on the material interests of stakeholders and methods of reform, they also involve thinking about the new principles endorsed by the reforms.

An Explicit and Shared Justification

The preparatory and negotiation phase of the reform should include the development of a strategy regarding the objectives sought through reform. The principle-driven considerations accompanying major reforms of pension and unemployment compensation have been described as “lifting the veil of ignorance” that hangs over the redistribution mechanisms of traditional European social protection systems. The expression originates with John Rawls, whose social philosophy often serves as a reference point for those who advocate new institutions for social protection in the 21st century. Gøsta Esping-Andersen (2002), for example, now advocates principles of justice based less on equality and the equalization of living conditions (an objective of the many post-1945 welfare regimes). Instead, the accent is on ensuring equal opportunities across the life course and on helping people avoid the traps of dead-end jobs (McJobs) and social marginalization and exclusion.

Although few studies of social protection reform locate their analyses in abstract theory, some do stress that one of the prerequisites for the success of policies dealing with the fundamental transformation of social protection is the development of public discourse.¹⁴ Vivien Schmidt maintains that to achieve fundamental reform in social protection it is not enough to bring the stake-holders together, so that they can engage in joint analysis and set out the terms of a political trade-off. She also advises developing a communication discourse meant for ordinary citizens, one that clarifies the new principles and objectives of the reforms. In her view, it is the existence of this type of discourse that made the difference between the “politically successful”

¹³ The system was supposed to gradually move from a defined-benefit system to a defined-contribution system.

¹⁴ Vivien Schmidt claims that the reform process contains two distinct discourses: a “communication discourse” and a “co-ordination discourse.” The co-ordination discourse is generally limited to the government and other players directly affected by the reforms (labour and management, firms, associations, etc.). Its goal is to help the representatives of the various sectors to reach agreement. It is supposed to clarify the constraints affecting the reforms, the form they take and why these constraints are necessary. It is through the co-ordination discourse that analyses of the problems circulate. The co-ordination discourse also facilitates political trade-offs giving the various stakeholders in the reform an opportunity to get on board. See Scharpf and Schmidt (2000: 1st volume, final chapter).

reforms in the United Kingdom and Sweden and the failures, especially those that have beleaguered France.

It is possible to compare Tony Blair's reforms in employment policy and labour market policy with those carried out by Lionel Jospin. The Blair government's effort to communicate its vision, the "Third Way," is well known. Relying on Anthony Giddens and a host of advisors to the Prime Minister's, New Labour informed citizens about the new environment for social policy (growing economic and demographic constraints, major societal transformations) and the failures of past policies (old Labour at an impasse but its rejection of classical liberalism). In identifying a third way between old Labour and neo-liberal Thatcherism, New Labour was able to explain the principles it was promoting and to legitimize the party's policies, particularly policies carried out within the framework of the New Deals.

By contrast, the employment policies implemented by Lionel Jospin were accompanied by few coherent explanations that might have helped to explain the principles and objectives of these policies. The 35-hour work week is a case in point. The two laws on the 35-hour work week, adopted in 1998 and 2000 respectively, were presented by their supporters as well as their detractors as government actions designed to *impose* the sharing and reduction of work time on recalcitrant social partners, especially management, while maintaining the same level of remuneration (35 hours worked, but paid at the 39 hours rate). Yet, these supposedly *dirigiste* laws were in fact designed in ways that might reinvigorate social dialogue within firms, encourage more flexible work organization, reduce wage costs and promote work sharing. The two laws required the social partners to negotiate the application of the 35-hour week by reorganizing work within firms. Thus, while the head of the peak-level employers' organization continues to protest the legislation, many agreements have been signed by employers at the branch and firm levels. They signed because they saw an opportunity to freeze wage increases for a while, to re-negotiate benefits included in earlier agreements (parental leaves, days off) as well as to implement the "annualization" of working time.¹⁵ Moreover, the legislation reduces employers' contributions to the benefit package (Palier, 2002: 67).

For Vivien Schmidt, the fact that the French policies were not guided by a communication discourse enables us to understand Lionel Jospin's catastrophic electoral results in 2002 (his elimination from the race before the second round of the presidential elections), due in large measure to the refusal of many workers to vote for him.¹⁶ Some of Tony Blair's electoral success can probably be linked to the coherence of his communication discourse. Overall coherence in communication helps explain why some European countries have recently been able to carry out economic and social miracles, while others have stumbled against major opposition.

¹⁵ This latter point means that while the working week averages 35 hours, over the year it can actually vary between 28 and 42 hours for particular weeks.

¹⁶ An analysis of the election by Cevipof revealed that the workers failed to support Jospin. In polls taken during the elections, most of the workers indicated they were disappointed with the 35-hour policy.

An Integrated Strategy, Linking Various Areas of Intervention

While Tony Blair's electoral successes are impressive, the UK is not the leading model for successful reform of social protection. Other countries are better models, to the extent that they were able to significantly reverse undesirable economic and social trends. The "Dutch miracle" refers to the ability of the Netherlands to go from a situation of underemployment, high unemployment and government deficit in the 1980s to full employment and a budget surplus in the 1990s (Visser and Hemerijck, 1997). Jelle Visser and Anton Hemerijck identify three central features of this so-called miracle: a revival of negotiations among social partners, a coherent strategy linking various public policies, and the transformation of institutions and social rights providing generous social protection.

The strategy of the Netherlands clearly included one of the prerequisites for successful reform of social protection policy, that is, negotiation. The 1982 Waassenaar Accords were based on agreement by the state, employers, and unions that the principal cause of the country's problems was under-employment, including especially of women and of men on disability pensions. All recognized that past policies were outdated and needed to be restructured. Unions agreed to give employment creation precedence over wages. They did this by abandoning their usual demands for salary increases and accepted wage restraint in the name of economic restructuring and in exchange for more jobs. Management recognized its responsibilities for abuse of the disability system (using it to shed labour) and agreed to develop part-time work that would correspond to workers' needs. The state committed to deficit reduction and lower taxes.

The Dutch miracle is based on a coherent strategy that linked different policies together to set a virtuous circle in motion. According to Anton Hemerijck (2001: 120), the return to wage restraint helped to accelerate employment growth in three ways. First, by restoring profitability it created one of the pre-conditions required for investment and growth in employment. Second, by lowering foreign exchange rates it supported growth in exports and employment in vulnerable sectors of the economy. Lastly, wage restraint allowed more workers to keep their jobs and, since there were also tax reductions, had a positive impact on employment in the service sector. The reduction in working time and the increase in work flexibility also played a major role in employment growth. Over time, there was a shift from general reductions in the workweek toward an optimization of part-time work and an annualization of working time. The marked increase in part-time work¹⁷ and the shift toward service sector jobs coincided with an upsurge in female participation in the labour force. Between 1971 and 1996 the rate increased from 29 percent to 60 percent, more than in any other OECD country.

Between 1987 and 1996, the combination of wage restraint, increases in part-time work, the rise of service sector jobs and the increase in women's labour force participation generated a 31 percent increase in value-added in the national economy. Subsequently, this internal growth was sustained by reform in the social protection system (pension, unemployment compensation and employment services systems) and by the introduction of new employment policies (incremental employment programs in the public sector, subsidies to employers who recruited unskilled workers) designed to increase employment levels and reduce the use of disability pensions by the unemployed.

¹⁷ Two thirds of jobs created since 1982 have been part-time jobs.

All of these policies were presented in political discourse as a coherent, progressive and negotiated plan to transform the Dutch economy, promoting economic growth without social sacrifice. Social policies were based on cutbacks or retrenchment than on new incentive structures and changed behaviour. New institutions for social protection were created. As Anne-Marie Guillemard notes in reference to recent reforms of disability insurance: “Essentially, the Dutch reform concentrates on restructuring institutional approaches to early withdrawal [from the labour force]. This will not involve raising doctrinaire roadblocks to withdrawal, nor will it challenge fundamental social rights that are guaranteed by the social protection system. These rights will be preserved, but brought into line with a system of benefits and services that lends new weight to the strategic choices of the actors, thanks to the introduction of new mechanisms replacing law with incentives, especially of the financial type” (Guillemard, 2003)

The Netherlands experience is one in which all the political prerequisites for transforming social protection systems were present. Major stakeholders were involved and negotiations generated consensus on the diagnosis, principles and objectives of the reforms and worked out the terms of a political trade-off. There was a public and explicit discourse of national crisis used to justify the reform and most importantly there was an integrated strategy linking wage policy, social protection reforms and labour market policy. Finally, social rights were transformed but not eliminated. By contrast, other countries have carried out partial, incremental or implicit reforms that have had less overall coherence and no strategy to clarify and justify their objectives. Whenever this has occurred, the reforms have resulted in an undisciplined transformation of their social protection system, and often in a worsening of the social circumstances of their citizens, as has been the case in France and Germany.

2.0 The Growing Role of the European Union in the General Direction of Reform

In order to understand the content and changes in social policy in individual European countries, it is now absolutely necessary to pay attention to the European Union's activities and institutions. This is true despite the fact that the EU does not have treaty (constitutional) responsibility for social policy. The institutionalization of a single European market, along with a central bank and common monetary policies, has consequences for the social policy of Member States. Therefore, in order to avoid being forced simply to follow economic imperatives, European national governments agreed to European-level co-ordination of their social policies. It is not "because of Europe" that each country is altering its social protection regime, but if the European Union were not present in this field, via the institutions of the single market and the co-ordination of social policy, national reforms would not be following the direction of change that we have seen in this section.

The second part of this research report focuses, therefore, on the European Union, in order to assess the place of a federal relationship in social policy redesign. It documents the role of European institutions, the European Union's vision of a new social model for Europe, and the strategies deployed to build consensus behind this social model within Member States.

The European Union has become increasingly active in social policy in the last years, in large part to fill a growing gap between European-level economic policies and national-level social policies. Despite the lack of clear constitutional responsibility for social policy, from now on it is at the European level that any new European social model will be designed. Institutions for coordinating national policies and for fostering a back-and-forth interaction among European-level and national institutions and actors are constructing a new mode of governance for social policy regimes on the European continent. As the Portugal Presidency put it, the aim of this new mode of governance, the open method of co-ordination, is:

- To combine coherence with respect for diversity and efficiency with democratic legitimacy. It is a case of defining strategic guidelines at European level for coping with structural change and then organizing a process whereby Member States emulate each other in applying them, stimulating the exchange of best practices, while taking account of national characteristics[...] This method, which is designed to help Member States to progressively developing their own policies, involves:
- Fixing guidelines for the Union combined with specific timetables for achieving the goals which they set in the short, medium and long terms;
- Establishing, where appropriate, quantitative and qualitative indicators and benchmarks against the best in the world and tailored to the needs of different Member States and sectors as a means of comparing best practices;
- Translating these European guidelines into national and regional policies by setting specific targets and adopting measures, taking into account national and regional differences;

- Periodic monitoring, evaluation and peer review organized as mutual learning processes.

A fully decentralized approach will be applied in line with the principle of subsidiarity in which the Union, the Member States, the regional and local levels, as well as the social partners and civil society, will be actively involved, using varied forms of partnership. A method of benchmarking best practices on managing change will be devised by the European Commission networking with different providers and users, namely the social partners, companies and NGOs (Council of the European Union, 2000).

2.1 Why the European Union Took Up Social Policy: Competition between Economic and Social Actors

Since the mid-1990s the major governing bodies of the European Union – the European Commission, the European Court of Justice, and the European Council – have been adopting positions on the “reforms required” in the fields of pensions, health and most importantly employment policy (including the links to family policy via guarantees of gender equality and work-family balance). These actions are unintended consequences, or spillover, from the institutionalization of the single market and then European monetary union. These new economic institutions drastically reduced the room for manoeuvre that had previously been available to Member State governments via their control over exchange rates, interest rates, and public spending, as well as policies affecting prices.

In the 1980s the dynamics of construction of the European economy resulted in pressures for neo-liberal style social policy redesign. In the 1990s, however, a number of actors more attentive to the social consequences of economic adjustments – left-wing governments in particular as well as unions and other non-governmental organizations – sought better control over social policy reform in order to modernize the European social model.

Moves towards a common European framework for social policies were launched in 1997 via what became known as the *Luxembourg process*. This involved mechanisms for settling on common employment policies. Then the *Lisbon process* was launched in 2000, for pensions and social inclusion, with health care and making work pay to be included in the near future. With the Luxembourg process, which was the beginning of what has become the open method of co-ordination (OMC), European institutions created a novel form of intervention. Rather than seeking to “harmonize” legislation or programs, the goal is to harmonize ideas, visions, conceptions, knowledge and norms of action, so that policies will converge towards a common political vision. Therefore, the main task of the European institutions is to work at the elaboration of a common vision for social policy, that is a new European social model, and ensure this vision is shared by all Member States and informs the benchmarks used. Thus, the aim of the open method of co-ordination is “to organise a learning process about how to cope with the common challenges of the global economy in a co-ordinated way while also respecting national diversity” (Council of the European Union, 2000)

Towards a European Employment Strategy

The European council in 1994 took up the employment issue with new vigour. This expression of interest permitted the General Directorate for Economic and Financial Affairs¹⁸ of the European Commission to promote its own neo-liberal views on employment, by adding, for example, a paragraph on employment to the *Broad Economic Policy Guidelines*. This called for more flexibility, denouncing the disincentive effects of social benefits, the rigidities of labour legislation, and so on. This position of the Commission meshed with that of the Economic Policy Committee that was also calling for greater labour market flexibility and more liberal employment policies.

DG-V, the Social Affairs Directorate, reacted with its own strategy for shaping the texts produced by the Commission. Its goal was to provide a counterweight to neo-liberal discourse and trends by juxtaposing the term “security” to that of flexibility. Meanwhile, it lobbied national governments, pressing them to make full employment an explicit goal of the Union. DG-V warned national Ministers of Employment that they risked losing their jurisdiction to Ministers of Finance grouped in Ecofin, which is the European Council’s committee of ministers of economy and finance. The political conjuncture also favoured more attention to a social vision of employment because the 1995 enlargement had just brought in Austria, Finland and Sweden, all of which had strong social policy traditions, while national elections had installed left/social democratic governments in Germany, France and the United Kingdom. The result of the lobbying and political conjuncture was that the Amsterdam Treaty included an employment chapter that made full employment an explicit European goal. There was also an exceptional Summit on Employment organized in Luxembourg in November 1997. The latter launched the European employment strategy (EES) which, as noted, was the model for the OMC.

Competition for the Definition of Welfare Reforms

A similar process shaped the field of social protection. Member States adopted a Growth and Stability Pact in 1997. The pact asserted that a stable single currency required sound public finances. In order to fulfill their commitments to the single currency, national governments therefore bound themselves to balanced budgets and to limiting their public expenditures. The Pact gave a significant opening to Europe’s “economically-oriented” actors, again DG-II and Ecofin. They promoted a reading of the Pact that required controlling – or even reducing – public spending ... for the sake of the Euro. They assumed responsibility for guaranteeing that Member States balanced their budgets. They produced numerous reports and studies showing that increases in public spending were driven by health expenditures and that population ageing would soon generate a sharp increase in spending on public pensions. They strongly suggested that national governments, especially continental European countries whose spending on social protection was among the highest and the least controlled, must institute structural reforms in their health and pension systems. By “structural reforms,” they often meant a partial privatization of health and pension systems.¹⁹

¹⁸ This department was Directorate-General II (DG-II) before the Commission was reformed and the DGs renamed.

¹⁹ Interviews with European civil servants from DG-II are unambiguous on this point. The civil servants believe that DG-II has been appointed to “build Europe” on the basis of a strong market, and they do not see why social protection and employment policies should be exempted from that process.

Civil servants within DG-V reacted strongly to this exclusively economic and market-focused interpretation of the European project. They reminded national governments that if they did nothing, European dynamics would lead to a dismantling of national systems of social protection and the demise of the European social model. They pressed the Commission to act, and in July 1999, it adopted the Communication entitled, *A Concerted Strategy for Modernising Social Protection* (European Commission, 1999). The Portuguese presidency of the EU, from January to June 2000 was a key moment for convincing national governments that there was an opportunity to co-ordinate national social protection reforms by recognizing the advantages of a balanced compromise between economic principles and social objectives. In March 2000, during the Lisbon Summit, the Open Method of Co-ordination and its implementation schedule was officially adopted.

The story of the competition between DG-II and DG-V reflects the growing contradiction between macro-economic policies implemented at the European level and the (national) European social model(s). The solutions chosen at the European level reflect an on-going attempt to find a new compromise between economic and social policy orientation, between European economic integration and continued differences among national welfare regimes. The “solution” of the OMC has permitted a reconciliation that allows modernization and improvements in social models, without overturning new economic policies.

2.2 The Commission’s Work: Defining New Content for the European Social Model

European institutions, and particularly the Commission, have tried in recent years to influence the vision and discourse on social policy redesign rather than attempting to impose any particular changes on national governments. Indeed, influencing national ideas about welfare policies is now a major activity of the European Union.

In support of their strategy for “taking back” social policy, the socially-oriented actors within the Union organized a work plan that would produce a framework for a new European social architecture. At the beginning of the 1990s they worked to understand social policy’s contribution to economic development (“social policy as a productive factor”). Then the Commission and some national governments during their presidency of the European Council set out to mobilize the research community, calling on it to produce the building blocks of a social architecture for the 21st century. Finally, the OMC was invented in order to promote common principles and benchmarks to underpin national reforms of social policy regimes. The interactive process of developing principles, producing reports, and submitting them for peer review is generating the new European social model.

There were three dimensions to this intellectual strategy of the Commission. First, the President of the Commission initiated a process of internal reflection on social policy’s contribution to economic well-being and development. The President relied extensively but not exclusively on the Forward Studies Unit. This work gave rise to the publication in 1993 of the White Paper on Growth, Competitiveness, and Employment (European Commission, 1993) sometimes described as Jacques Delors social testament. The White Paper underlined the fact that the European Community had fallen behind other countries in terms of growth and competitiveness, and then it proposed new economic policies and social policy reforms that would promote *growth with jobs*.

Two main instruments were identified: major European public works and a reduction of the costs involved in employing low-paid workers. This first initiative did not provoke much immediate policy follow-through but it did encourage more work on the need to co-ordinate economic and social policies.

Second, unable to do much in the way of establishing European-level social policies or by insisting on harmonization, the Directorate-General on Social Affairs (DG-V) almost by default started to develop its research capacities and to foster the develop of research networks. Throughout the 1990s a number of observatories on various social policies were set up (on poverty, family policy, for seniors and so on). A key activity was to mobilize networks of experts who had theretofore worked on national systems and bring them together to reflect on a future European-level social policy and social model. Such networks could be the equivalent of the private think tanks that were so important in policy communities in the United States and United Kingdom.

These research networks were then available for presidencies of the European Council. Those countries that wished to use the six months of their presidency to promote European social policies and define new orientations for economic and social policies could call on them. The Portuguese presidency in the first six months of 2000 and the Belgian in the second half of 2001 were particularly important in this regard. This institution of the presidency, which is in a certain sense the political centre of Europe, could play a significant role in defining and advancing medium and long-term planning for the Union.

Thus, the Lisbon Summit of 2000 was “prepared” with a focus on the knowledge-based economy and reforming social policy. Several major studies were commissioned from European experts.²⁰ Similarly, for the preparation of the Belgian presidency, which had also identified modernizing social policy as a major theme, the report on a new social architecture for Europe was commissioned from Gøsta Esping-Andersen, Duncan Gallie, John Myles and Anton Hemerijck.²¹

This report is one of the most important and best overviews available. It is as ambitious and wide-ranging as the Beveridge Report or the Laroque Plan. Clearly located in an understanding of current economic circumstances, it has become a document of reference in European discussions of the directions for social policy and modernization of the European social model. For these reasons, it is important to have an overview of the argument.

Esping-Andersen and his colleagues set out to identify the reforms of social and employment policy needed to support the goal of a European economy that could be the most competitive and dynamic in the world. The book argues that change is needed because the welfare regimes and social policies developed for and during the post-1945 years are less and less adapted to the

²⁰ Maria Rodrigues, the former Portuguese minister of social policy, was in charge of organizing the Lisbon Summit. She spent six months visiting all countries in order to prepare the consensus on the new objectives and methods, and she appointed major European experts such as Maurizio Ferrera, Martin Rhodes, Anton Hemerijck, Anne-Marie Guillemard, and Gøsta Esping-Andersen to prepare reports on the future of social policy in Europe.

²¹ A revised version was published as Esping-Andersen (2002).

economic, social and political transformations of 21st century European societies. What is needed, according to Esping-Andersen, is not a marginal adjustment of systems but an elaboration of new principles and directions for both social and employment policies.

If the analysis is as ambitious as those provided by Lord Beveridge, Pierre Laroque or Leonard March, it is also important to note some key differences. The authors' goal is less to provide a precise blueprint than to propose and argue for a new set of principles and general policy directions. This is because they are fully aware of the diversity of existing regimes and also that it is impossible to simply start with a blank slate. This is not, in other words, a proposal for a kind of ready-made new model. Rather, the goal is to identify and stress the re-orientations needed to allow European citizens to live, in the best possible social conditions, the transition from an industrial to a service economy, one that is creating both many high-skilled jobs and low-paid personal services. Such economic restructuring has created new risks of social polarization, in particular because of the increase in low-paid work.

Faced with these new risks, Esping-Andersen proposes a strategy less focused on equality of condition – one of the objectives of many post-war welfare regimes – and more on equality of opportunity throughout one's whole life. In particular, it is important that everything possible is done to avoid a situation of life-long confinement to low-paid work, social marginalization and bad jobs – what he terms McJobs. Such thinking involves a significant change in policy perspective, from one that is static to one that concentrates on the dynamics of the life-cycle. One immediate implication is that social policies must focus more on prevention and social investment than on compensating for immediate difficulties.

This approach provides a coherent and well interconnected strategy for restructuring European social protection systems, one which takes into account the various phases of the life-cycle and links each to a specific social policy matter: childhood, poverty and education; raising children and gender equality as well as work-family balance; working life and working conditions; old age, pension reforms and increasing employment rates.

While current systems of social protection are spending more and more on seniors, Esping-Andersen calls for investing in children. Rather than fighting social exclusion once it has occurred or to try and retrain long-term unemployed older workers, for example, Esping-Andersen advocates prevention, centred on childhood. Given the observation that the deepest poverty among adults is found among those who grew up in poor and unemployed families, reducing child poverty as well as providing good quality early childhood education and care (ECEC) is a way of preventing social exclusion, as well as to ensure a well-trained, skilled and flexible labour force. To achieve these goals, Esping-Andersen emphasizes two programs: providing a basic income to all families, by increasing benefits in those countries where social assistance is still a residual benefit and therefore leaves recipients in poverty; and developing public programs of ECEC that will guarantee a solid socialization and promote school-readiness, so that people both in school and after will be adaptable and flexible, characteristics needed by a knowledge-based and service economy.

Public services for all dependent and vulnerable persons, as well as ECEC, seem also to be the appropriate means to address the issue of increasing women's labour force participation and gender equality. ECEC and other services create jobs for women as well as allowing mothers of young children to work for pay and to enable families to balance work and family life. Increasing women's labour force participation obviously responds to women's desire for economic autonomy but it goes beyond that. It also helps reduce child poverty, because poverty is always lower when two parents are employed, and it increases the employment rate, such that revenues are higher for states and for insurance-based social programs. For Esping-Andersen (and the European Union as well), policies "for women" have to do more than simply allow work-family balance; they must also provide gender equality and equality of opportunity. This means, in other words, changing men's trajectories as well as women's and altering the gender division of labour within the household.

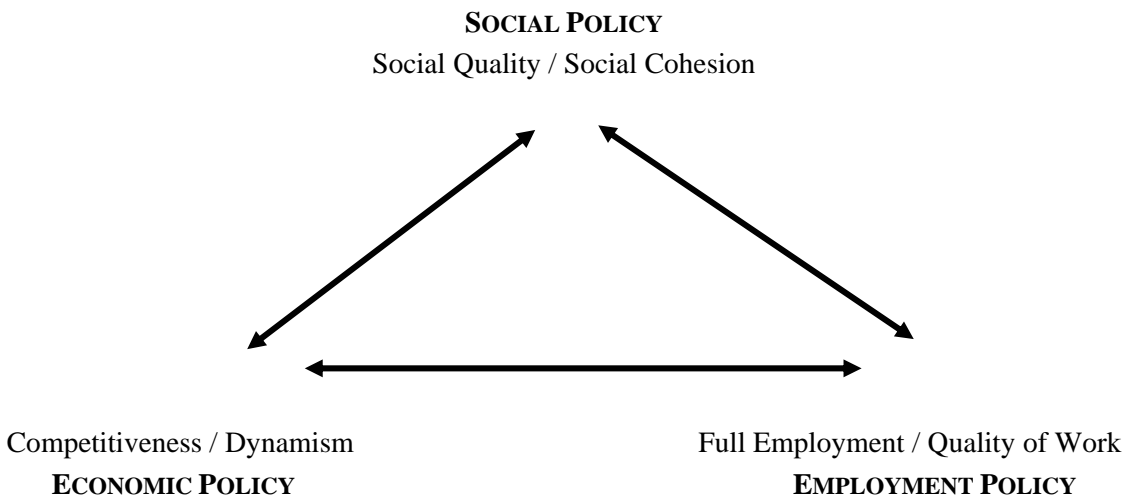
This is, in other words, a program for changing both work and family life. Chapters provided by the other authors make similar points about the need for major changes. For example, Duncan Gallie's chapter argues that while initial schooling and training is obviously important, employment itself must be redesigned so that even low-skilled jobs provide opportunities for learning, retraining and increasing one's skills. Activation policies must be accompanied by policies that improve the quality of work and working conditions. Improved jobs and working conditions will also make it easier for individuals to work longer and to increase the employment rate, which are John Myles' two main proposals to address the challenges of the ageing society. Finally and in conclusion, Anton Hemerijck reminds the reader of the diversity of national trajectories, and the mounting importance of the EU, particularly since the invention of the open method of coordination. The combination of acceptance of diversity and a search for common principles leaves each Member State free to choose its own way of achieving shared goals.

Such analyses by experts as well as that of the Commission itself have fed the efforts of the European Union to forge a virtuous circle of interaction among macro-economic, employment and social policies. Indeed, a new principal emerged in the framework proposed in the various texts on social policy adopted by the European Union. This is the goal of "quality."

Putting the accent on quality builds on the premise that "social policy is a productive factor," rather than a drain on the economy. For the EU, good social policy is a necessary feature of a well-functioning modern economy, particularly one that hopes to position itself in the high stakes of the knowledge economy. In part, this is because it helps, as the Stockholm European Council Conclusions put it, to ensure security in times of change. That security enables people to take risks, invest in their human capital as well as their children's, and so on.

The notion of quality borrows from business, by "extending the notion of quality – which is already familiar to the business world – to the whole of the economy and society [to] facilitate improving the inter-relationship between economic and social policies" (European Commission, 2001: 1). The result is the "quality triangle" (Figure 1), now reproduced in numerous publications by the Employment and Social Affairs DG.

Figure 1
The European Union's View of Policy Interactions



Source: Adapted from European Commission (2002: 7).

For the European Union, promoting quality in employment and social policy is a key element in reaching the goals of building more and better jobs, creating a competitive and cohesive knowledge-based economy, and ensuring a positive mutual interaction between economic, employment and social policies. As such, quality goes hand in hand with improving efficiency, especially as far as public finances and labour market incentives are concerned. Social policies are not simply an outcome of good economic performance and policies but are at the same time an input and a framework. In this context, the modernization of the social model means developing and adapting it to take account of the rapidly changing new economy and society, and to ensure the positive mutually supportive role of economic and social policies. Many aspects of the modernization of the social model can be expected to impact positively on the quality of work – including both social investments and social transfers. Hence the pursuit of more and better employment and higher levels of economic performance cannot be separated from the overall aims of the modernization of the European Social model.

3.0 Conclusion

By the end of the 1990s, there was increasing evidence that social policy reforms were driven by a desire to restructure social spending patterns and not simply to retrench or cut them back. Despite the diversity of the reforms and the processes leading to them, the reform objectives (more than on their outcomes) exhibited several common trends. In the various European countries, they reflected an attempt to adapt welfare regimes to new macro-economic norms, putting more emphasis on the market, less on public spending, more sound public finances, and so on.

For example, in the area of old-age pension reform, and despite using different paths to get there, most European countries are now developing a multi-pillar system, one that includes both pay-as-you-go and fully-funded schemes, with an emphasis on the tight link between the pension level and the amount of the contribution paid. This is a particularly important change for regimes that were based on social insurance and pay-as-you-go, such as the continental countries have been. For their part, in health care systems, the introduction of managed competition seems to be spreading to all national health systems; it has also penetrated health insurance systems through competition among insurers. Employment policies founded on the concept of activation are widely shared, as is the general principle of activation, despite the fact that there are still big differences in the ways these policies are implemented.

As a consequence of such efforts to address challenges to strategies for ensuring retirement and employment income, ways to increase the employment rate have become a generalized response. This trend implies important changes in Bismarckian welfare regimes, which in the 1980s adopted a strategy sometimes termed “a welfare state without work.” But it is not only the continental welfare regimes that have been challenged, and the institutions of the European Union have promoted their own responses as well.

This picture, albeit a very general one, is interesting because it provides an opportunity to see the emergence of new concerns and foundations for policies to provide welfare. Nowadays, all national European governments, as well as the European Union, seem to recognise that welfare states should become compatible with international competition. They should become “employment friendly” by reducing their cost (especially non-wage costs) and by offering benefits that are by no means disincentives to remain out of employment. Hence the emphasis on activation and “making work pay.” Targeting spending on those who “really” need (and deserve) it has also become a norm. So too is any notion that welfare should rely only on public intervention; the notion is widespread that other actors contribute – and ought to contribute – to the welfare mix. The family, NGOs, and firms are receiving more attention.

One might argue that these challenges and shifts are due more to the globalization process than to European integration per se. However, it is within the European single market that European firms and states have encountered increased economic competition. It is also under pressure from the criteria of European monetary union that many countries have had to change their social policies. During the 1990s, the idea that the traditional welfare state had become ill-adapted to the new economic environment and policies has developed in parallel with European integration. The search for new solutions has become, in this way, central in the European agenda, which is now able to set the tune for national social protection reforms.

Appendix 1. The Three Systems of Social Protection in Europe

The liberal system of social protection. The fundamental idea in the liberal approach to social protection is to give greater importance to the market than to the state in mechanisms for allocating resources. The state must, above all, maintain a residual role: welfare benefits must be very low and minimum incomes and income support must constitute the main form of state intervention. The state is supposed to constitute the source of support of last resort, and its forms of intervention are supposed to promote a recipient's rapid return to the market (benefits must not discourage recipients from working).

Systems of social protection guided by this approach are predicated on the idea that citizens will depend heavily on the market to provide their primary incomes and social protection. They promote a pronounced dualism in society between the haves and have-nots, that is, between those who depend primarily on social assistance (which often stigmatizes them), and the most privileged group whose social protection is assured through the market. Between these two groups are the middle classes, who either live with the fear of falling into poverty or must meet the difficult requirement of providing for themselves through mechanisms that are increasingly market-based.

While it is the United States that is cited most frequently as the classic example of the liberal system of social protection, Europe has two countries that come close: the United Kingdom and Ireland. The National Health Service is the only service that is universal (everyone has access to the same service and it is free of charge). Cash allowances (sickness benefits, unemployment benefits, retirement allowances) provided by National Insurance (the government system) are fixed amounts, and the amounts provided are much lower than in Nordic countries. This means that private insurance plans and social protection schemes provided by private companies must play an important role in the social protection system. Individuals who have made insufficient contributions to National Insurance receive income support. These social protection systems are paid for in large part by general taxation. The administrative machinery of the central government manages the public system.

The social democratic system of social protection. The core concept in social democracy is equality. Born of an alliance between rural and industrial working classes, this approach to social protection attempts, through major redistribution systems, to ensure the equality, cohesion and homogeneity of social groups within a vast "middle class." Social rights are associated primarily with citizenship, and benefits provided by the public sector are delivered in the form of free services or all-inclusive benefits. The approach is based on the principle of the universality of social security coverage, formulated as a right of citizenship. The systems of social protection underlying this approach guarantee, at best, citizen's social rights and the separation of these rights from the market. They attempt to meet this objective by promoting full employment based on an active policy of hiring in the public sector (especially of women), by delivering numerous free or low-cost public services, and combining universal entitlement with substantial benefits. Providing this high level of protection ensures that these systems of social protection, from which everyone can benefit, will win broad political legitimacy.

The Nordic countries (Denmark, Sweden, Finland, Norway and Iceland) seem to have taken this universal logic the furthest. However, wage earners may receive supplementary benefits through compulsory, occupation-based protection schemes. These systems are funded primarily through tax revenues, particularly in Denmark. They are public, under the direct authority of the central and local governments. Unemployment insurance is the only form of protection not integrated into these countries' public system of social protection.

The conservative-corporatist system of social protection. This approach to social protection is based on a compartmentalized or sectoral vision of society. It seeks much less to reduce inequalities than to preserve social stratification and status. To accomplish this, it uses the mechanism of income maintenance guaranteed by social insurance. In this approach, each beneficiary's labour market performance and employment status are supposed to determine his or her level of social protection. The comparative generosity of the contribution-based social insurance benefits provided to wage earners (generally male) provides the recipient with a measure of autonomy from the market and a hedge against social risks. In this logic, individuals are dependent on a "family wage," that is on the wage and social rights guaranteed by the wage-earner's status, and linked to his salary. Here, market dependence is indirect inasmuch as the level of social insurance benefits provided by this type of system is linked to the employment situation and family situation. The universality of the social protection is therefore a function of the ability or inability of society to ensure full employment.

In Europe, two groups of countries subscribe to this approach. The first group consists of countries in mid-continental Europe (Germany, France, Austria and the Benelux countries), where the Bismarckian tradition of social insurance is the strongest. More often than not, access to benefits is tied to the payment of social contributions. The level of social security benefits is linked to the salary of the person insured. Social insurance is compulsory, except in the health sector in Germany and the Netherlands, where it is not compulsory for those in the highest income brackets. Most of the funding for this system comes from payroll taxes, which are paid by both employers and workers. For a long time, France broke all records in this area; until 1996 it financed almost 80 percent of social protection with payroll taxes. This type of system, which is often highly fragmented, is administered by agencies and funds that are more or less independent of the state, and managed by representatives of employers and workers. Individuals not covered or no longer covered by social insurance have recourse to a "social safety net" consisting of minimum benefits, in the form of income support, that are financed through tax revenues. In recent years, these benefits have increased, though they do not form a coherent and standardized entity. In France, for example, there are eight different minimum income programs.

The second group of countries, those of Southern Europe (Spain, Greece, Italy, and Portugal), are sometimes considered separately. While the principal features of their model resemble those of the continental model – that is, social insurance – they also have distinctive features. For example, they are oriented toward the elderly, with pensions representing the major share of their social expenditures, while family policy and unemployment payments are poorly developed. In addition, their various occupationally based social insurance schemes are extremely heterogeneous, being particularly generous for public employees. Their national health services, which they started developing in the 1975-1985 period, are universal. Finally, they have gradually implemented a social safety net providing a minimum income, though this is very recent.

Appendix 2. Models of Industrial Relations and Recent Developments in European Employment Policies

Models of Industrial Relations in European Countries²²

Industrial relations differ from one European country to another. Their differences depend on three principal factors directly influencing the role and behaviour of the actors involved. The three factors are the type of worker representation, employment and wage legislation, and employment policy.

The *type of worker representation* determines the locus of negotiations, which actors will be involved in the negotiations and which topics will be covered. It depends first on union rights and, more generally, on the right of association of wage earners and employers.

The legislation determines the rules that must be respected in the employment relationship. It can involve both the contours of the employment contracts and arrangements dealing with remuneration, working conditions and workers' social benefits.

Employment policy and unemployment management provide the frameworks and content for action in the areas of employment development and the transition from one job to another (compensation, training, re-training, and so on), and in combating unemployment.

These three factors combine in different ways, depending on the country. Three models of industrial relations may be identified: (i) the model employed in Northern countries, characterized by integrated unionism, an important role for negotiation and collective bargaining, and significant worker involvement, although some of these countries, where unionization rates are lower, give a greater role to legislation; (ii) the model employed in Southern countries, where unionism is divided along ideological lines, has a legal framework and is tightly regulated; (iii) the model employed in the United Kingdom, where the trade union tradition is corporatist, there is little intervention by the state, and where negotiation takes place at the enterprise level. The demarcation lines between these three major models have become somewhat blurred over the last fifteen years. Southern countries have somewhat reduced legislative barriers, while collective bargaining has experienced a certain revival. In Northern countries, negotiation has opened up at the company level. Lastly, the United Kingdom has deregulated its labour market.

The United Kingdom

By the end of the 1990s, the labour market in the United Kingdom was in every aspect clearly distinguishable from its counterpart in other European countries. In today's Europe, it represents the most liberal market, inimical to anything that would impede the forces of competition. The organization of industrial relations is characterized by highly decentralized negotiations (which take place exclusively at the enterprise level), a low level of co-operation between labour and

²² This section deals with our work, as co-reporters, on a plan for the Commissariat general du Plan (Maurice, 1999).

management, and a limited role for collective bargaining. This situation stems from nearly 20 years of Conservative governments opposed to the substantial rights obtained by British unions during the 1960s and 1970s.²³

Labour legislation is another factor that sets the United Kingdom apart. While British firms find it no easier than the average European firm to lay workers off, employment legislation there is one of the most flexible in Europe, considering its attitude toward probationary periods, termination of employment, fixed-term contracts and working hours. Firms enjoy tremendous flexibility in terms of adjusting workload (in terms of numbers of workers and time involved). This great flexibility is not linked to generous unemployment compensation; in fact, the reverse is true.

The Nordic Countries

Concerning labour relations, the three Nordic countries in the EU – Sweden, Finland and Denmark – stand out among other countries of the European Union because of the importance they accord to conventional law. These countries have a long history of collective bargaining between parties playing a central role in the operation of the labour market. Public dialogue has often preceded lawmaking to establish labour market standards (essentially through collective agreements). These agreements addressed not only wages and working conditions, but also in certain cases layoff procedures, training and the prerogatives of worker representatives. In a number of ways, the agreements have been advantageous to the parties to the agreement. First, each agreement dealt with a range of issues, so that the parties could try to negotiate comprehensive agreements that were more satisfactory overall. On the other hand, during an agreement's period of validity, the signatories were obliged to maintain industrial peace, that is, they may not undertake an action or lock-out with the goal of negotiating issues dealt with in the collective agreement.

However, centralized negotiation also raises several problems, including co-ordinating actions across the various levels of negotiation (national, sectoral, enterprise). The experience of Sweden, where the federation of employers withdrew from national negotiations, shows that highly centralized negotiation is not compatible with extreme competition among unions. Indeed, the parties to the agreement must be able to ensure implementation, at lower levels, of settlements negotiated at a more centralized level. From this standpoint, labour unity and representativeness are preconditions for making steady progress in centralized negotiations. However, the principle of employee representation in firms has remained solidly anchored in fundamental principles of law, especially the right to organize. Unions base their legitimacy on high levels of representation, and Nordic countries stand out due to their rates of unionization – around 80 percent. Unionization in these countries increased slightly between 1985 and 1995.

Legislation plays a secondary role in these countries. Its expansion in recent years results essentially from the integration of community law into national law. The law lays down provisions concerning the progress of collective bargaining (industrial harmony, mediation and conciliation procedures, and resorting to strikes or lock-outs), but takes care to leave the greatest

²³ Among other rights, immunity in the case of a strike that is part of a trade dispute, and the close closed shop system.

possible autonomy to the negotiating partners. In particular, collective agreements are not subject to administrative extension. For everything else, legislation on work relations varies enormously from one country to another: there is no *Nordic* model of labour regulations. In Sweden, restrictions on layoffs, fixed-term contracts and working hours are among the toughest in the European Union, whereas they are very weak in Denmark.

In the Nordic countries' social democratic system of social protection, there is a high rate of labour force participation, particularly among women. In the three Nordic countries of the European Union, more than 70 percent of women of working age either have a job or are unemployed (this proportion is close to men's 80 percent). This situation stems largely from a substantial supply of childcare services, and provisions for generous parental leaves.

Continental Europe

Labour markets in some continental European countries (Germany, the Netherlands, Belgium, and Austria) function in a comparable way to the Nordic countries, at least in matters involving collective bargaining and conventional law. However, the level of unionization in continental Europe is not as high. In 1995, the percentage of unionized employees varied from 29 percent in Germany to 52 percent in Belgium, and is down compared to the 1980s. However, as in the Nordic countries, organized labour seemed to be relatively united, and long established distinctions based on religion have tended to disappear.

However, in continental Europe the law plays a slightly more important role than in the Nordic countries. Collective agreements must be compatible with national legislation. They therefore have the force of law (Germany and Netherlands). In certain countries, the government can extend the provisions of collective agreements through legislation, especially when one of the parties to the agreement so requests. Through this practice, which is standard in Belgium and the Netherlands, the government recognizes the primacy of the parties engaged in labour negotiations in defining labour market standards. Nonetheless, the government is not a bystander in this matter, since by threatening to introduce legislation it can pressure labour and management to negotiate certain issues it considers a priority. In the case of the Netherlands, several initiatives illustrate the interplay between the government and the parties to the negotiations: the Wassenaar Accords of 1982, the legislation implemented in the 1980s then dismantled in the 1990s, and the lowering of minimum wages for youth that were recently included in collective agreements. The legislation governing labour relations varies a great deal among these countries. The constraints on short term contracts are weak in the Netherlands, but the probationary periods in this country are relatively long. The situation is the reverse in Germany.

Southern Europe

The social system of countries in Southern Europe (Spain, Greece, Italy and Portugal and perhaps France) does not, strictly speaking, constitute a fourth model. It nevertheless has features that make these countries a distinct institutional group, combining various features of other European social models in a unique way. In the Southern countries, as in the countries of continental Europe, unions play an important role in industrial relations. In the South, however, union rights

are mentioned explicitly in the Constitution and, unlike the situation in the North, do not derive from the right to organize (right of association). In general, union rights, and the way these rights are operationalized in firms, are based on very precise legislative provisions. The greater role assigned to legislation in this field reveals that conflict-centred industrial relations are more prevalent here than in other continental European countries. This may be attributed to the fact that union leaders in Southern Europe subscribe to different currents of ideological thought. Union disunity, too, is more pronounced here than in other areas. The rate of unionization is lower here than in the Northern part of the European Union and, between 1985 and 1995, declined in all Southern Europe (except Spain). In spite of the lower proportion of representation, there are collective agreements for about 80 percent of workers, a proportion that is identical to that in the northern part of the European Union.

As in the Netherlands and Belgium, legislation in Southern Europe plays an important role in the organization of industrial relations. By frequently resorting to procedures that extend the administrative reach of collective agreements, governments in the South have encouraged management and labour to take the initiative in defining labour market standards. Governments can get management and labour to deal with certain issues by passing legislation on the objective sought, while leaving implementation methods to the negotiation stage. Examples of this approach in France and Italy include the laws on the 35-hour workweek and the so-called “social dialogue.”

Lastly, there is a certain heterogeneity in the levels of negotiation among these countries. Negotiation is very centralized in Greece. Italy’s situation is somewhere in-between. The reforms in industrial relations in the first half of the 1990s somewhat reinforced the principle of centralized, industry-wide bargaining, especially by organizing negotiations at various levels. Thus, companies can waive industry-wide wage settlements when productivity gains or profit sharing are particularly high.

Employment Policies in Europe

During the 1990s, all European countries sought to change their unemployment compensation system to make them less costly and to provide more incentives to seek employment. However, the strategies pursued in the various countries differed from one another. These differences may be understood with reference to the social protection system used in each country. Liberal countries tended to reinforce the restrictive character of benefits so as to encourage the unemployed to return to the labour market; Nordic countries set up programs to “activate” their social expenditures and created government employment; continental countries “subsidized” unemployment and tended to exclude women, the very young and the very elderly from the labour market. Now, faced with the rising cost of these labour shedding policies, the countries of continental Europe are increasingly taking steps to place limits on the generosity of unemployment compensation, funding to non-employed workers (unemployment benefits with a waiver on the job search, pre-retirement, disability pensions and long-term sick leave) and “activated” expenditures.

Employment Policies in Liberal Countries

State intervention in employment policy aims primarily to promote market mechanisms, especially by intervening in the supply and demand for labour. It promotes entry into the labour force by coercion rather than by subsidies or by training and skills policies. The welfare states in these countries are highly selective in whom they choose to support; indeed, they are compensators of last resort.

The reforms in unemployment compensation and employment policy introduced in Great Britain from the early 1980s belong to this model. Britain's unemployment compensation system is two-pronged, providing unemployment benefits and an assistance system of income support. However, the two benefits are lump sum and similar; recent reforms have tended to lump these two benefits together. Over the last fifteen years, there have been three trends in Great Britain's unemployment compensation: a decline in the level of benefits, an increase in selectivity and pressures to return recipients to the workforce.

Benefit levels were changed many times: cancellation of the extended lump-sum benefit (based on earnings) in 1980; cancellation of statutory benefits indexation in 1986; taxation of the unemployment benefit from 1986 forward (cancelled in 1992). In general, commentators agree that it was the unemployed who lost the most in the social policy reforms carried out by Thatcher governments.

In Great Britain (as in the United States), numerous cash social security benefits became the focus of a policy of attrition.²⁴ Between 1986 and 1995, the level of unemployment benefits declined relative to the average wage: thus, in 1995 the level of income support declined from 15.9 percent of the average gross wage to 13.5 percent (Bonoli and Palier, 1998). Cuts in unemployment benefits were even deeper. These benefits underwent a similar process of attrition. In 1996, with the introduction of the Job Seekers' Allowance, the maximum claim period for unemployment benefits was reduced from one year to six months. Since social assistance payments and insurance benefits were being treated differently, income support played an increasingly important role in the social protection of the unemployed, increasing the selectivity of the British system of unemployment compensation. In 1997, only five percent of social expenditures for the unemployed came from the National Insurance Fund.

Third, policies in this sector tried to encourage the unemployed to return to the labour force. They used two principal methods: making work pay and reinforcing availability for work. Thus, the level of taxation was lowered considerably for unemployed individuals who accepted poorly paid work, with government assistance making up the lowest wages (Thatcher government's Family Credits and the Blair government's Working Family Tax Credit). Several forms of income support benefits, such as child care vouchers, were created for workers' whose wages were very low. "Availability for work" was reinforced by limiting access to benefits for the unemployed. Recipients of the Job Seeker's Allowance must prove that they are actively seeking employment. In addition, all recipients must sign a contract (the Job Seeker's Agreement) in which they set out their job search strategy. Payments of the benefit can be

²⁴ Lump-sum benefits – already quite low – are not indexed to wages and thus gradually lose their capacity to provide a decent replacement income.

stopped if the unemployed person repeatedly refuses to accept work that has been offered. Recently, the Labour government supplemented these mechanisms by setting up a “welfare to work” program that sought to improve training for youth and the chronically unemployed. Tony Blair’s Labour government introduced a new training strategy for workers as part of the New Deal seeking to improve levels of skill and reinforce occupational mobility. It set up training programs targeting specific classes of persons (youth, single parents, the disabled and ethnic minorities). However, these measures to train the unemployed remain very modest compared with their Nordic counterparts. The introduction of a national minimum wage, applicable as of April 1999, aimed to establish a wage floor in order to protect the wages of the most disadvantaged classes. It falls within the framework of the social safety net, and does not constitute a wage policy instrument. It is fixed at a low level in order to respect the market logic that is the basis of the United Kingdom’s employment policy.

Active Labour Market Policies in Nordic Countries

From the 1950s until recently, the Nordic countries had avoided large-scale unemployment thanks to an expansion in public services, active labour market policies (education, training, special employment programs), and consensual wage negotiations at the national level. The result was a large increase in employment for women, principally in the public sector, and a decline (though of a much lesser magnitude) in male participation (among older workers) during the 1970s and 1980s.

However, by the end of the 1980s these countries’ rates of unemployment were increasing rapidly. There were numerous debates about disincentives to work when social benefits were very generous. When “bourgeois” (conservative) governments came to power (in 1982 in Denmark, in 1991 in Sweden, in 1992 in Finland and in 1998 in Norway), the Nordic countries went through periods of budget cuts designed, among other things, to adapt or reduce the generosity of their unemployment compensation systems. On the other hand, starting in the early 1990s they decided to “activate” various social expenditure measures. These measures were in keeping with their new policy direction: placing the accent on work in order to avoid dependence on social protection. Each country took steps that were substantially different from the next and based on a different schedule, depending on the time-frame and the magnitude of the rise in unemployment. However, these actions also depended on the date that the conservative government initiating these new policies came to power, policies that in most cases were pursued later on by social democratic governments back in power.

Employment policies in Nordic countries take two forms: seeking advanced levels of skill for the greatest number of citizens, in order to keep the skills with in line with salaries (the training effort); absorbing the excess supply of labour, especially through job creation in public services and the community sector (education, health, social services and environment). In the logic of the Nordic social model, there is a firm guarantee of income in case of loss of employment. The issue of the morality of such a generous insurance system (since staying on unemployment insurance may be an attractive option for certain individuals) is dealt with directly through monitoring the trajectory of every job seeker and by the suspension of compensation payments if they refuse suitable employment or training. Considering Nordic countries’ expenditures on worker training, public employment services, subsidies for private sector jobs, and the creation

of government jobs, they are the European champions when it comes to active policies. According to the OECD, these expenditures amount to approximately two percent of the GDP in Sweden, Finland and Denmark.²⁵ Today, the active policies of these countries set the standard for all countries of the European Union.

In general, the work-oriented policies and “activated” social expenditure policies involve creating government jobs, developing training programs and setting up policies to induce people (positively and negatively) to work. Positive inducements include the introduction of flex time (flexible timetables) for women and the elderly; parental, educational or sabbatical leave (especially in Denmark) and labour market re-entry as a supplement to benefits (e.g., for disabled persons in Norway). Negative inducements include imposing obligations and penalties (a reduction in or halt to the payment of benefits) combined with the implementation of active policies promoting re-integration of the unemployed into the labour market. In this way, the authorities developed programs combining assistance for the unemployed with either (a) the obligation to work within the framework of jobs either implemented or authorized by the government, or (b) participation in work-related activities, as a pre-condition for receiving social assistance.

“Frozen Fordism”²⁶ in Continental Europe

Systems of social protection in continental Europe rely on full employment to ensure universal social coverage. The social protection in the post-war period assumed that people were working full time and that they had long and uninterrupted careers leading up to a relatively brief retirement. In most countries on the continent, the concept of full employment involved primarily the male breadwinner. It was he who was supposed to provide support for the entire family (“the worker and his family” as a French government edict of 1945 put it); it was by virtue of his salary that social benefits were acquired. This dependence of families on the income and social privileges of family heads resulted in greater importance being given to job security and to guarantees of employment status (the seniority principle, regulation of hiring practices and employment termination) than to the development of employment for all.

The steps taken by the countries of continental Europe in reacting to the economic crisis of the 1970s, and to the increase in unemployment that the crisis engendered, differed radically from those of Nordic countries (shift in employment to the public sector) or from the neo-liberal strategies pursued in the United Kingdom (deregulation and the introduction of flex time in the labour market). They are part of the logic that dominated from 1950 to 1970: the countries of continental Europe wanted first of all to preserve the jobs of qualified male workers.

Thus, the countries of continental Europe favoured income guarantees, early retirement and reductions in working hours in order to maintain the salaries and job security of permanent (male) workers. Businesses themselves at first favoured a strategy based on high salaries and

²⁵ According to the OECD, active policy expenditures cover expenditures linked to employment services for the public, labour market preparation, employment assistance in the private sector, direct creation of public sector or non-profit employment, and various measures promoting youth, aid to the unemployed who create businesses, and measures to help the disabled.

²⁶ The expression “frozen fordism” belongs to Esping-Andersen (1996).

high quality production, both of which favoured permanent qualified workers at the expense of less qualified or unqualified workers. Workforce reductions were often negotiated on the basis of income guarantees and early retirement, in the hope that the cost of massive retirement could be offset by proportionate gains in productivity. These strategies were supported by the state, which on one hand provided significant subsidies for pre-retirement arrangements and maintained a high level of unemployment compensation, and on the other hand created a group of social security benefits designed to guarantee minimal incomes for individuals who had withdrawn from work.

The strategies pursued during the 1980s and the beginning of the 1990s were closely linked to the social protection model based on the “family wage,” with career-long contributory premiums translating into eligibility for significant social benefits, much more frequently provided as cash benefits than as social services. They resulted in a high degree of labour market polarization, between a well integrated group (skilled males between 25 and 55 years of age) and a marginalized or excluded group (poorly skilled or unskilled workers, youth, women and workers over 55 years of age).

The countries of continental and Mediterranean Europe favoured policies that reduced the supply of labour. While in the 1990s the rate of male labour force participation was comparable to that of the Nordic countries (between 75 and 80 percent), the participation rate for women and persons between 55 and 64 years of age was much lower. Their early retirement policies, as well as their policies regarding unemployment insurance and disability, which extend benefit periods until the legal age for retirement, marginalize older workers. Overall, the participation of women in the labour market has increased over the last twenty years, but this change has come slowly, especially in countries in the southern part of the European Union.

More recently, the countries of continental Europe (Germany, France, the Benelux countries and Austria) have reduced the benefits that support this reduction in supply: extending the contribution time needed to receive unemployment benefits (that are less generous), stricter requirements for the right to draw benefits, greater pressure to accept a job (even when the level of skill required for the job is lower than that of the job seeker) and an equal reduction in the number of early retirements. On the other hand, compared to other European countries, these countries have not made much progress, either in terms of a more flexible labour market, or in terms of a strong growth in services or an activation of social policies.

Appendix 3. Pension Reform in Sweden and Italy²⁷

The experiences of these two countries are provided in detail in this appendix because they represent the two cases in Europe where significant reforms have been undertaken to alter the mix of retirement income and the working of the pension system.

The Swedish Reform

The Swedish pension system developed in several stages. The first was a universal one, providing everyone with a flat-rate pension after thirty years of contributions. The second was a contributory stage, financed via the pay-as-you-go method. The amount of the pension received was based on the 15 years of highest income. The third stage, based on company pensions, was advance-funded and had a contingent individual supplement based on personal savings.

Debated since 1984, the Swedish pension reform was finally enacted in June 1998. It established a system of blended financing, of the defined-contribution type.

With this reform, basic pensions, that in the past had been universal, were shifted into a category of income support. Thus, if individuals over 65 years of age (and who had resided in Sweden for at least 40 years) had inadequate resources, a minimum pension would supplement their income. In 2001, they received up to a maximum of 1,040 Euro per month. Adjustments to the minimum pension are indexed to prices, which means that increases are less than salaries or contributory pensions.

Three changes resulted in a complete overhaul of the contributory portion of the Swedish system: setting a maximum contribution rate of 18.5 percent, establishing an actuarial link between payments and benefits, and introducing blend financing for these pensions, composed of advance-funded and pay-as-you-go elements.

The new mandatory public system is financed through payroll taxes, with the employer and employee contributing equal amounts. Each pays into the national public system 9.25 percent of the employee's total income (composed of wages and benefits, as well as sick benefits or family allowance). However, there is also a ceiling, which is about 1.5 times the average salary.

Of the 18.5 percentage points of contributions, 16 (*inkomstpension*) are allotted to a personal "notional account." This is a dummy account in which the contributions paid by individuals are recorded throughout their careers. However, the money from contributions actually continues to be used to finance current pensions. The remaining 2.5 contribution points (*premiépension*) are paid to an individual account that functions on the basis of advance funding. The public body responsible for these pensions delegates the management of these funds to public or private investment companies (depending on the choice of the contributor), but deducts 2.5 percent of the contributions and retains responsibility for paying out the pensions stemming from the investment.

²⁷ Excerpts from Palier (2003).

The pension may be taken at 61 years of age, with no upper age limit. The amount of retirement pension financed through the pay-as-you-go method (*inkomstpension*), which stems from the 16 percent of the contribution paid into the notional account, varies with the amount of accumulated payments, life expectancy of the population group to which the pensioner belongs and the age at which retirement is taken. The amount of retirement pension financed through advanced funding (*premiepension*) depends on the amount of contributions accumulated and on the capital returns provided by the investment fund selected by the insured person (which vary according to the risks taken by investors). The total amount of monthly pension stemming from the public system will be lower when the estimated period of payment is longer. Thus, this system is meant to encourage Swedes to take their retirement as late as possible, while leaving them the option of retiring sooner if they are ready to accept a lower pension.

The new retirement system is required to be independent of the state's budget and to be self-financing. Insured persons are supposed to obtain information annually on their accumulated pension benefits and on the amount expected from their pension. Therefore, the public system sends insured persons annually a document informing them of the level of benefits accumulated up to that point and provides a projected calculation of the amount of their pension. The transparency of the system is supposed to enable them to take decisions regarding their age of retirement and their personal savings. Such transparency was needed to obtain the support of workers for this reform.

This profound upheaval of the Swedish pension system was based on an agreement between the country's five main political parties and negotiated over several years. The new system is supposed to be introduced gradually. Persons born before 1937 continue within the old system; those born between 1938 and 1953 receive part of their pension based on the old system and part based on the new system; lastly, those born after 1954 will receive all of their pension from the new system. The significant reserve funds built up since 1960 to supplement the financing of retirement pensions (and disability pensions as well), amounting to more than 26 percent of the GDP, are supposed to finance the transition period.

It is difficult to predict the results of a reform that will not be fully operational until 2015. However, there are indications that there could be a fall-off in public pensions, to the extent that adjustments in income support pensions are price indexed and the amount of the pension is no longer stable but depends on future economic and demographic conditions. In addition, it is not certain that all elderly Swedish workers are able to significantly extend their labour market activity (employment rates in Sweden are already the highest in Europe).

Consequently, supplementary occupational pensions and private savings could rise in importance. The supplementary occupational pension stage financed through advanced funding is based on company-wide agreements. It currently covers 90 percent of employees. Contributions amount to between two and five percent of wages. Pensions paid through these plans currently account for 14 percent of all pensions and primarily allow higher earners to supplement their basic pensions. Most occupational pension plans were of the defined-benefit type, but are increasingly being transformed into systems of defined-contribution type. In 2002, individual, voluntary retirement savings, for which the state offers a tax exemption, accounted

for five percent of total pension expenditures. There were most attractive to the highest income earners.

The Italian Reforms

In the late 1970s, Italian governments began looking for ways to reform a pension system that had become costly, fragmented and unbalanced. For example, it provided public employees with very generous pensions but the self-employed were eligible for only meager or no pensions at all. Several attempts at reform were made in the 1990s. A cautious reform in 1991 did not introduce any far-reaching changes, and thus did not run afoul of any “protected rights” (long service pension after 35 years of contributions, very generous public sector plans). A reform devised in 1995 by the government of Prime Minister Berlusconi challenged such rights, and provoked numerous mass demonstrations, causing the government to fall.

In 1995, the government of Prime Minister Dini adopted another strategy for pension reform, involving the active participation and consent of the unions. This reform provides for: consolidation of numerous pension plans; a change in the method of calculating pensions, linking the level of pension received directly to contribution levels (albeit with adjustments); a flexible retirement age, between 57 and 65 years of age, with the pension amount increasing as the retirement age is pushed back; the cessation of pensions for long service in 2013; a distinction between pensions that fall within the domain of insurance and those that come under assistance, which are supposed to be funded through tax revenues. Implementing this reform was considered a very progressive step, and it was accepted by a worker referendum organized by the unions following consultation and information sessions in the workplace.

In 1997, new legislation was passed to accelerate the pace of reform and facilitate the creation of a supplementary pension plan based on capitalization: tax incentives were planned to help transform the old company pension plans into real pre-funded pension funds.

This set of reforms is likely to radically transform the Italian system into a system of defined contributions. However, the transition period envisaged for the implementation of this system is very long (around 50 years) because only individuals who came on the labour market after 1995 are subject to the new rules.

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- Saskatchewan Social Services

Municipal Governments:

City of Toronto
Regional Municipality of York

Foundations:

Aga Khan Foundation Canada
The Atkinson Charitable Foundation
The Bertelsmann Foundation
Canada Millennium Scholarship Foundation
Canadian Health Services Research Foundation
The Change Foundation
Frosst Health Care Foundation
The Hospital for Sick Children Foundation
The Laidlaw Foundation
J. W. McConnell Family Foundation
The Muttart Foundation
The Neptis Foundation

Associations and Other Organizations:

AFP Foundation for Philanthropy – Canada
AFP Calgary Chapter
AFP International
AFP Toronto Chapter
Association of Fundraising Professionals (AFP)
Canadian Cancer Society
Canadian Institute for Health Information
Canadian Labour Congress
Canadian Population Health Initiative
Coalition of National Voluntary Organizations
College of Physicians and Surgeons of Ontario
Conference Board of Canada
Federation of Canadian Municipalities
The Learning Partnership
United Way of Greater Toronto
University of Toronto (Faculty of Law)



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