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Lutz Brangsch and Cornelia Hildebrandt (ed.)

The Prospects of the European Welfare State – Review and Problems Challenge for the Left

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The Prospects of the European Welfare State. Review and Problems

By 2010, EU-Europe will have become the most competitive and dynamic knowledge-driven economic area in the world. This was the ambitious goal stipulated in Lisbon in the year 2000. The unity of innovation, growth and employment development were to form the core of a coherent strategy in the fight against the competitors on the world markets. Every political area was to be scrutinised vis-à-vis its role in achieving a new power constellation on the world markets as regards the contest in particular with the USA, Japan and China. The employment quota was to be increased from 61% to 70% based on a three percent annual growth rate by modernising social security systems. Using a new open method of coordination, national policies were to be evaluated with the aim of determining the “best practices” in the fields of employment and social policy. Thereby, important elements of social security were shelved, and state and public forms of social security displaced or discredited by the spread of private forms. What actually may have been, or is, conceptually at the root of these objectives remains to be seen – ultimately however, the proclaimed goal was not achieved.

Seen in this context, the policies of the EU and its member states often resemble an attempt to stick a round peg in a square hole. The relative social and political stability, based on a fully developed mechanism of consensus building and power balance (called the welfare state), was to remain intact, at the same time however, the social rights substantiating this stability were to be dismantled and their guarantors, primarily the trade unions, weakened. This becomes particularly clear in the concepts of an „activating “welfare state linked with an “activating” employment policy.

The effectiveness of the welfare state is to be tested for its “activating” role and consequently, employment laws and protection against dismissal are to be relaxed. Accordingly, appropriate employment programmes are being installed almost simultaneously in most European countries such as France, Belgium, Denmark, Ireland and the Netherlands. The “Job Active Law” („Jobaktivgesetz”), forerunner of the „Hartz” law in Germany has its equivalent in France: “Plan for the return to work” (Plan d’ aide au retour à l’emploi). The pension reforms at the beginning of the 1990’s in Greece: lowering the pension rate from 80% to 60% and increasing the retirement age from 60 to 65, are being similarly implemented in Germany, France and Italy. New legal agreements on occupational pension schemes are barely noticed, but they too have wide reaching consequences: deregulating and opening these up to competition ultimately aims to create a European pension funds market. Health care reform is closely linked to the creation of a European health care market in which the patient mutates into customer and is subjected to deregulated competition. From 2006 onwards, within a European strategy of social security, pension reforms, health care and the care of the elderly are to be pooled and fashioned in accordance with the dictates of a neoliberal economic and financial policy. An initial vote by EU Social Ministers during their informal discussions on the possible central issues of the “Socio-political Agenda 2007-2013” determined the course: lengthening working life, modernising social security systems, balancing rights and duties, guaranteeing flexibility and security, making work worthwhile and so on. Complementing this is the draft of the EU Service Directive (the so-called Bolkestein Directive), which involves the abolition of state provisions as regulators in all services, including social services, by 2010, with the consequence of directly encroaching on health systems and social services as well as the utility systems of European countries. Finally, the threat of sanctions indirectly affects the shape of social security systems if the Maastricht stability pact is not abided by. A statement from Brussels on the Portuguese budget deficit clearly points out that the rise in salaries and wages in the public services was too high and that social spending, particularly in the health sector, had exceeded the stipulated limit.

The only concrete result of the Lisbon process is a radical reconstruction of the whole of society; the redistribution of power, sanctioned and implemented on a national political level and agreed upon and promoted by newly interconnected and differently functioning European institutions. The efficacy of these bodies is growing with Europe’s perception of itself as an independent actor and global player. At the same time, the processes of globalised economic and capital circuits are interconnected with parallel processes in the ever deepening European economic integration. Deregulated capital and cash flows, and the international division of labour as a consequence thereof, has unleashed a new type of competitiveness among states over international and global business location sites, so that welfare states mutate into national competitors, with the result that public services in their previous form are being suspended. In Sweden, France, Italy, Spain and Greece this involves lowering expenditure for social security systems, reconstructing and dismantling them, culminating in private provision. In Italy “Hartz” is called “Dini Reform”. Labour market reforms, like the Hartz Laws in Germany, are linked throughout Europe with national particularities: in France, the law for increasing the incentive of taking up work has been in force since January 2004 and limits benefit payment to three years for all those currently in receipt of benefits.

It is probably inadequate to describe this tendency with the term „Americanisation of social security“. Social systems cannot simply be imported. A new form of deregulated social security is in actual fact arising in the EU and its member states, which in a different historical context will exhibit different political, social, economic and cultural consequences. Even more so than in the USA, fear will be one of the central driving forces of future social processes. Unreal as it may be, the American dream of advancement as a positive value has no counterpart in EU-Europe (other than in the new member states, perhaps). In this context, the failure of the Lisbon strategy is logical; the attempt of fitting a square peg into a round hole has failed and had to fail. What, however, is the significance of this for the development of alternative scenarios, for the development of alliances and for triggering resistance?

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These changes in power relations, which neoliberal reforms have implemented politically in the whole of society in favour of private business and the financial oligarchy, have set the scene for the disintegration of the economic, social and cultural foundations of the former compromise of the welfare state. The issues of redistributing work and moulding social security systems are on the agenda and these can no longer be conceptualised within the confines of national boundaries. Global challenges, transformations within the world of work, new expectations that people have from life and no doubt further factors open up an entirely new realm of demands on the development of social security systems, which existing models have not been able to meet for a long time. Neoliberal ideology's answers are grouped around a singular concept of mankind: the idea of the individual as "entrepreneur of his/her own labour, solely responsible for the provisions of life", as it was to materialise in the German model of the Ich- AG. The self-determined, solidary, socially secure person is not the model for this type of politics, but rather the Ich- AG on the lowest possible social level. In the different social state models and realities of continental Europe, significant common ground exists in the dispute concerning this new concept of mankind and the thereby implicated concept of society. The left must find answers to this political transformation. However, at the same time it must also find ways of meeting the new demands on social security which have manifested themselves in life. Innovation, to pick up on the thoughts of the Lisbon strategy, must be understood as a process taking place throughout the whole of society, not as one in which the rest of society effectively conforms to economic processes which are seemingly determined by the laws of nature.

Outside the framework of the nation state, further problems immediately come to the fore. There is a European Social Charter, but no social law – not even under the European constitution – according to which individuals can make demands directly to Brussels. There are no European wide taxes which are paid into a European social budget and, likewise, no European social establishments which contribute to financing Europe's social security systems. Finally, the European institutions (European Council, Commission, Committees, and Parliament) do not possess the essential abilities which would enable an actual European social state to be created.

Under these circumstances, how is it possible for the left to formulate collective demands against a further dismantling of Europe's social security systems? How can social standards be developed and eventually enforced? Under the circumstances of post-Fordian modes of reproduction, globalisation and demographic development, how can the further breakdown of solidarity and its development into a political explosive be prevented? A new approach must put the issues of power and property on the political agenda along with issues of contemporary social and societal policies. And finally – who will implement this new approach?

The following volume includes articles that were presented at a workshop in Frankfurt/Main and supplemented with further contributions on the development of the European welfare state. They concentrate on questions which were developed in a collective investigative process within the framework of a European network: transform! First and foremost it was necessary to review the situation of current developments in European countries and, above all, to analyse the EU-European dimension, that is, the role of the European Union.

The following questions were formulated in preparation for the workshop and are dealt with in the individual articles:

- Which are the most important actors, potentials, networks in the debate about the welfare state? What are the main lines of debate in the various countries?
- Is the transition from „inclusion to exclusion" central to social policies? Are there – different from the past – organisations of the excluded? Is a growing and, in contrast to former decades, desired marginalisation of social and other population groups taking place?
- In which areas of social policy (here always understood in the widest sense) are discussions taking place in the various European countries?
- What are the various faces of the precarisation of labour? What is their impact on societal cohesion? In what way are social policies and the debate about their underlying model an expression of power issues?
- How could a basic income change the relations between capital and labour?

- What are the impacts of EU expansion in 2004 on the social policies of the union? What is the pressure on social security systems? What chances ensue for the accession countries, above all for the left's possibilities of cooperating?
- What can feminist welfare state critique contribute to the continued debate about the welfare state?
- What are the positions of left parties in current debates?
- What role does the EU and its institutions and various levels have in European social policy? Is there a trend towards re-nationalisation or rather a strengthening of the role of the Council of Ministers? Do the left and others who oppose social cutbacks see the EU as a chance or rather as a threat in comparison to national trends and possibilities?

This volume is only a beginning, a review of the situation. On the basis of this, deliberations on a new type of European welfare state must be developed and debated. Where will the left find the beginnings of collective action which take into consideration the differences in social security systems, the different speeds of European development and the dynamically changing interwoven penetrations of European, national and regional levels.

How can a trend towards a more self-determined life, which is socially secure in the face of growing social differentiation, polarisation and precarisation be made possible? How can a unified social, ecological, economic and financial development be achieved which opens up global sustainable development paths and subordinates transnational and regional value chains to these aims?

In this respect, the European left finds itself at the very beginning with some first concepts: shortening working hours; achieving uniform social security via a possible basic financial security; a minimum wage and the protest and struggle against the disintegration of public provisions, against GATS and for the maintenance of public provisions, are all initial answers.

Every long journey begins with the first step.

André Brie

European Social Policy: The Demolition of the Social State Historical Roots and Processes. Current Developments

Introduction: The exploded dream of a unified, social Europe

The common experience of resistance against the regimes of Hitler and Mussolini and the occupation policies of the "axis powers" during World War II already led to debates within the broad anti-fascist spectrum concerning the necessity to unify Europe. From diverse national groups a European movement emerged, which after the end of the Second World War experienced a brief idealistic blossoming. For this movement, the creation of a social Europe as one consequence drawn from having had to overcome fascism and war stood at the top of the agenda. It consciously advocated a European perspective (United States of Europe) of reconstructing democracy, which was to be nourished from the different traditions of anti-fascist resistance.

Thus the "Manifesto of Ventotene", inspired by Altiero Spinelli and his fellows in the later on socio-libertarian Italian Partito d'Azione, back in 1941 demanded a new ordering of Europe, aimed at a mixed economy and socialisation of the key industries: "The European revolution has to be socialist in order to do justice to our needs; it must strive for the emancipation of the working-class and the creation of more human conditions of life. The needle of this compass, however, should not be swung into a purely theoretical direction, according to which private ownership of the means of production should be abolished completely or only be tolerated temporarily, if there is no other way. (…) Private property must, on a case-by-case basis, be abolished, constrained, corrected or expanded and should not be handled according to a mere dogmatic moralising stance. This guideline fits in perfectly with the developmental process of a European economic life liberated from the alp of militarism as well as national bureaucracy. The rational solution should replace the irrational one, also in the consciousness of the working people."

The Manifesto also demanded that the reconstruction of the European economy be grounded on the principles of the social state: "The almost unlimited capacity for mass production of existential goods thanks to modern technology today permits to everyone to secure at relatively minor social costs dwelling, food and clothing, as well as a minimum of comfort indispensable to human dignity. Human solidarity towards those who succumb in economic battle, however, should assume no charitable forms, which would humiliate the recipient and provoke precisely those ills, whose consequences one seeks to combat. One should, on the contrary, adopt a series of measures which enable each and everyone to have a decent standard of living, whether he or she can work or not, without on the other hand lowering the incentive to work and to save. Thus nobody will be forced any longer to accept strangulating work agreements out of misery."

The Hertensteiner programme of the German Europaunion of 1946, based in this tradition as well, demanded a federated, united and social Europe: "The European Union cares for the planned reconstruction and economic, social and cultural cooperation as well as for the employment of technical progress exclusively at the service of humanity. The European Community is not directed against anyone and renounces to all power politics, however, it also refuses to be the tool of any foreign power."

In this last claim, the conflict of Europe's reorganisation by the USA on the one and the Soviet Union on the other side already comes to the surface. But still in 1950, when in the newly founded Federal Republic the initial enthusiasm was already beginning to fade, the German Council of the European Movement demanded a European policy of full employment, of employee mobility and the build-up of a comprehensive system of social protection. It was oriented towards the "ideal of unified European social insurance and protection law", which would "provide for all-European reciprocity of benefits and take the necessary steps for clearing and equalisation at the maximum." (Mühlbach 1950). The European movements were thus aiming at the step-by-step construction of a European social and welfare state.

With the growing "systems' competition" and the beginning of the Cold War, the possibilities of the European Movements to implement their visions in the practical shape of policies declined. The idea of a unified, social Europe as a "Third Way", in opposition to "Soviet Communism" and "US Capitalism", defended by Social Christian, social democratic and trade union circles in the European movement, increasingly lost its grounding. Eastern Europe, following the notion of "people's democracy", was firmly tied to the Soviet area of influence. In Western Europe, the USA and the West European political elites linked to it (e.g. Adenauer, Schumann, Monnet) certainly pursued an independent European integration project. However, it was only aimed functionally at the creation of a West European market space and the restoration of capitalism. Yet, at the national level, not necessarily the West European level, the West European project was quite certainly linked to the build-up and extension of structures of the social state.

Social policy – the step child of European integration

The first 30 years and more of West European integration – from the founding of the three European Communities: European Community for Coal and Steel (ECCS), European Economic Community (EEC) and European Atomic Community (EURATOM) in the 1950s to the EC- domestic market project in 1986, were marked by an economic and social developmental model that was widely called the "Fordist-corporatist welfare statehood". The basis for it was the establishment of a "class compromise" between workers' movement and business at the level of the nation state. This on the one hand stabilised a liberal, open market economy. On the other hand, on the basis of fast economic growth, it made possible income increases for the working people and the cushioning of social risks by social-state mechanisms. EC integration in this era largely served the protection of "Fordist" developmental paths within the nation states in the ways described. Especially in the first years, they were designed primarily by US-oriented, anti-Communist politicians of the Catholic-conservative camp. At the European level, the primacy of market creation held. Social policy was considered a secondary priority – following the principle of subsidiarity, it was after all regulated and strongly anchored already at the national level.

Social policy in the EEC (1957 – 1974)

The Treaty for the European Community for Coal and Steel of 1951 already contained some very few social policy provisions. The formulations and fields for action of the EEC Treaty of 1957 in the area of social policy contained for the most part non-committal declarations of intent. They concentrated mainly upon measures to counteract the existing constraints on mobility of workers and employees in the EC.

Therefore, the following fields of actions in the area of social policy could be found in the EEC-Treaty:

- equalisation of social insurance systems (Article 51)
- improvement of life and working conditions (Article 117)
- promotion of cooperation in socio-political questions (Article 118)
- social protection of migrant workers (Article 51)
- promotion of professional and spatial mobility with the help of the European Social Funds (Article 123 to 127).

The European Social Funds was established in 1960 and financed at first predominately re-qualification and relocation measures. Until the mid-1970s, it practically constituted the most important activity of European social policy. In 1970, finally, a European framework for coordinating the social insurance legislation of the nation states was created and later on developed further. Thereby, it is to be guaranteed that citizens (women and men), of the member countries can freely move on community territory. If they work in another member country, they may not, in the social security area, be treated worse than the own citizens of that country irrespective of sex. Claims to legally regulated social security can be taken along in part due to the coordinated systems of the nation states (thus pensions, unemployment benefits, health insurance abroad, but not welfare benefit) and claims earned abroad (e.g. pensions) be summed up according to a unified credit system.

In 1974, the first "Social Action Programme" of the European Community was implemented. The social policy programmes as a rule relied on general competence norms (Article 100 and 235 ECT) and presupposed unanimous decisions in the Council. The goals of the "Social Action Programmes" were the protection of full employment, the improvement of life and working conditions with the perspective of their equalisation Community-wide and the increase in the participation of the social partners in the economic and social policy decisions as well as the working people in the fate of enterprises in the whole EEC. In this respect as well, however, the question was not of binding declarations of intent corresponding to the then reigning spirit of "Keynesian global steering". Main points of emphasis of the more concrete European social policy since the mid-70s were specific action programmes concerning security and health protection at the work-place, the integration of disadvantaged groups into the labour market, rules for coordinating social security for migrant workers and for the promotion of equality of chances for women. European policy of equality of chances in fact made a relevant contribution to the rise in consciousness and to partial changes in legislation in the more conservatively imbued member states.

Stagnation of European integration ("Eurosclerosis", 1979-1985)

The phase of "Eurosclerosis" was marked by a general stagnation in the progress of integration and an increasing re-nationalisation of economic policy. Given the background of the fundamental changes in the economic conditions of exploitation, it, in the final analysis as it were, ended the economic and social developmental model of the "socially embedded, Keynesian-corporatist liberalism". Above all, the new British government of Margaret Thatcher prevented any kind of progress in the further development of Social Action Programmes and corresponding European legislation. Commission president Jacques Delors in 1984, it is true, was able to push through an initiative to let social partners at the European level enter into a "social dialogue". Behind that stood the idea of installing a "social partnership" at the European level, which later on was supposed to usher in a European system of collective agreements. Yet, except for non-binding talks and declarations, nothing ensued. The employers' unions refused to become bargaining party at the European level. The work and wage policy conflicts since the beginning of the 80s already increasingly shifted to the level of the firms.

Domestic market, Euro and currency union: reorganisation of the integration pattern

At the latest with the Unified European Act (UEA, EC domestic market project) 1986/87, there began a deep-reaching remodelling of European integration towards a "competitive-state-based integration method" [1]. It is based on an all-European strategy of lowering costs, so as to benefit enterprises and thus promote their international "competitiveness" as well as discharge the state of tasks and "slim" it down (liberalisation and privatisation of up to then state provided or regulated public services such as energy supply, the railways, post, telecommunications etc.).

The domestic market project was grounded on the principle of regulatory competition (mutual recognition of product standards, only low harmonisation of corresponding provisions at the European level, competition between the tax and social systems of the national states). Also as far as the economic and currency union and the Euro-financial regime were concerned, motives of competition and finance policy played the main role. The so-called convergence criteria of the Maastricht Treaty were oriented towards the priority of the fight against inflation and especially towards the reduction in budget deficits and in the overall national debts. Thereby, the social expenditures perceived as "consumptive" increasingly got under pressure. Within the currency union, essentially the wages are left over as the variable that has to adapt, because the possibilities for exchange rate policy are eliminated. The same philosophy is at the core of the creation of an integrated European financial market. The integration pattern based on the competitive state thus constantly puts the national social states under pressure and increasingly undermines their basis (disappearance of the insurability of homogenous work and life risks by way of flexibilisation and segmentation of labour, by way of the increase of special forms of employment such as time contract work, part-time work, work on call, minimal jobs etc.).

It may, in the light of this background, at first sight appear paradoxical that in the European Contracts since 1986 social policy concerns are at least symbolically re-elevated in a gradual manner. The first phase (1986-1992) distinguished itself by first small steps in this direction. The UEA placed great emphasis on the goal of "social cohesion" (Articles 130 a to e) and tried to give it sustenance by the extension of the European Structural and Regional Funds. Article 118 a ECT introduced the principle of majority decisions in the Council with respect to "questions of working environment" (in particular work and health protection at the work-place). The at that time Commission president Jacques Delors, however, wanted to push through a more comprehensive "social dimension of the domestic market", but did not succeed. Article 118 b only enshrined the "social dialogue" (as possibility for the participation of employers' and trade unions in the "social design" of the domestic market). The "Community Charta of Social Basic Rights" adopted by the European Council of Ministers in 1989 (without Great Britain, however) entailed no legal obligation and, moreover, continued to hold on to the primary responsibility for social policy at nation state level.

Maastricht Treaty and Founding of the EU (1991): Social policy without Great Britain

The Maastricht Treaty (Treaty on the Founding of the European Union) of 1991 also did not lead to any essential social policy innovations, but to a tricky legal exception. Because Great Britain refused any integration of social policy concerns at the contractual level, the remaining eleven member states passed the so-called social protocol as well as the Maastricht Treaty on Social Policy. For these eleven member states it determined social policy topics, which may fall under the common regulatory competence:

- minimal standards for work conditions (which can be adopted by qualified majority),
- social security, protection against dismissal and information and consultation rights of working people (by unanimous vote),
- social dialogue of the social partners, which allows "contractual relations including the conclusion of agreements" at the European level.

1 Some authors already see the introduction of the European Currency System (ECS) in 1979 as a precursor of this development. Compare Beckmann/Bieling/Deppe 2003.

Thus, in the 1990s various new and modifications of old European guidelines came about, which in some areas anchored social minimal standards in the domestic market, concerning:

- work and health protection (machinery guidelines, work protection in the construction of scaffolding, computer display work guideline etc.),
- general conditions of the work contract (maximal labour time as well as holiday, night and shift work, atypical work relationships, employee dispatch, work relationships codified in writing),
- equality of chances for women (equality of wages, general equal treatment, burden of proof),
- crises of firms (transition in ownership/management, massive dismissals, insolvency),
- mother and youth work protection,
- as well as concerning participation of workers and employees (guideline about European work councils, information and consultation of working people).

The European Social Funds (ESF) also obtained widened tasks. In the 1980s, its means had been employed primarily for the insertion of unemployed youth. A majority of funds had been channelled to the poorer member states. The "Delors Packages" (1988 and 1992) increased and extended the application of the means of the Structural Funds. In this framework, the ESF took on tasks primarily in the area of countering long-term unemployment, the integration of young people into working life, the adaptation of the work force to industrial structural change and accompanying measures for the renewal of traditional industrial regions.

The extended social dialogue made it possible for the two European employers' unions and the European Trade Union Confederation, as already mentioned, to pass common declarations or to reach agreements on certain topics. Negotiated agreements between the European social partners could, upon proposal by the Commission, be converted by the Council into a European guideline. This happened for example with the EU Agreement of the Social Partners on parental holidays and part-time work.

The concepts of social minimal standards in the EU domestic market bear witness to an undeniable fact: The economic performance capacity and the social welfare state constitutions of the EU member states are very different. In the large majority of EU social policy guidelines the principle of the smallest common denominator therefore mostly dominates. In comparison to the labour and social policy standards of the more developed social states (e.g. Sweden, Denmark, FRG), the European norms are often weaker. Exceptions are constituted perhaps by the prevention principle enshrined in the EU Law on the Work Environment, the computer display work guideline and the politics concerning equality of chances for women.

Treaty of Amsterdam (1997): European employment strategy and integration of the social protocol

In 1997, the government of Tony Blair ended the British Opting Out in matters of social policy. The Amsterdam Treaty contained a separate Title VIII "Employment". Thus it became possible to coordinate the national employment policies of the member states on the basis of European guidelines. The member states were obligated to set up yearly National Action Plans on how they were implementing these guidelines. However, these guidelines also primarily contained non-binding recommendations.

At the same time, a new Title XI "Social policy, general and professional education and youth", the EU social policy areas up to then contained in the Social Agreement, and the Social Protocol were integrated into the treaty, bundled anew and partly extended. This included topics such as work and health protection at the workplace, working conditions, professional insertion; equality of chances between men and women on the labour market, equal treatment at the work-place and equality of wages without discrimination on the basis of sex; social security and social protection of working people, information and hearings of those employed, collective bargaining, promotion of employment and much more. The new Article 13 of the Amsterdam Treaty for the first time enabled legislative and other initiatives of the EU to fight "discrimination for reasons of sex, race, ethnic provenance, religion or world view, disability, age or sexual orientation."

As a result of the Amsterdam Treaty, the following social policy fields of action were now subject to a majority decision in the Council:

- employment policy guidelines,
- improvement of the working environment (employment protection and security at the work-place),
- working conditions,
- information and hearings of those employed,
- equality of chances of men and women on the labour market, equal treatment at the work-place and equal compensation for equal and equivalent labour,

- provisions for the realisation of the European Social Funds.

For all others, the unanimity rule continued to operate. Questions of work compensation, of coalition and strike law as well as of lockout continued to be excluded. In the area of struggle against social marginalisation, the Council was given the right for initiatives, which would concern cooperation between the member states with respect to improving the state of knowledge, the exchange of information and proven procedures for the promotion of innovative approaches and of the evaluation of the experiences encountered.

EU Summit at Lisbon and Treaty of Nice (2000/01): Method of open coordination

This procedure was called into life by the EU Lisbon summit (2000) under the name of "method of open coordination" as a more general instrument of governmental cooperation in various areas of policy. It is based on the assumption that for the policy area concerned (as here, for example, the fight against social exclusion), prime responsibility remains at nation state level. Coordination at the EU level implies first of all the systematic gathering of information and building upon it the comparison of "proven practices" of member states. On this basis, an attempt at laying down meaningful indicators can be made, permitting a more systematic comparison between the member states (so-called "benchmarking").

In a further step, general principles and goals or more concrete European guidelines for the European coordination (as known, for example, already from the European employment policy) can be adopted by the Council. This may lead to the consequence of member states committing themselves to national action plans. In these, they describe in what way their measures taken at the national level will serve the implementation of the goals and principles agreed at the European level. In the area of the fight against social exclusion, the Council has decided, for example, in favour of very generally formulated European goals and principles, with the member states committing themselves to national action plans of a two-year duration. On the basis of the experiences with the national action plans, a common and reciprocal evaluation then takes place. The method of open coordination is therefore a legally non-binding European procedure ("soft law approach"). It does not lead to sanctions in case the implementation of European goals failed to succeed or only had inadequate impact. It is therefore an indirect European steering method, which basically relies on the common elaboration of a European guiding model and European goals (substantiated by "indicators"). The member states are subject to pressure in as much as the governments have to make explanations to one another, to the Commission and to the media, as to whether their policies correspond to the European guiding models. Put in brief, "black sheep" can turn out in the European pillory.

The EU Treaty of Nice (2001) again modified the provisions concerning European social policy. It listed the following fields of action (italic: unanimity principle in the Council):

- improvement, especially of the working environment for the protection of health and the security of those employed,
- working conditions,
- social security and social protection of those employed,
- protection of workers and employees in case of termination of work contract,
- information and consultation with those employed,
- representation and collective perception of the interests of the working people and of the employers, including co-determination rights, subject to paragraph 5,
- employment conditions of the citizens of third countries, who are legal residents on the territory of the community,
- occupational integration of the persons excluded from the labour market, irrespective of Article 150 (supplemental European measures for professional education),
- equality of chances between men and women on the labour market and equal treatment on the job,
- fight against social exclusion,
- Modernisation of the systems of social protection, irrespective of letter c).

In all of these fields of action, the Council may decide initiatives in accordance with the open method of coordination, whereby a European harmonisation of legal prescriptions is explicitly excluded. In the areas a) to i), the Council may in addition enact European guidelines with minimal stipulations. These minimal standards, however, should prescribe "no administrative, financial or legal burdens hindering the start-up and development of small and medium-sized businesses." As a rule, it decides by qualified majority, except in the areas c), d), f) und g).

The EU summit of Nice had also passed the EU Charta of Basic Rights – however, only as a legally non-binding "solemn declaration". The Basic Charta also contains economic and social basic rights, which will bind the EU institutions and EU policies in all areas, and it is planned that it will be possible to sue for them on an individual basis before the European Court of Law. The filling with content of social and economic basic rights in this context is comparatively moderate, in many respects even disappointing. The European Social Charta of the European Council with its 31 articles contains a much more precise description of social basic rights. It more strongly emphasises the equal treatment of women in all areas, the compatibility of profession and private life, the right to dignified working conditions and preventive protection of working environment and health, the right to protection against poverty and social exclusion and the right to a dwelling.

The Draft Constitution by the European Convention (2003)

With the draft of a "Constitution for Europe" (July 2003), the European Convention tried to anchor the Charta of Basic Rights in a legally binding manner as second part of the constitution. This endeavour was supported by all European governments. Apart from that, the draft of the constitution carried out changes relevant to European social policy essentially in the area of goals of the European Union (Part 1 of the Draft).

In Article 3, Paragraph 3 of Part 1 of the Constitutional Draft, it was made clear that "The Union strives for the sustainable development of Europe on the basis of balanced economic growth, a social market economy competitive to a high degree, which is aimed at full employment and social progress as well as a high degree of environmental protection and improvement of environmental quality. It promotes scientific and technical progress.

It fights social exclusion and discrimination and promotes social justice and social protection, equality between women and men, solidarity among generations, and the protection of the rights of children. It promotes economic, social, and territorial cohesion and solidarity between the member states."

While, for example, the goals of a "social market economy" and of "full employment and social progress" are new, it is noticeable that there is no longer, as in the now effective Treaty of Nice, the question of a "high degree of social protection" (Article 2, ECT).

In Article 14, it is determined moreover that the Union may take "initiatives for the coordination of the social policy of the member states".

In Part III of the Constitutional Draft (Policy Areas), there then no longer is the question of social market economy, full employment etc. It contains, in essence, the already valid stipulations and formulations of the Nice Treaty. Thus it appears that the EU Constitution has brought no substantial innovation in the area of social policy. On the contrary: The neoliberal economic policy of the "open market" and the priority of free competition is elevated into constitutional rank and also threatens to erode the already existing social and occupation policy orientations, and to make their realisation impossible.

Interim balance

As a preliminary balance of the "integration method of the competitive state" since the mid-1980s (creation of the EC domestic market, preparation and implementation of the economic and currency union and the Euro, deepening of the domestic market by way of "structural reforms" of the goods, services, capital and labour markets in the direction of liberalisation and flexibilisation, creation of an integrated European financial market until the year 2005), concerning social policy it can be established that:

- "Social policy concerns" have been symbolically integrated, especially with the Treaty of Amsterdam (under the headings "Employment", "Social Policy", "General and Professional Education and Youth"), majority decisions have been partially extended, and the "European coordination" of corresponding policies of the nation states has been made possible (employment policy guidelines, treaty stipulations of Nice);
- As before, social policy in its core stocks remains the responsibility of the nation states; the European coordination processes are to a large extent non-binding;
- The legislative activity of the EU retains gaps and is constrained to "minimal prescriptions", which quite often remain clearly below the premises set by those nation states with more developed social states.

European social policy thus disposes neither of considerable financial resources, nor does it take on any redistributive function. The social and employment policy coordination processes also do not entail that at least the member states would invest higher resources into these areas at the national level. The EU limited itself at first to a social regulatory policy (social minimal standards in the domestic market). Their vigour, however, has already lost a lot of steam since the end of the 1990s (hardly any new European guideline projects concerning "minimal prescriptions"). Instead, a "coordination" has developed, which indirectly steers social policy.

The "European Social Model" – myth or reality?

In the documents of the EU institutions (Commission, Council, European Parliament) there is always question of a "European social model", which would be clearly distinguishable from the social models of the US and Japan. The European Commission defined the European social model as follows: "It is characterised by democracy and rights of the individual, absence of tariffs, market economy, equal chances for each and everybody as well as social security and solidarity" (White Book Social Policy 1994). The European Trade Union Confederation provided an even more resolute definition: "This model, which is characterised by a very high level of social protection grounded in solidarity, by the central role of public services, the high status of collective agreements and various models of co-determination, is based on the indispensable compromise between the market forces and the democratic state" (ETUC 1995).

As a matter of fact, the expenditures for social protection in the EU-15 were at about 27.3% of the EU GDP in 2000 and thus higher than in the US with 14-17% of US GDP or in Japan with 12-15% of the Japanese GDP (1991-98). This is also owed to structural differences in the respective constitutions of the social state. In Japan, for example, social security is organised much more (but at a decreasing level) by way of the concept of life-long work-place guarantee for core employees and corresponding gratifications by the firm and much less by way of public social security systems. In the USA, while there exists, as a result of the New Deal by Franklin D. Roosevelt in the 1930s and the War on Poverty Programme by Lyndon B. Johnson in the 1960s, a rudimentary social state (minimal state pension insurance and unemployment benefits, various credit facilities in favour of low-income households for education, housing or acquisition of residential property as well as for small farmers etc.), there is, for instance, no social health insurance covering all population strata.

The social state and the level of social protection in Western Europe are, in fact, as a result of the larger weight of the organised labour movement and its battles in the 19th and 20th centuries as well as under the immediate influence of systemic competition, more strongly developed and as a rule better equipped with resources than in the USA or Japan. On the road into capitalist modernity, the front lines between the social classes in Europe assumed a clearer shape than elsewhere. A party system, historically built upon class antagonisms (with smaller and larger parties in the traditions of the labour movement and the bourgeoisie), and a relatively pronounced class-determined electoral and strike pattern are still typical in Western Europe. In the USA, until now no mass party exists which would base itself upon the traditions of the labour movement, and in Japan, these parties are, as a rule, too weak to exercise any influence on the formation of the government and the design of state policy.

Beyond these statements, however, there exists very little support for the thesis of a more or less unified "European social model". "Democracy, personal rights, and the market economy" can also be claimed by the capitalistically constituted societies of the USA and Japan. In the USA as well, structures of state regulated service (Public Utility Regulation) and programmes for equality of opportunity (Affirmative Action) as inheritance of the New Deal and the War on Poverty played a certain role. Their status and the scope of their applicability, however, are very different even within Europe. The latter holds to an even greater extent for co-determination and the area-wide collective agreement.

Diversity of welfare state models in the EU

On the basis of empirical examinations at the beginning of the 1990s (Esping-Andersen 1990), one can establish that about four different welfare state models exist next to one another:

- The Mediterranean or rudimentary welfare state (e.g. Greece, Portugal, Spain): it includes a tax-financed, general state health system, but weak social insurance systems with low transfer intensity. The traditional family structures still play an important role as social support system, countrywide minimal protection systems, on the other hand, barely exist.
- The liberal welfare state (e.g. Great Britain, Ireland and, that's right, the USA): it is based upon a universal, mostly tax-financed social security, which is designed, however, only to avoid extreme poverty, and a strict system of means testing, leading to a "hole-riddled" support with low transfer intensity. All tasks of social security going beyond poverty prevention are organised, if at all, by business or state sponsoring or private supplemental insurance policies.
- The conservative-corporatist welfare state (e.g. France, FR Germany, Austria, Italy since the 1980s): It is tied predominantly to gainful employment and relies on contribution-financed, income-dependent social security systems with moderate redistributive mechanisms, which are supposed to maintain the achieved social status and living standard. It relies on the ideal of the life-long, full-time employed male family head of household (with correspondingly hole-riddled social protection of "atypical" earning biographies) and offers a tax-financed minimal social protection with a means test for those who cannot be integrated into the labour market and have no other sources of income.

- The social-democratic welfare state (e.g. Sweden, Denmark). It relies on a universal, predominantly tax-financed social security system with transfer intensity and comparatively high redistribution. The systems are aimed at a policy of equality, which also includes the equal positioning of the sexes, coupled with large extension of social infrastructural institutions (small children's care, all-day schools etc.). Added to that are supplemental, contribution-financed insurance systems, especially firm-level pension systems regulated legally or by collective agreement.

The West European welfare states are for the rest usually only distinguished according to two ideal-typical principles: the Bismarck principle (which wages classically upon contribution-financed social insurances and is thus centred upon gainful employment) and the Beveridge principle (which classically relies on tax-financed, universal minimal protection). The national welfare states in the EU, however, each represent specific mixtures of the Bismarck and the Beveridge types. Even in the classical country of the Bismarck-type, the Federal Republic of Germany, social security for example is financed from general tax revenue. In classical countries of the Beveridge type (such as Great Britain and Denmark) for example, the unemployment support is organised by a contribution-financed social insurance. In this respect, the historically grown welfare-state regulations in the West European EU countries are distinguished by great diversity and show clear differences in the scope of the services, the structure and the financing rules of the social systems.

Table 1: Financing of Social Security

(according to types of revenues, in % of the total financed amount)

	Tax-financed (public budgets)		Social insurance contributions						Others	
			Total		Employers		Insured			
	1991	2000	1991	2000	1991	2000	1991	2000	1991	2000
EU-15	30.9	35.8	65.0	60.7	41.4	38.3	23.6	22.4	4.1	3.5
B	21.4	25.3	69.4	72.3	43.7	49.5	25.7	22.8	9.2	2.5
DK	81.7	63.9	11.7	29.4	7.2	9.1	4.5	20.3	6.6	6.7
D	26.9	32.5	70.5	65.2	42.2	36.9	28.3	28.2	2.6	2.4
EL	32.8	29.1	58.4	60.8	38.1	38.2	20.3	22.6	8.8	10.1
E	27.3	26.9	69.9	69.1	53.2	52.7	16.7	16.4	2.7	4.0
F	17.6	30.6	78.8	66.5	50.4	45.9	28.3	20.6	3.6	2.9
IRL	60.0	58.3	38.9	40.2	24.0	25.0	15.0	15.1	1.0	1.5
I	29.1	39.8	68.7	58.1	52.6	43.2	16.1	14.9	2.2	2.1
L	40.6	47.1	51.9	48.4	29.8	24.6	22.1	23.8	7.5	4.5
NL	23.9	14.2	60.4	67.9	20.1	29.1	40.3	38.8	15.7	17.9
A	35.7	35.3	63.2	63.8	38.1	37.1	25.1	26.8	1.2	0.8
P	26.1	38.7	60.9	53.5	41.8	35.9	19.1	17.6	13.0	7.8
FIN	44.1	43.1	48.1	49.8	40.9	37.7	7.2	12.1	7.8	7.1
S	n.a.	46.7	n.a.	49.1	n.a.	39.7	n.a.	9.4	n.a.	4.3
UK	44.6	47.1	53.7	51.6	27.9	30.2	25.8	21.4	1.7	1.3

Source: Eurostat-ESSPROS 2003;

B = Belgium, DK = Denmark, D= Germany, EL= Greece, E= Spain, F= France, IRL= Ireland, I = Italy, L=Luxemburg, NL = Netherlands, A= Austria, P= Portugal, FIN= Finland, S=Sweden, UK = Great Britain

In May 2004, the EU was extended by 10 new member states, predominantly from Eastern Europe. The East European new member states until 1989/91 had belonged to the “real socialist” camp and had had a social security system corresponding to this type of society. In the 1990s, they experienced a deep-reaching transformation of their economic and social system, in the course of which different variants of a market-radical “shock therapy” were being tried on them. In contrast to the highfaluting promises of fast and durable welfare for everybody, the transformation to a market economy in all Eastern European countries at first led to a drastic slump of the GDP. Only in the year 2000 were four of these countries – Poland, Hungary, Slovenia and Slovakia –able to significantly surpass the level of their “real-socialist” Gross Domestic Product (GDP) of 1989. Czech Republic (98%) and the Baltic States Estonia, Latvia and Lithuania still lay below it. The European backlog of the Middle and East European states in comparison to the EU measured by their GDP, or rather industrial and agricultural production, was larger in the year 2000 than it had been in 1989. Half of the new member states reach a GDP per capita of over 50% of the EU-15 average (of those only Slovenia and Cyprus reach 70% or more). The other half lies clearly below the EU average. In comparison to the Southern extension (Spain, Portugal and Greece), the new EU extension brings significantly more dramatic gaps in welfare and in the level of economic development.

EU extension 2004: Falling EU social security quota

The social security systems of the new member states are organised following similar structural principles as in the “old” EU states, however, on a typically very low level of protection. Most of them organise social protection according to the insurance principle (Bismarck type), while social aid-type payments are financed by general taxes and are contingent on a means test. Estonia finances the public pension and health system by a social tax (Beveridge type), while unemployment benefits are organised like an insurance. Next to these more general structural features, there remains, however, similar to the situation in the old EU, a great variety in the scope of payments, the concrete financing structure and the distribution of burdens between employed and employers concerning the social aid contributions. A number of states (Slovenia, Hungary, Czech Republic, Estonia) especially in the area of pension policy rely on firm-level pension systems and upon (voluntary or obligatory) enrolment in capital pension funds. In health care as well, there exist different regulations concerning the benefit catalogue, additional insurances, and private supplemental payments.[2]

For a number of middle and East European new member states, it holds true, however, that the provisioning with social security services is “hole-riddled” and precarious and that especially the problem situations of growing poverty and social exclusion receive little attention. In Poland, for instance, the real unemployment rate has risen to 20%, but only a fifth of the unemployed receives unemployment benefit.

For the former 15 EU member states it can already be said that the level of public social expenditures in comparison to their respective GDP (the social performance quota) is very different: it reaches from 14.1% in Ireland to 32.3% in Sweden. The Mediterranean states (Portugal, Spain, Greece) have caught up to a significant extent since the 1980s, but there still persists a noticeable distance to the richer EU states (see table 2 and 3).

Table 2: Public Social Expenditures as a Percentage of the GDP (Social Performance Quota) in the EU

Country	1991	1993	2000
EU-Average	26.4	28.8	27.3
A	27.0	28.9	28.7
B	27.1	29.3	26.7
DK	29.7	31.9	28.8
D	26.1	28.4	29.5
EL	21.6	22.1	26.4
FIN	29.8	34.6	25.2
F	28.4	30.7	29.7
IRL	19.6	20.2	14.1
I	25.2	26.4	25.2
L	22.5	23.7	21.0
NL	32.6	33.6	27.4
P	17.2	21.0	22.7
E	21.2	24.0	20.1
S	34.3	39.0	32.3
UK	25.7	29.0	26.8

Source: Eurostat-ESSPROS 2003. For abbreviations see previous page (p18)

2 At this point, I cannot answer the question as to what extent the social security systems of the member states can be evaluated according to the categories of the four welfare state models by Esping-Andersen. This can be attempted by professionally more involved social and political scientists.

Table 3: Public Social Expenditures as a Percentage of GDP (Social Performance Quota) in the New Member States (plus States joining later)(preliminary data)

Country	1998	2000
Estonia	14.7	15.2
Latvia	17.6	17.8
Lithuania	15.8	15.8
Poland	23.9	24.0
Hungary	24.2	23.2
Slovakia	21.9	21.7
Slovenia	26.1	n.a.
Czech Republic	18.1	19.5
Cyprus	12.8	n.a.
Malta	19.6	19.8
EU-10 (new member states)*		19.6
1.1 EU-25		23.2
Bulgaria (2007)	14.9	17.9
Rumania (2007)	13.8	13.9
Turkey	10.4	10.6
1.2 EU-28		22.3

Source: GVG Study on the Social Protection Systems in the 13 Applicant Countries, Synthesis Report, Second Draft, November 2002.[3]

The social performance quotas of most of the new member states in part lie clearly below this level – the average for the 10 new member states for the year 2000 yields a social performance quota of 19.6%. In contrast to the EU Southern extension, the present EU extension is taking place without extension of the EU structural funds. On the contrary, the new member states in the beginning will receive only 25% of the agricultural subsidies owed to them, only over the next 10 years will they grow gradually to 100%. In the political debate about the EU budget and the financial framework 2006–2011, Germany in particular is pushing for a further lowering of the budgetary limit (to 1.0 or at a maximum 1.1% of the EU GDP) or at least for a freeze at the present level. If this line gets through, the new member states will be left alone with the task of coping with structural changes in industry and catching up with the EU welfare level.

In the middle and East European new member countries, around 20% of the entire employment is in the agricultural sector – in the EU-15, it is on average only 4.3%. Added to that will be the foreseeable structural change in the old industrial regions (mining, steel and shipyards etc.) and the unemployment quota, already at double the average, which exists there now. In this context, we can count on a clear increase in unemployment and socio-political problem situations in the new member states, for whose solution, however, no resources are planned. Whether social performance quotas could possibly be caught up on under these circumstances appears extremely questionable. Thereby, however, the average social performance quota of the extended EU will drift clearly in the direction of the USA level. The thesis of the “European social model” will then become ever shakier even if it is now still defendable under the aspect of the European Union supposedly guaranteeing a significantly higher social protection level than the US.

Modernisation of the Welfare State: The re-evaluation of “social justice”

The development of the social state is often interpreted as a social large-scale experiment in order to solve the social or workers’ question. Up until the late modern period, social policy was concentrated predominantly upon caring for the poor. This was usually done by charitable organisations of the various Christian churches or religious communities or of the educated bourgeoisie and was charged up with corresponding postulates concerning the proper life conduct of the poor. An example is the institution of the late modern age “workhouse” (18th and early 19th century), in which the poor population is interned, instructed in “useful” industrial cultural techniques and convicted to forced labour.[4] In England, the currents of the diggers and the levellers protested against the poverty laws and these practices of the workhouses.

From the care for the poor to the rudimentary social state

The process of urbanisation accelerated by manufacture and industrial revolution led to the development of state hygiene policies. Their goal was to secure public health and fight against epidemics. This was after all in the state interest, since it upheld defence and financial capacity. The hygiene policies by means of the development of statistics (especially health, social and age statistics) created a decisive technical prerequisite for the organisation and work on the problems of developing industrial society since the 20s of the 19th century. State social sta-

3 Where data for 2000 were lacking (Slovenia, Cyprus), the 1998 data were used for the calculation of the respective averages (EU-10, EU-25, EU-28)

4 The former enlightenment thinker John Locke, who is otherwise counted as a liberal free thinker, in the area of the fight against poverty spoke for constraints on freedom, rigorous penal practice and command economy.

tistics and probability calculus again laid the foundation for the realisation in the bureaucratic-scientific circles that the social risks (illness, unemployment, accidents, invalidity, old-age diseases etc.) of capitalist industrial society could not be explained by mere accidents, the blind rage of evil powers or the individual guilt of some, but resulted from the objectivity of social communal life. A state regulated insurance for compensating for these social risks (as a "social insurance" or financed from tax revenue) seemed ever more necessary, coupled with a policy of prevention (security and health protection at the work-place etc.). On the side of the workers' movement, the experiences with self-help insurances and support associations (collective security against loss of wage due to loss of working capacity or work-place) played a role, which due to the rather limited number of members and the voluntary basis of joining these associations, however, had remained precarious.

This new perception of social risks could only impose itself very gradually. A very important role in this respect was played by the growth of the organised workers' movement, which the bourgeois forces perceived as a potential threat. The strengthening (socialist, anarcho-syndicalist and anarchistic) workers' movement in Europe demanded the material realisation of the principles of the bourgeois revolution – liberté, égalité, fraternité. It insisted on an extension of democratic participation rights (women and general electoral law), on a turning away from the demeaning "care" for the poor and above all on a radical change of primary distribution and the overcoming of the capitalist private ownership of the means of production. The official majority position of the social-democratic-socialist parties held a social revolution to be inevitable. It would follow from the "collapse of capitalism", which was bound to happen according to quasi natural-law-like rules. This attitude has rightfully been called "revolutionary party on hold" or "revolutionary waiting stance". At the same time, there also existed in the workers' movement an alternative strategy of "gradual reforms", which received great support especially in the leading apparatuses of the more moderate trade unions. These reforms were supposed to be introduced by governmental coalitions with social-liberal or radical democratic bourgeois forces, as for example in France after the Dreyfus affair in 1899 by the governmental coalition for the "Defence of the Republic".

The breakthrough to state social security legislation and the introduction of rudimentary social insurances in Germany under Bismarck took place from 1878 to 1890 under the guiding target to thereby stop the rise of the workers' movement and social democracy. As an accompanying measure to the health and accident insurance legislation and the introduction of a pension and invalidity insurance as obligatory insurance for workers and "small" employees, social democracy was forbidden and subjected to measures of repression. Old-age pensions were granted after 30 years of contribution and were designed as a partial pension, which was supposed to allow a certain reduction in work activity. However, not even a-third of all men reached 70 years of age in the first place.

Although the social insurance principle is attributed to him, Bismarck personally had at least in the matter of old age insurance championed a tax-financed minimal insurance system with the primary goal of poverty prevention. Bismarck repeatedly compared the "soldier of work" with the soldier in the army – both should be tied to the state by way of a (minimal) state pension. The authoritarian- paternalistic bent of bourgeois social reform is unmistakable. Austria and the British governments from 1906 to 1914 followed with similar minimalist social reforms (old age security, job exchanges, accident and health insurance).

The further rise of the trade union and political workers' movement could not stop the Bismarckian double strategy of political repression and gradual social reform. As a result, after a hesitant start, the bourgeois social reform in Europe, however, reached a political differentiation within the workers' movement. "Revisionist" and reformist currents in trade unions and parties seized the offer of at least being able to influence the "secondary distribution" through an extension of the social sphere and new social rights in the framework of a rationality-guided "modernisation" of the bourgeois state and the expansion of large industrial concerns and monopolies by way of a step-by-step strategy for social progress (work and social legislation, extension of the social insurances and the claims linked to them, works' council and "industrial democracy", standardisation of gainful employment etc.). The "old" conflict concerning the socialisation of the means of production and a new mode of production was remitted.

Quite essential for the growth of these reformist streams was the incapacity of the traditional strategy of "revolutionary waiting stance" to stop the nationalistically heated war excitement, in the beginning also among the workers, and the outbreak of World War I or to use the collapse after the end of the war for a revolutionary transformation in Europe in the sense of the old goals of the workers' movement. The "reformist" majority social democracy acted rather as a stabilising force in restoring capitalism in Europe after the war. In that endeavour, it was quite able in the beginning to gain partial achievements in at least some countries (8-hour-day, works' councils, housing policy in Austria etc.) and to extend the social state. The "Communist" fraction of the workers' movement, however, remained a minority in Western Europe. In the late 1920s and in the 1930s, the achievements of the social state, however, came under pressure. From the increasing social polarisation, fascism in some countries of Western Europe at first emerged strengthened, then buried parliamentary democracy and initiated a new World War.

The "Keynesian Welfare State" after the Second World War

The breakthrough to the social state "as we know it" only appeared after the end of the Second World War. The ideological and conceptual blueprint for that as a rule was not delivered by the socialist-social democratic workers' movement (with the exception of the Swedish case), but by social liberalism (Keynes, Beveridge). Keynes turned against monetarism and the laissez-faire politics prevailing in the inter-war period, which had led to deflation, mass unemployment, polarisation of incomes and a rentier economy. Instead, a state interventionist macroeconomic policy was necessary, which would strengthen mass purchasing power and final demand, thereby stimulate productive investment and move the economy in the direction of a full employment equilibrium. The state should not become the owner of the means of production, but should, via macroeconomic policy and investment guidance, counteract the underemployment of capacities and resources during periods of economic stagnation. In this way both the capitalist ownership structure and parliamentary democracy could be saved – against fascism from the right and Bolshevism from the left.

From the point of view of learning theory, Keynes' strategy amounts to the creation of "win-win"-constellations: state interventionism should secure the enterprises durable profit chances and the employees' higher incomes and full employment. As a result of this "class compromise", it would be possible to secure the performance capacity of the capitalist economy, while at the same time maintaining relative social peace, reduced inequality of income and improved social security for the employed. This basic philosophy also came to bear in the Beveridge plan for the great social state reform in Great Britain. It was picked up both by the bourgeois parties as well as by the reformist parties of the workers' movement, even if with different accentuations. In Western Europe, after the Second World War, it was predominantly bourgeois majority parties which engaged in an extension of the social state.

The "Keynesian welfare state" encompassed no longer only protective measures against the classical social risks of a capitalist earnings-based society (accident, invalidity, health, old age, unemployment, poverty, protection of motherhood etc.), but took on extended tasks for the stabilisation of the overall economy (macroeconomic politics) and to the achievement of "social cohesion" (educational expansion, policies of equal chances, employment and social policies, affordable housing construction, regional policy for approximately equal life conditions, promotion of culture etc.).

The welfare state in the tension field of different ideas of "justice"

The concrete designs of the welfare states after the Second World War followed national specific patterns, which contained country-specific mixtures of in each case partly diverging, partly supplemental guiding principles of social justice (compare also Esping-Andersen's typology). The principle of need orientation stems from the tradition of care for the poor: social payments tested case by case according to the income and family situation of those concerned. The principle of justice according to need is rooted in the bourgeois formal equality postulate and the idea of the common wheal: securing a socio-cultural existential minimum, however it may be defined, which is supposed to insure the maximum possible participation for all in social life (approach of provisioning). The liberal postulate of individual liberty and the welfare of the individual is based on the principle of justice according to performance.

Social policy aligned with egalitarianism, moreover, aims at the reduction of wealth and income differentials ("material equality politics", mainly over progressive taxation of income and wealth), as well as equality of chances and anti-discrimination (education, women, immigrants, disabled etc.). The American philosopher John Rawls has introduced the difference principle into the debate on equality: social and economic inequality is tolerable as long as the distribution is shaped in such a way that also the lowest income classes take part in economic growth (elevator principle). The difference principle is thus a typical image of the Fordist "welfare-through-growth philosophy". The justice for stability incorporates a rather more pragmatic principle: securing of relative "social peace", prevention of revolts etc.

Bismarck's social state policy was to a large extent based on the motive of justice for stability – the workers were to be kept from their aspirations of revolution. The social state concept by Beveridge was inspired predominantly by the idea of justice according to need: guarantee of a national minimum income as the benchmark of social state activity. The principle of justice according to performance was regarded by him as the firm-level and private prevention to be built on that. Adenauer, on the other hand, anchored the principle of justice according to performance in the concept of dynamic pension insurance. It was based on the right of all employees to an adequate protection of living standards by the state system in old age. The principle of the equality of chances was for instance applied in the federal education grants (BaföG), in promotion plans for women, or in the law on the severely disabled.

Even the most basic forms of social state regulation – insurance protection against social risks – made it necessary to formulate general principles which would distinguish between risks for which the individual was responsible, and those which were to be compensated (or preventively minimised) by social insurance companies or other state instruments. The compensation of the risks covered by social insurance was thereby also formulated as individual legal claim. It must be inalienably valid, and those entitled to it should, if necessary, be able to sue for it by legal means against the state or the social insurance. In parallel, conceptions of economic, social, and cultural rights developed, which would be guaranteed by the democratic social state in accordance with the relevant specific social norms and be attributed by its various instruments individually and collectively (as claims to compensation, income, provisions of public and social services etc.). These go along with standardisations and typologies of life situations, which rely on the respective specific "conceptions of normality" (conduct of life, duration of working hours and vacation, gender-specific roles, professional performance and incomes etc.) and on principles of justice.

In particular the Scandinavian social-democratic welfare state tradition in its ideal is inspired typically by the image of indisputable legal claims which are tied up in a universalistic fashion with state citizenship. In other traditions, this principle of universal social citizenship rights is far more fractured. Means-test based services (such as for example social and unemployment compensation) only represent the right to access a service. The principle of subsidiarity (taking into account the income of other persons when calculating services etc.) further constrains this right of access. Especially social insurance systems centred on gainful employment often set the "male family head of the household" as a norm, from which only derived claims result for housewives, wives, young people and children (as in, for example, protection for dependants etc.).

Controversial interpretations of the contradictions of the Keynesian welfare state

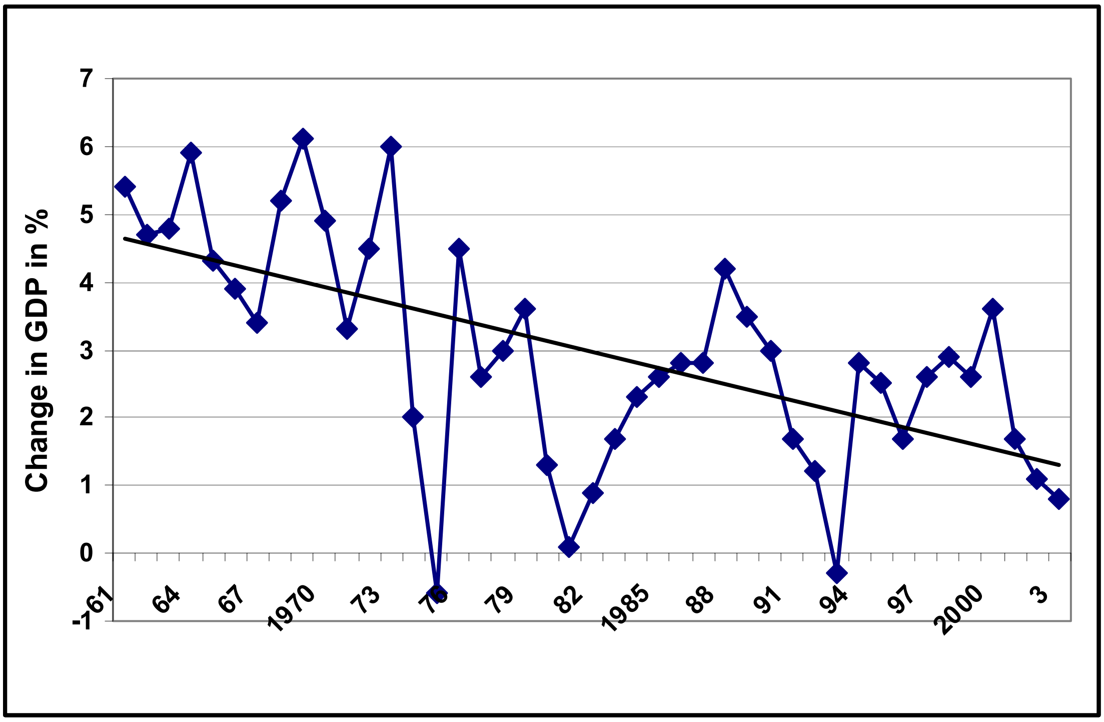
Thus the Keynesian welfare state, in its different national incarnations, has often remained divided in Western Europe. The offerings of social services and social insurance, the social net which protects against poverty, fiscal and work-place-related payments have developed in an unequal fashion. They brought an after-the-fact correction of market results and social welfare, but they also produced under-supply and exclusion ("marginalised fringe groups", "new poverty").

In this context, it is not surprising that the social and welfare state was subject to different (partly also supplementary) interpretations:

- According to class-theory: there was – with respect to the welfare state – the question "of an asymmetrical class compromise and a partial integration of the workers' movement into the capitalist society. Asymmetrical, since the societal interest representation of capitalist societies is structurally superior to the interest representation of the working class; partial integration, since the workers' movement, even under an emphatically non-revolutionary ideal-oriented leadership, still always strives beyond capitalist society" (von Oertzen 1984).
- According to modernisation theory: in "right" as well as "left" variants – the increase in social complexity, the extension of state steering, risk insurance and prevention and growing legalisation, increase in scientific basis and professionalism stand in the foreground. In this context, a differentiation and segmentation of the "clients" of the social states supposedly takes place. Negative aspects of the social state would be the bureaucratic "overgrowth" of life spheres (bringing up children, care for the elderly etc.), a colonisation of life-styles by the norm system at the basis of the services by the social state and the self-definition of the needs by professional actors (state bureaucracy, free welfare agents etc.). On that basis, new contradictions and conflicts would develop: the social state could quite possibly heighten the problems which it was supposed to cure.
- From the point of view of democracy theory, the social and welfare state is interpreted an effort of social innovation, which by the definition of unconditional legal claims and universal social claims as well as instruments for their material realisation based thereupon, only thus enables the participation of all citizens on an equal basis in the processes of political, democratic self-determination. Social protection here only creates the material basis for the political autonomy of the state citizens, independently of their role in the democratic process.

The representation until now also shows, however, that the Keynesian welfare state had understood serious economic and social crises as "exceptional situations". It was after all geared towards a trajectory with steadily high economic growth, growing labour productivity and high mass consumption, which meant that the social net would only be strained somewhat during temporarily constrained slumps in economic activity. The defenders of an all too simple interpretation of Keynes' theory were, as was to be expected, hard hit, when in the mid 1970s with still almost extensively full employment, a rapid inflation of goods prices and wages (wage-price-spiral) accompanied a clear break in economic growth (stagflation) and the economic growth rates flattened over the next decades.

Graph 1: Economic Growth in the EU-15, 1960–2003

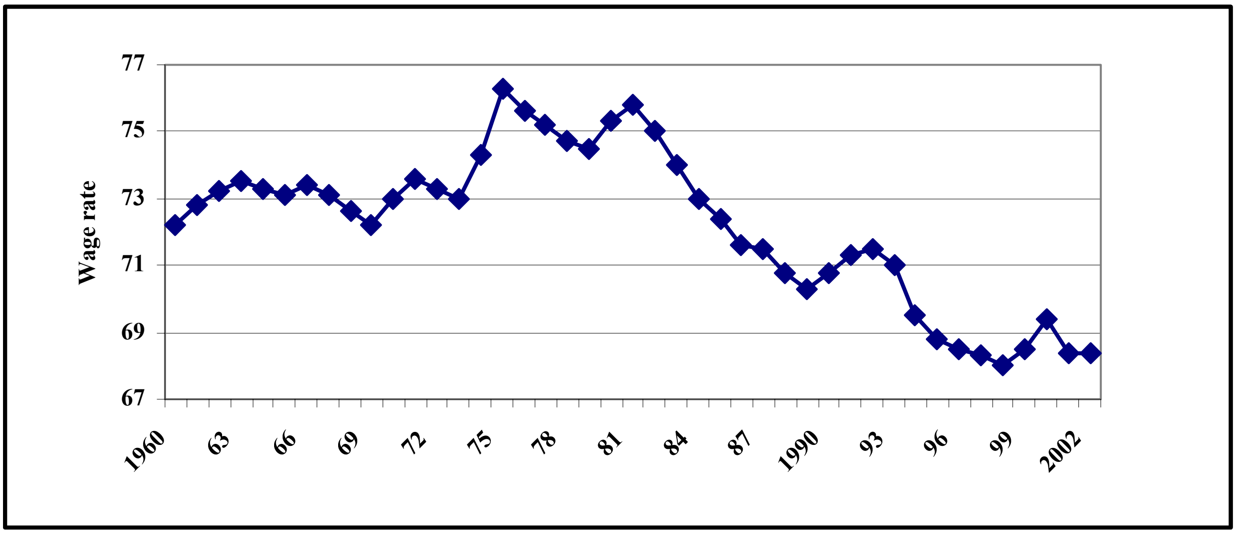


Source: European Economy No. 71, 2001, Statistical Appendix, Table 3, European Economy: Autumn Forecast 2003, Statistical Annex, Table 1.

In his essay "The long term problem of unemployment" Keynes had in 1943 (thus in the middle of the World War) dealt with the problem of what to do when investment demand was satiated to the extent that it can no longer be lifted back to the indicated savings level (thus that level compatible with full employment; A.B.), without engaging upon wasteful or unnecessary undertakings." His answer: promote sensible consumption, disapprove of savings – and compensate a part of the unwanted excess supply by increased leisure, more holidays and shorter working hours. This answer placed the main emphasis of the solution on the "question of distribution". Beyond that, it pointed to larger questions concerning the quality of life and emancipation, which then in the mid 1970s were demanded by the feminist movement, the milieu of the 68ers, the revolt of the trained mass workers against the mindless Fordist work organisation (blue collar blues) and the emerging environmental movement. Keynes concept, however, would have required a break with a carrying pillar of the hitherto effective "class compromise", whereby essentially only the increases in growth count as redistributive mass. From the point of view of the employers and the wealthy, the emergency brake had to be pulled before such "dangerous conclusions" could win a majority.

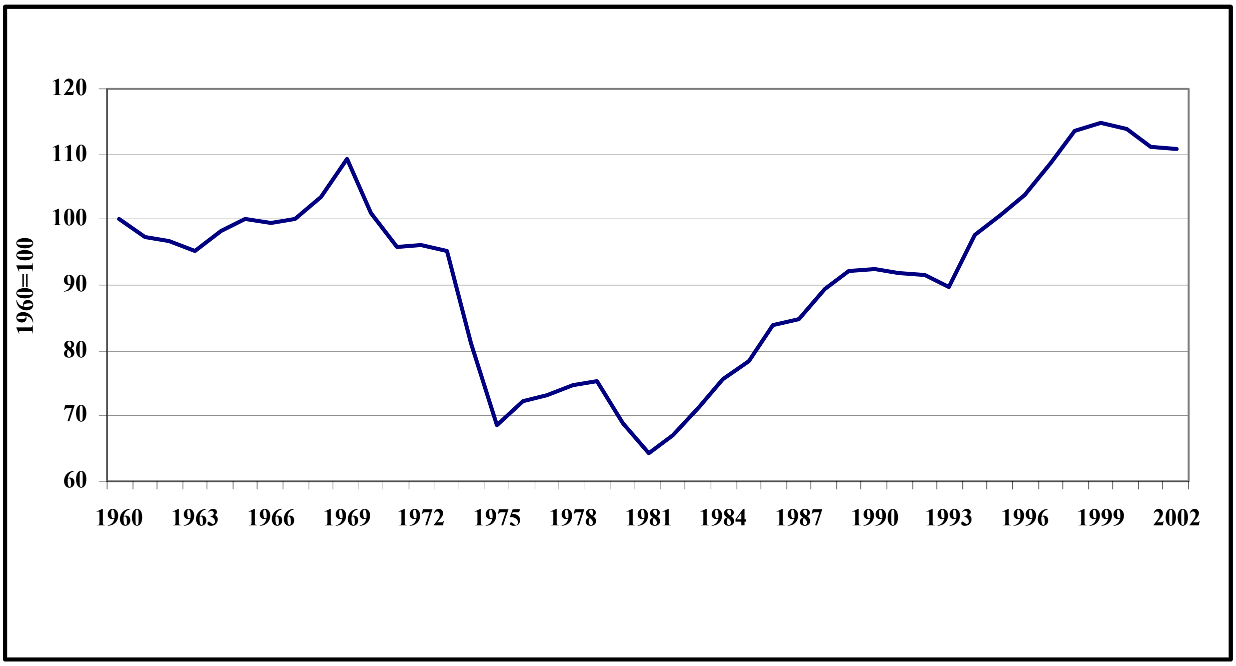
In light of this (and other constellations in the mid 1970s such as the defeat of the USA in the Vietnam War) it is not surprising that the thus described "class compromise" broke apart and the entrepreneurial side switched to the counteroffensive (and in the meantime an increasingly radical and comprehensive social roll back to the restoration of convenient profit rates, to the containment of inflation, to the repression of "trade union power" and "sprawling social state regulation". As a consequence, a clear swing also resulted in primary distribution (reduction of the wage quota, increase in the economy-wide profit rate of businesses since the late 1980s at the latest).

Graph 2: Wage rate in the EU 15, 1960–2002



Source: European Economy, Nr.73, 2001, p.358f.

Graph 3: The economy-wide profit rate in the EU 15, 1960–2002



Net firm results in relation to net capital stock at repurchase prices. Source: Economy Nr.63, 1997, p.28, European Commission: EC Economic Data Book, several years, own calculations, Jörg Huffschmid.

This entrepreneurial offensive found its ideological prop in the economic and social theories of the neoliberalism of the 1930s and 1940s, which had remained rather marginal after the second World War (Hayek, von Mises), and the monetarism of the Chicago Boys (Milton Friedman and others). The monetarist economic policy placed above all the fight against inflation and the free operation of market forces at the centre of their strategy – both would by themselves lead to new economic growth and a dynamic economy. The Keynesian full employment policy was laid ad acta. Especially the governments of Margaret Thatcher in Great Britain, Ronald Reagan in the USA and the dictator Augusto Pinochet in Chile were the international trailblazers of monetarism.[5]

Controversies regarding the "crisis of the welfare state"

In the wake of monetarism and the "neoliberal revolution", in the 1980s and 1990s, various new perspectives on the social state developed. Some of them shall be presented in what follows in an "ideal-typical, stylised" manner:

5 However, one should not overlook that Ronald Reagan, contrary to the monetarist credo of "sound state finances" led an active policy of running up debts, which bloated the military budget (Star Wars Project etc.). In this respect, Reagan's policy remained "Keynesian" (military Keynesianism).

The *neoliberal pure doctrine* discovered Hayek's old formula of the "Road to Serfdom" (1944). In its further development, Soviet state socialism, the social democratic welfare state as well as the social state compromises of conservative governments of the post-war period (for example, from Winston Churchill to Edgar Heath in Great Britain, Konrad Adenauer's and Ludwig Ehrhard's "social market economy" in West Germany; the "economic programming" of the Gaullists in France) are unisono brandished as variants of "socialism" stifling the free unfolding of the individual and healthy entrepreneurial spirit, and a recall of the unleashing of market forces is urged. Margaret Thatcher's slogan that "there is no society, only individuals" epitomises this way of thinking. In the 1990s, this ideology was exemplified for example by the Future Commission of the Free States of Bavaria and Saxony in the ideological persona of the employee as "entrepreneur of his/her own labour power". If only there prevailed sufficient "economic freedom" and independent responsibility of the individual, the economy could be dynamised in such a way that at worst a social basic security for the state citizens, women and men, incapable of working (citizen money etc.) would be required.

On the *Marxist-oriented political left*, the "social state illusion" was attacked. Since the social state did not intervene in the primary distribution and the capitalist property relations, it could not fight the causes of social inequality. Under conditions of flattening economic growth, it would become increasingly incapable of functioning and would therefore be put into question. Therefore, a change of system towards socialism was required.

The *left tendencies inspired by the "new social movements"* of the 1980s (Greens, left-wing social democracy sensitised to environmental and women's rights issues, and church circles) did not raise these fundamental questions of alternative social order so much as the "patronising character of the bureaucratic-etatistic welfare state", its being centred on gainful employment and the far-reaching exclusion of women, social marginal groups and the "atypically employed". A fundamental reconstruction was necessary, so that the social state would become capable of a future. The visions for overhaul concentrated on the "recognition" of the up to then marginal interests, an extension of the self-help potential of civil society and especially on the question of a "guaranteed basic income" or a "social basic security" for all. The classical questions of social insurance (securing living standards in old age etc.) by contrast received less attention. A smaller part of this spectrum (in particular from the "corporativist-conservative welfare states"), at the end of the 1990s, developed vague ideas of the restructuring the social insurances to "gainfully employed and citizens' insurances", which would no longer be coupled to gainful employment alone (leaning on the "Swiss model" of counting in all kinds of incomes for calculation of the financing of social security systems, tax on value creation etc.)

The *mainstream of social democracy* (and of the trade unions) had difficulties in locating itself in this new debate on the social state. The first reaction was pragmatic – as much defence of the traditional structures as possible, as much adaptation to weak economic growth rates and "shrinking state incomes" as necessary. This by the way also held for the "official" politics of moderate conservatives – cuts in the social net were always justified by arguing that only in this way was it possible to maintain the social state in its core and make it sustainable. This was certainly also linked with the search for new forms of financing (e.g. introduction and extension of a general social insurance tax in France on the initiative of the social democratic (socialist) prime minister Michel Rocard at the beginning of the 1990s) as well as the covering of new risks (for example introduction of an old-age care insurance in Germany by the conservatives under the Minister for social affairs, Norbert Blüm during the 1990s, however, with the abandonment of the principle of financing on equal terms by employers and employees).

Only with the discussion of and pushing through the "Strategy of the Third Way" as a majority position of European social democracy at the end of the 1990s, did it again dispose of a clear, independent profile. In contrast to the "true neoliberal doctrine", the "Third Way" held on to the position that there was a society. Additionally, under the conditions of economic globalisation, a social net had to be kept up in order to catch the "losers of modernisation" and to carry them along into the new conditions. The new basic philosophy said that the state had to steer, not to row. Globalisation and strengthened market forces were expected to bring about a more dynamic economy. The task of the social state would now be to organise justice of opportunity (meaning "chances at the start", not at the "finish", as well as a "second chance" after a failed run-up) and possibilities for participation. The unemployed and others dependent on social welfare should, by a system of rights and duties (promote and challenge!) be put into a position to seize the new chances in a dynamic economy. The social net thereby becomes a trampoline which would catapult the weak and the foundered again into economically active employment. For that, an "activating social state" was needed, which would no longer grant "passive payments" and "unconditional claims", but would stress "incentives" for integration into the market activity and the labour market. In the style of the ideas of the Communitarians from the United States, "society" was understood as "community", to which the individuals in their individual behaviour were accountable: "On the other hand, there is even a break here with the neoliberal freedom discourse. The priority of community as society in the shape of an ethics of duty even denies the purely liberal dimension of freedom… Where Thatcher no longer knew whether something like a society in actual fact existed, the society of the national competitive state – in the identification with community – becomes ideologically totalitarian against the individuals " (Rheinländer 1999).

3.6. Reconstruction or modernisation of the social state: the new confusion

Almost all political and civil society forces use similarly sounding terms when they talk about the future of the social state: "reconstruction" (the battle term of the 1980s) or "renewal and modernisation" (the battle term of the 1990s). Ironically, conservatives, liberals and new social democrats in this context increasingly pose as advocates of a "radical policy" or rather a "system change", while the forces left of them figure as "keepers of the status quo". In the political practice of the last 25 years, however, a paradoxical situation can be observed. On the one hand, what was presented above as ideal-typical thinking patterns was in part forcefully shaken up by the political camps. However, often completely different ideas are hidden behind these so similar terms and concepts.

Some examples:

Conservative forces (in West Germany, for example, the CDU under their general secretary Heiner Geissler in the end of the 1970s) seized on the étatisme and bureaucracy critique of the alternative left with the formula of the "New Social Question". The "old social question" (i.e. the workers' question) had almost settled itself by way of the Keynesian welfare state and the development in living standards of the post-war period. Instead, however, a broad potential of poor and excluded had developed on the "margins of society" (homelessness due to personal crises, poverty due to abundance of children, social exclusion due to disability etc.), which could not be prevented with the existing social state structures. In this way, a front was built against the "disempowering social state", but nothing was changed to address these problems while in government in the 1980s and 90s, on the contrary, the social security systems were cut back further still.

Alternative left as well as neoliberal think tanks propagated "citizens' money" and the "negative income tax" as possible forms of a "social basic insurance". The varying meanings of this often only become apparent in the suggested levels of this basic insurance and its prerequisites. The "lefties" typically want a "basic income" without any prerequisites, not tied to work performance, on which it would be possible to live more or less comfortably. The neoliberals, on the other hand, want a "basic insurance", usually below the poverty line, which would only be granted to the citizens "unfit for work" (or others, if they performed communal tasks or similar chores).

Conservatives, alternative left-wingers and new social democrats all demand a strengthening and upward re-evaluation of commitment in civil society and self-help. For quite a few alternative left thinkers their promotion is an additional task that goes beyond the functions of a renewed social state. They also have to be equipped with additional resources, so as to be accomplishable. For new social democrats and conservatives self-help structures and civil societal engagement, on the other hand, should increasingly replace functions up until then guaranteed by the social state.

A similar issue is the praise of the "Third Sector" and the "social economy", which sounds equally from left, social democratic and even neo-fascist circles. The Italian Aleanza Nazionale praises these terms highly in quite "alternative prose" and links to that the demolition of state structures and a re-evaluation of family, neighbourhood and welfare state structures (especially by the domain of the church), where support services are tied to criteria of "moral good behaviour" of the individuals in the sense of the Aleanza ideology.

In this respect, it is worthwhile not only to pay attention to diverging ideological arguments in the recent debate about the social state, but also to concrete practices and concepts. Only in this way can breaks and continuities in comparison to the traditional concept of the Keynesian welfare state be more clearly revealed. Typically, in this context, measures, which in a "system-conformist" manner wage upon cuts (cuts of social expenditures and services), mix with those, which imply "structural reforms" in the sense of system change.

The end of social welfare as we know it

At the centre of the more recent "social reforms" in the EU member states stands the aspiration to restructure the social state ever more according to the principle of individual personal responsibility and to expand the duty of the individual to provide for him or herself. Thereby the principle of collective insurance and (limited) redistribution is pushed back. The ideal that the social state must guarantee "inalienable claims" and the realisation of social citizens' rights is often riddled with holes. The principle of equal opportunities and chances – which was always aimed at the elimination of the causes of social discrimination and at equal "chances at the start" as well as post facto correction of market results reinforcing inequalities – is transformed into the principle of justice of opportunity. The latter sees social inequality as an indispensable and welcome catalyser for economic growth and increase in economic well-being, whereby following the principle of individual responsibility, only at the level of "chances at the start" (for example education, promoting "employability" etc.) could state intervention be legitimated. As the example of education and the investments into human capital shows, equal opportunities also do not necessarily rely upon social state means, but on market stimuli and the promotion of private post-graduate training. The principle of equality of distribution ("policies of material equality") and the goal of producing almost equal life conditions by necessity do not apply within the framework of such a re-evaluation of priorities. This fundamental reorientation can be observed – in many graduations and appearances – in the member state "reforms" of old-age provision, the health systems, labour market policy and in the case of social basic insurance (in Germany, social benefit). The reform of old-age provision is inspired by the "three-column-model" of the World Bank. In accordance with this, the public pension schemes are reduced more or less to the function of a basic provision in old age and supplemented by – capitalised and individualised – firm-level pension schemes (pension funds) and voluntary private provisions in order to secure living standards. Pension reforms in the Netherlands and Sweden (1999), Germany (2001), Austria (2003) and France (2003, extension indicated), while they set different accents, point in this direction. Moreover, they are linked closely with the intended creation of a European financial market, for which they are supposed to represent one, if not the decisive source of financing.

The reforms of public health systems which have already occurred or are envisaged have the same underlying principle: restrictive definitions of the "medically necessary" obligatory services, privatisation and social cutbacks by way of private co-payment requirements and outsourcing those treatments and services which no longer belong to the list of state services (for example dental prosthesis or spectacles) to "individual provision" or supplemental insurances. In both cases, this is primarily about relieving businesses of "non-wage labour costs", which is often expressed in the lower financing duties of the employers for these social security systems in comparison to the past. The market-correcting and redistributive function of the security systems is on the whole being driven backward. A growing share of the services depends on the individual "market success" (in the case of the capitalised columns of old-age provision even on "financial market success").

For unemployment insurance (long-term and youth unemployment) and basic social insurance, concepts from the USA (workfare) have become and are increasingly becoming guidelines for action. The concept of "workfare" is best expressed by the slogan "Work for your welfare". The Norwegian ILO expert Nanna Killdal (2000) described this concept pertinently: "Workfare programmes require benefit recipients capable of working to work for the payment they receive, but at worse conditions than those for comparable work on the "free labour market". The target group are usually all not mentally retarded recipients of state services from the social basic insurance." The basic idea therefore is that the "clients of the social state" have to return something to the "community" in the form of low-wage labour for the receipt of support payments. Workfare programs were introduced during Ronald Reagan's administration in a number of US federal states. The true breakthrough, however, was achieved by the democratic president Bill Clinton 1996 with the Personal Responsibility and Work Opportunity Reconciliation Act. In his diction, the goal was "to end welfare as we know it." (see Hitchens 1999: 64 ff.; Platt 2004).

The US law aimed not at labour market policy, but concerned essentially social benefit-dependent groups (for instance, the unemployed, single mothers etc.). It required work in exchange for state support services, limited the duration of benefits drastically (to a maximum of 60 months in a life-time, food stamps for only 3 months within a 36-months-period etc.) and imposed sanctions (withdrawal of benefits) if the cooperation of the recipients was deemed insufficient.[6]

In Great Britain (the Blair government's New Deal projects), the Netherlands, Belgium and Denmark ("activating labour market policy") and in Germany (Jobaktiv law, Hartz reforms), this general orientation has been implemented, be it with different emphases (for example, in Denmark and the Netherlands, by all means with requalification and promotion), with respect to the basic social insurance as well as labour market policy and unemployment support. Independently of the respective national peculiarities of these support systems, there predominates a trend to take back enshrined rights and claims (to "passive support payments" as well as "promotion" in the form of retraining, basic education and post-graduate training). Payments are tied to obligations and "duties" (readiness to move, acceptance of precarious and low-wage jobs, work obligation for social benefit recipients etc.), and a rigid tool-box of sanctions (partial or complete withdrawal of payments in case of insufficient cooperation and "fulfilment of duty") is implemented. Thereby the equal treatment clause and the old welfare state ideal of indivisible social citizenship rights are being undermined. For the lowest strata of the economically inactive (in Germany, social and unemployment benefit recipients) particular special legal relationships are being defined by the authoritarian state, which attribute to the clients, depending on the case group to which they are assigned, a specific status with (limited) special rights and (extended) duties. They become second-rate citizens: whereas for those still gainfully employed, the right for example of free choice of occupation and of work place still applies, these benefit recipients have to be prepared to be mobile and to accept "mini-jobs" without perspective, neither are they allowed to make any "mistake" – otherwise they fall out of the social net. What is passed off as the "modernisation of the social state", is in reality a regression to the moralising stance of the "work house".

6 Hitchens reports the case of 30-year-old single mother in Missouri, who was forced by the District Job Placement Scheme to work for a starvation-level wage at the food concern Tyson Foods. Her task was to pluck and draw chicken. While she was pregnant, she was refused the social aid. She had to walk six miles to work on foot, already 11 days after her baby was born. This is the reality behind the well-sounding rhetoric of "jobs, jobs, jobs".

As regards social insurance, it must be stated that the self-assigned task of preventing poverty and social exclusion – or formulated in a positive manner, the securing of a socio-cultural existential minimum – does not succeed and is no longer even the intention. The average income from basic social security (social benefit) in the 1990s in Great Britain amounted to 18%, in Portugal 22%, in France 27% in Germany 33% of the gross national income per head. The Statistical Office of the EU defines the poverty level as 50% of the national GDP per head (see Guibentif/Bouget 1997).

Reinterpretation of the basic concepts of the social state

In parallel to the practical attempts to "modernise the social state", its central guiding concepts are being reformulated. The concept of reform in the 1970s still stood for social progress and the extension of the social state. Today the strata dependent on gainful employment, pensioners, the unemployed and social benefit recipients react by grabbing their purses, when this word is spoken.

The notion of "solidarity" experiences a manifold change of meaning. In the context of the Keynesian welfare state ideal, it did not only imply risk sharing (social insurance), but also the financing of the welfare state by all social groups according to their economic performance capacity (solidarity between the economically weak and strong including businesses and the wealthy). From the tax, wage and labour policy point of view, it is now being reinterpreted into "solidarity with the competitive": general tax reductions with over-proportional relief for business profits, high incomes, moderation in collective agreements, firm-level flexibility (labour time, working conditions, work contract conditions) and the break-up of territorial collective agreements are supposed to deliver higher growth and more global competitiveness, which would then stabilise the employment level and lead to a decrease in unemployment figures in the long term. In Germany, in the meantime, even the progressive income tax is up for grabs.

Thus the White Book "Growth, Competitiveness, Employment" of the European Commission of 1993, for example, demanded a "new social compact". Solidarity was here defined essentially as a task to be solved between those, "who have work, and those, who have none". The wages of those employed, in accordance with an "insider-outsider-theory", were too high in comparison to what they would be on a labour market with perfect competition. Therefore, moderate wage increases below the growth in productivity would be required (thus wage renunciation of those employed), so that the unemployed might have a chance to get a job. A redistribution between capital and labour as the basis for solidarity is being given up in favour of redistribution only between employed and unemployed ("redistribution within a class").

According to a similar pattern, old-age insurance for all is no longer hardly a task for the entire society, but a question of "solidarity between the generations", i.e. between the shrinking number of young gainfully employed and the growing number of older people of pension age, or rather a "new distribution problem" derived from that between those without children and those with many.[7] It is therefore all about restricting the duty to solidarity to more narrowly defined groups and issues, with the economically strong mostly exempt. On the other hand, there are also tendencies in the socio-political debates to exclude certain risks as "of one's own making" or to be privately borne (for example smoking, alcoholism, high risk sports in the health insurance, unemployability in the case of pension insurance) from the context of solidarity.

It is no different with the concept of "full employment". Following Keynes and Beveridge, it was a question of full employment on the basis of a standardised "normal work relationship" (with regulation by collective agreement, social insurance law etc.). Full employment was defined as a situation where the number of job openings at least as a tendency exceeded the number of those registered as unemployed. Now it is a matter of "full employment" without standardisation of work relationships – thus under conditions of widespread precarious employment relationships (minor jobs, mini-jobs, part-time wok, work on recall etc.) without sufficient incomes. This full employment notion lacks the formerly present social content. And also from the purely quantitative point of view, it is simply attached to the achievement of a certain employment quota (share of the employed in the whole population capable of working between 14 and 65). An employment quota of 70%, which the EU equates to full employment, in the year 2000 in Sweden (73%) still went along with an official unemployment rate of a full 6%.

The "crisis of the Keynesian welfare state" is thus not only interpreted differently, but the different concepts and action-guiding leading images in the battle for the "restructuring" or "modernisation" of the social state, while similar on the surface, are based on different concepts and principles guiding the action of the proponents. The EU has – due to its lack of real, independent competence in social policy – in the recent past taken on more and more the role of a "provider of guiding images" and "coordinator" for the social state policies of the member states.

7 Compare on that in particular the proposals from the ranks of the German Greens and the CSU to punish childlessness with reductions in the computation of pensions and provisions in old-age.

The coordination of Social Policy in the EU: "Social Integration", "Pension Reforms", "Health Care" and "Old-age Insurance"

In the 1990s, the European Commission already began its attempts at establishing a minimal consensus between the governments of the member states concerning the "modernisation of social protection". It achieved this in particular by the debate on its memorandum of the same name of 1997. In 1999, first conclusions resulted in the sense of a common strategy of the EU and its member states: "The social protection systems of the member states are faced with a number of significant common challenges. Thus they have to be adapted for example to the changing world of work, new family structures and the dramatic, demographic change of the upcoming decades. In this context, it is the clear wish of the citizens that the achieved high level of protection be kept up, and that it be brought into sync with the necessity to provide public services in a more efficient manner and subject them to a strict budgetary discipline. (COM 1999)"

Guiding vision: "modernisation of social protection"

The reference to "new family structures" is, by the way, only a mild reflection of women's policy demands, which in the memorandum of 1997 had still played a more prominent role: a turn away from the role model of the "male head of the household" by way of the individualisation of the tax systems and social protection (linked to a better respect for independent legal claims of women and protection of "typically female" employment biographies with periods of childcare etc. in the social insurances as well as an improvement of the infrastructures of care). This comparatively "feministic" orientation, however, was less the result of a conscious commitment of European policy to the goals of the women's movement, but rather, due to an economic perspective. The goal of the Commission, to keep the labour supply high in the light of demographic transformation (and to thus maintain "competitively low" labour costs), from their point of view, could only be reached if the gainful employment quota of women, among other things, was significantly increased. Higher economic activity of women is therefore "means to an end" for achieving a stable dynamic economy with high rates of economic growth.

The "changed world of work" made it necessary that "systems of social protection (…) bear account to the emergence of new forms of work such as time work and part-time work and to the growing significance of independent entrepreneurial activity and promote it (COM 1999)." The conclusion was: "An adaptation to such changes requires a new balance between security and flexibility as well as between rights and duties. The systems should now offer active help to employees and job seekers, especially by way of promotion of employability and flexibility and must create strong incentives to look for employment and to take care that work is profitable." It is thus not a question of repressing the devaluation of gainful employment and the increase in precarious employment relationships. The Commission in no way seeks to establish a new European work-time standard (shortened labour-time, fully secured part-time). It is concerned with pushing further with the flexibilisation of the labour markets and to reflect this in a downward staircase (labour law, social protection) in the restructuring of the social insurance systems. It is above all the (actual as well as potential) employed as future "entrepreneurs of their own labour power", who have to place their adaptability under examination. For this the "new balance of rights and duties" is needed, which would encompass the workfare approach. "Incentives" have to get the unemployed and the other "clients" of the social minimal insurance systems up on their toes to no longer remain inactive in unemployment. This is, of course, expressed in a "friendly" or objectively-bureaucratic language, as is typical for the EU institutions.

The main motive of the Commission is expressed, however, in the context of the cost question. The economy is not supposed to be burdened with too high taxes and wage supplement costs. The demographic development – i.e. the expected turning-around of the age pyramid with less young gainfully employed and ever more people of pension age as well as a shrinking population in the long run – is mainly understood as a cost problem for the pension and health systems. This is supposed to be solved by appropriate cost curbing schemes. And above it all stands the commandment to keep strict budgetary discipline (in accordance with the rules of the EU Treaty and the stability and growth pact), which – given the desired policy of tax reductions and low wage supplement cost – after all demands limiting and driving back state financing of social security systems.

The "over-aging of the population": Can we no longer afford the social state?

In the perception of the Commission and the governments of the EU member states we are apparently dealing with a "demographic time-bomb". Between 2000 and 2050 the old-age coefficient (the relationship between people in employment aged between 15 and 64 years, to people in pension age over 65) is supposed to almost double from 28.3% to 55.9% in the EU-15 average. Put in another way: at this point, on average 3.5 gainfully employable stand at the disposal of one pensioner, in the year 2050 there will supposedly only be 1.8 gainfully employable per pensioner. The expenditures for pensions at this time in the EU-average run at about 12% of the EU GDP (for the health systems at 7%). Pension expenditures are to grow in a number of member states to up to 15 to 20% of their national GDP. This, thus say Commission, governments, entrepreneurial associations, experts and media, can simply not be accomplished – the social security systems can no longer continue to be financed in this way.

Actually, the described problem could be even worse because the old-age coefficient expresses only the relationship between gainfully employable and people of pension age. Yet, not all gainfully employable do as a matter of fact have a work place. The employment quota (the share of people of gainfully employable age, who actually has a gainful job) in 2003 is on average at 64%. If this were still the case in 2050, there would only be 1.15 gainfully employed per pensioner. Therefore, argues the Commission, it is necessary to mobilise all possibilities (women, immigrants, elderly employed, prolonging working life) for the increase of the employment quota to thus improve this relationship. What this could bring, is shown by a small model computation by Schani Margulies for Austria. In 1996, there were 1.6 million citizens over 60 years in Austria as well as 5 million between 15 and 60 years. Of the latter, however, only 3.3 million were gainfully employed (employment quota of 69%). Government estimates predicted a decrease of the population in employable age (15–60) to 4.5 million until 2030. If Austria succeeded until 2030 in reaching an employment quota of 90%, there would in comparison to 1996 be a full 700,000 gainfully employed and a full 1 million pensioners more. “Full employment” would thus significantly alleviate the demographic problem, since possibly even “costs” for the reduced number of children and youth in comparison to 1996 would go decrease.

This is also illustrated by an examination on the basis of the German example. Those employable after all not only have to take care of elderly, but also of children and youth. Therefore, the overall quotient (elderly and young) is more relevant for the true “burden” caused by the care for the economically not active parts of the population for the employable. This overall quotient does not rise dramatically even in the projections of the Statistical Federal Office: compared to the situation in 1970 (with “full employment and a social state intact”), it would in 2050 only be 12% higher. This is in no way dramatic, because the wealth of society increases to a much higher extent.

Table 4: Prognosis for the change in the overall quotient (young and old) for Germany For 100 people of middle age there are

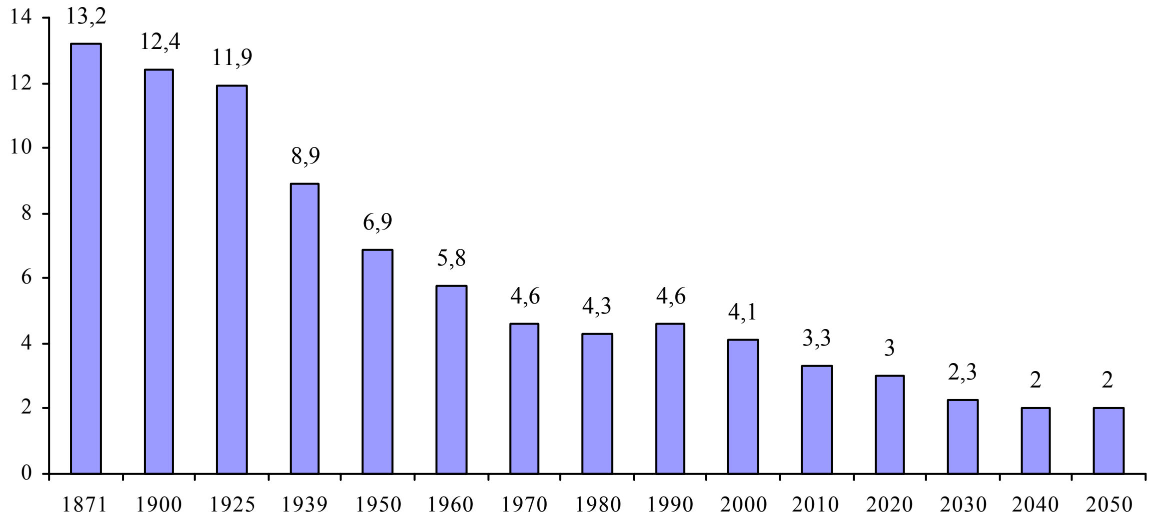
	Older	**Younger**	**Overall**	**Definition of middle age**
1970	40	60	100	20 to under 60
2001	44	38	82	20 to under 60
2050 a	78	34	112	20 to under 60
2050 b	55	30	85	20 to under 65

Source: Federal Statistical Office, German Population until 2050, 10th coordinated projection, Variant 5 (“middle variant”), press release of 6/6/2003

More important insights, however, can be won from a more long-term examination of the “demographic problem”. Today’s debate is a strong reminder to the core argument of Parson Malthus, only under the opposite omen. In 1798, at the beginning of the period of industrialisation, the British economist Parson Malthus argued that Great Britain could in the long term only expect poverty and famines. The dramatic population explosion would grow geometrically, the opening up of agriculturally usable space by contrast at best arithmetically. In a few decades, it would therefore necessarily be the case that agriculture could no longer nourish the dramatically increased population.

As we know today, Malthus was on the wrong track with his conclusion from the “demographic problem” back then – interpreting it as overpopulation. In the year 1800, about 75% of the West European population were employed in agriculture, in the year 2000 still about 4–5%. In the meantime, a continuous development in productivity took place. It enabled one person employed in agriculture to nourish about 88 persons in the year 2000, as opposed to only 1.4 persons in the beginning (1800). In these 200 years, overall economic productivity on average grew by “only” 1.7% a year. Similar shifts in scale also occurred in the area of services and production. The real GDP in West Germany rose by 473% between 1950 and 1990, while the number of employed in the same period only rose by 42%. Demographic development was therefore responsible for 9% of the increase in production in this period; the remaining 91% were due to the growth of real capital stock, labour productivity etc. The central question is therefore not the relationship of the gainfully employable to pensioners (and not even of the actually economically active to the economically inactive). The question is rather, whether the progress in productivity can in the future still be as high as in the last 200 years in order to guarantee a sufficient additional product given a relative decrease in employment. In the economies of the industrialised countries (OECD), even given flat economic growth rates, a corresponding yearly increase in productivity of 1.5 to 1.7% for the next economic decades is being expected. In this case, maintenance and design of the social security systems in a context of aging and shrinking overall population are not a demographical, but a distribution problem.

Graph 4: Aging in Germany, 1871-2050 (for one person over 65, there are … aged 15–65 years)



In a historical perspective our present demographical problem is by the way rather modest. In Germany, the old-age coefficient in 1900 lay at 12.4. It sank to 6.9 in 1950 and by 2000 to 4.1. From a full 12 gainfully employable per pensioner down to 4 per pensioner in 100 years is surely a much more dramatic decrease than from 4 (2000) to 2 in the next 50 years (prognosis for 2050). Nonetheless, in this period living standards rose significantly and the social state was built up and extended, in particular between 1950 and 1970. After 2040, however, a stabilisation of the age structure is moreover expected – thus in essence, only the consequences of the aging of the "baby-boom" generation (the 1950s and the early 1960s) have to be "managed". The longest stretch of the "burden" caused by demographic change is already behind us. An "objective need" for cost reduction for demographic reasons, as claimed by the European Commission and the governments of the member states, simply does not exist.

The EU strategy for social integration

In the framework of the "Lisbon strategy" – that is, its concept "of a political triangle, which would rely on a positive mutual influence between economic, employment and social protection policy", and its goal of, by the year 2010, turning Europe into the most strongly growing and competitive knowledge-based economy of the world – the EU, in the meantime, has initiated a number of coordination processes between the member states in the area of social policy. These at this point concentrate on the fight against poverty and social exclusion, a coordination of pension reforms and coordination concerning the health system and care for the elderly.

At the EU summit in Nice (December 2000), the goals of "open coordination" in the area of poverty and social exclusion were established. There are four basic orientations:

- promotion of participation in gainful employment and access of each and everyone to resources, rights, goods and services,
- avoidance of risks of exclusion,
- measures in favour of the socially most endangered persons,
- mobilising of all actors.

These orientations are obviously formulated in very vague terms. Although the preceding Portuguese Council presidency had pushed for quantifiable goals, for instance overcoming poverty in childhood until 2010, even the partial goals were formulated in a very vague manner and are open to interpretation. Thus one of the three partial goals to Goal 2 "Measures for the Maintenance of Solidarity in the Family in all its Forms". Under Goal 3 one finds the "Elaboration of extensive measures for areas, which are confronted with problems of exclusion."

Moreover, despite a different definition of the method of open coordination (MOC) in the guidelines of the Council of Lisbon, the Council renounced laying down guidelines itself. The member states were supposed to draw up national action plans for social insertion on the basis of the above-mentioned orientations of a two-year duration, and in this context set themselves national state goals and measures. Thus the first round of national action plans (period of action 2001–2003) in most cases amounted to little more than a list of national problem areas and the anyway already operational measures of the governments. The fewest set themselves concrete and binding independent goals for the prevention of poverty and social exclusion. In their report draft for the evaluation of national action plans, the European Commission expressed appropriate criticism and drew up a ranking of member states. In the common report with the Council, this criticism and the "ranking", however, were already taken back. The Commission now pointed out that it was not its goal to evaluate the politics of the member state and their effectiveness. It was this in particular, however, which had been intended by the original conception of the MOC.

The European Network against Poverty (EAPN) concluded after this first round (2001–2003), that in less than half of the countries adequate measures are implemented or planned to effectively address the problem of poverty and social exclusion. The members with sufficient measures are for the most part countries with developed social systems, which already show a lower poverty quota anyhow. Yet even in these countries, doubts remain as to the financial appropriateness and the quality of execution. The great majority of member states sees the integration into the labour market (with sanction-proven methods of the "activating labour market policy") as the most weighty instrument for the fight against poverty and social exclusion. The themes of "poverty despite work" and of immaterial factors of social exclusion (discrimination etc.) hardly play a role.

Key indicators, it's true, were agreed upon, which are supposed to enable an all-European comparison and control of the effectiveness of measures of the member states: income distribution, poverty rate, solidified poverty, share of unemployed households, regional differences in the unemployment rate, educational deficiencies and long-term unemployment. The Belgian Council presidency in 2001 had presented proposals from expert circles, which wanted to express more broadly defined aspects of social exclusion in indicators: preventive health care, living conditions and homelessness, alphabetisation and basic mathematical skills, access to basic provisions of public services, debts, access to telecommunication and Internet, access to social security and social insurance, participation in public life, in leisure and culture. Yet, these proposals were rejected.

The second round of national action plans (2003–2005) is also summed up very critically by the EAPN. As before, there was a lack of adequate anchoring of the fight against poverty and social exclusion as cross-sectional task for all policy areas of the member states. There was a particualr lack of decisive efforts to make the social nets "poverty-resistant" as well as of clear strategies in the various areas and of adequate equipment with financial and personal resources. The fight against poverty and social exclusion in the meantime in most member states has an even lower priority than it did two years ago. The national action plans continued to have the character of analysis and reports. The governments were, in this context, using the opportunity to publicise show projects. Policies that had increased problems of poverty, were on the contrary simply cut out.

The 10 new member states of the Union have each of them concluded agreements with the European Commission (Joint Inclusion Memorandum) to prepare for a preparation to the MOC for social integration. This concerns the build-up of capacities in the administrations dealing with these topics and their cooperation with civil society actors (NGOs, collective agreement partners, welfare associations). Often, an inventory of the trends in poverty and social exclusion, their origins and long-term effects first has to be made and a statistical system conforming to that of the rest of the EU in this area set up. After May 2004, they are also supposed to draw up first national action plans.

On the whole, the balance of this first coordination process of social policy looks meagre. In 1996, 18% of the EU population already lived in income poverty (with less than 60% of the average income). In Great Britain, it was even at 20% and in Portugal at 24%. Around 40% of the income-poor population (25 million citizens, male and female, of the EU 15) even lives in solidified poverty situations. Even a stable job today no longer protects against poverty. On average in the EU, 13% of all households with at least one gainfully employed person in the family are working poor. This situation has practically not changed at all. Since from the European level, it is being renounced to concrete and binding goals, it can hardly be expected that the member state will feel compelled to make stronger efforts.

The coordination of the pension reforms in the EU

The second social policy coordination process deals with the pension systems. Back in 1999, the Commission had, in a study about pension systems and public budgets voiced the fear that some member states would be driven to increased public debts in order to finance their pensions systems. Such a development had to be avoided, since otherwise the stability of the Euro and the deficit rules of the EU treaty would be endangered. The main motive of the open coordination concerning the pension systems introduced at the Stockholm EU summit of 2001 was thus of fiscal nature. The EU summit at Lisbon established three principles and 11 goals for the MOC concerning the pension systems. The member states should in national strategy reports present how the national state pension policy follows these principles and goals. The open coordination to pension systems thus has a similarly non-binding character as the one concerning poverty and social exclusion.

The cooperation of the member states in the meantime departs from a "three-column-structure" of old-age insurance as the ideal model: state pension systems, firm-level pension systems, voluntary private prevention. The common report of Commission and Council of 2003, analysing the national strategy reports of the member states, draws the following conclusion: "All member states have introduced the reform process and quite a few have already in the 1990s implemented deep-reaching, in some cases even radical reform. Nonetheless, the majority of the countries sees the need for further reforms in order to secure the further tolerability of the pension systems and the solidity of public finances. (…) Especially important in this respect will be – in particular with view to the long-term consequences of the higher life-expectancy to the pension expenditures – to create stronger incentives for older employed people to prolong their working life. This can be reached mainly by a closer connection between contributions and payments. Beyond that, the financial basis of the pension systems can be strengthened by the extension of state and private capital funding."

Table 5: Principles and goals of open coordination (MOC) concerning "Pensions which are adequate and secure into the future"

	European Goals
	A: Adequateness of pensions
1	Prevent social exclusion
2	Put people into a position to maintain their living standard
3	Promotion of solidarity (among the elderly, between the generations)
	B: Financial tolerability
4	Raise the employment level
5	Prolong life-time work-time
6	Make the pensions secure into the future in the framework of solid public finances
7	Adapt services and contributions in a balanced way
8	Make sure that private old-age prevention is appropriately and solidly financed
	C: Modernisation: React to changes in needs
9	Adapt to more flexible employment and career patterns
10	Follow the aspirations to equal status of men and women
11	Prove the capability of the pension systems to live up to the challenges

The EU summit of Barcelona (2002) had already agreed upon a turn away from the policy of early pensions and established an activating goal for older employees: until 2010 the factual average age, at which the gainfully employed part with work-life, should be raised gradually by 5 years. In many member states, a considerable part of gainfully employed already stop working before reaching legal pension age. This development should be held against by way of "incentives" (cuts in case of premature entry into pension; flexible work-time; activating labour-market policy against older employed) and thus the actual life-time work prolonged.

Whether the pension incomes (from all three columns) are "adequate", that is, ultimately secure pensioners' living standards, the EU is not able to tell in a well-founded way. The data in the national strategy reports "allow no systematic comparison of the present and future replacement quota levels (that is relationship former gainful income/pension; A.B.) in the members states." The report of Commission and Council, moreover, states simply that the pensions in general are "appropriate"; however, concrete numbers are only provided for the poverty risk in the population of those over 65 years. For the pensioners in general, this was not higher than for the rest of the population; however, for the female old-aged population, it is considerably higher. What follows from "reform course" in the direction of cost curbing and partial privatisation, is revealed by some very few indications in that report: "Belgium and Italy call the differences in income between pensioner households to be continuously worrisome. Italy declares that income differentials are the highest between the younger pensioners, which reflects the growing importance of the firm-level pensions (which have a less pronounced redistributive character) and the income from other sources (especially capital returns) in this age group. In the report from the United Kingdom, it is stated that the income of 20% highest pension recipients from 1979 to 1996/7 increased by 80%, that of the 20% low-pension recipients, however, only by 30%. This can be attributed to the extension of the individual and firm-level old-age prevention, a trend which does not benefit the poorest pensioners."

It also seems difficult to make well-grounded statements about the future "appropriateness" of the pensions. Pensions out of the state systems will be limited and rather cut back to the level of a "social basic insurance". The second and third columns should then in theory help to secure the living standard. However, they are increasingly switched to a capital-funds principle and individualised. Thereby, the pension system as a whole acts in a less redistributive fashion, and the future level of payments depends increasingly on the success of investments on the financial markets and the respective moment the payment comes due. In the Netherlands, Great Britain and Germany, pension funds and life insurance concerns – the suppliers of the capital-funded column – now find themselves in deep water. Maybe this also led to the state intervening with tax means (whereby also the claimed "relief of the public budgets" is questionable).[8]

The principles and goals of open coordination in the pension area, though they at first sight often sound good, are actually more an Orwellian newspeak aimed at assuaging public opinion: "Trust us, it will all end well, socially and in a solidarity-based fashion!" The message to tomorrow's pensioners, which the German economic specialist Horst Siebert has formulated, on the other hand, describes the "reform course" with refreshing openness and realism: "Work longer, own less, save more!"

The EU guideline concerning firm-level pensions (2003)

Largely unnoticed by the political public, the EU has, in spring 2003, passed new legal regulations concerning firm pension systems. Typically, it is a guideline in the framework of the financial market action plan of the EU, which is aimed at the creation of the integrated EU financial market. In case of firm-based pensions, employers and employees usually contribute to a savings contract, from which the employed later on receive pension benefits. Such systems can be set up by the business itself or it may use the services of another financial institute (e.g. pension funds, pension insurance or investment funds). This then receives the contributions, invests them and pays out the old-age pensions. Business pension systems in the EU at this point hold assets corresponding to about 29% of the GDP of the EU (2.5 trillion €). If this area – which is regulated in many various ways by the nation states – were to be opened up to competition and deregulated, truly European pensions funds could develop. This is thus a goal of the EU guideline "About the activity of institutions for firm-level pension provision" that was passed.

It opens the rendering of services for firm-level pension systems to an EU-wide competition and liberalises the investment rules. The management of the asset and investment values of firm-based pension schemes, in the future, should be based on the prudent person principle. According to this principle, the contributions made should be invested in the best possible interest of the members. The financial administration and investment strategy should be transparent and carried out by qualified financial mangers. These and certain reserve provisions should suffice to keep a "sensible balance" between investment risk and security of pension payments. Members and beneficiaries of the firm-level pension systems have to be correctly informed about the conditions of the system, their individual rights and payment claims, investment strategy and financial position of the supplier.

Beyond that, the guideline makes no stipulations concerning the security of the pension payments: neither does the later payment have to correspond at least to the sum of the money invested, nor does it have to guarantee a minimal return. In other respects too, the stipulations offer the financial managers a high freedom of movement, the future firm pensions can either be paid out for the duration of life, or only over an agreed period, or as a one-off payment. They can cover biometric risks (invalidity, high age) and the care of dependents, but in that case higher contributions can be demanded.

The contributions (i.e. the portfolio) can be invested up to 70% in stocks and other obligations, up to 30% also in foreign currencies. An engagement on risky capital markets is explicitly allowed. A number of member countries up to now had stricter quantitative and qualitative investment prescriptions. The suppliers of services (pensions and investment funds, life insurances etc.) in the future are allowed to manage firm pension systems in all member states. However, they have to respect the other investment provisions of the nation state of the respective member states and their tax, social and labour law prescriptions. Thus the creation of European pension funds is made possible, but the conditions of their operations are not yet completely harmonised EU-wide.

The argument of the Commission for the EU business pension guideline announces in surprising clarity, what the real issue of the pension reforms and the strengthening of capital-funded old-age provisioning really is: "The establishments for business old-age provisioning distinguish themselves by their very long-term activities with respect to the commitments of the carrying business as well as by their investments (…). Therefore, they can, if they hold this to be appropriate from the point of view of the kind and duration of their portfolio, effect substantial investments into relatively illiquid assets, such as stocks, including those issued by very small firms, yes, even into not- quoted obligations. In this way, the establishments (…) can make a contribution to the development of risk capital. With view to a better spread of their investment portfolio, they can also invest significant sums into foreign obligations. (…) The institutions of firm-level old-age provisioning thus play an important role in the national systems of social security, in the financing of the EU economy, and in the integration of the European capital markets. (…) The institutions for firm-level pensions invest increasingly into stocks, which in the long run are seen as more profitable and thereby contribute to a reinforced capitalisation of the stock markets of

8 The experiences of the inter-war period have actually shown already that capital-funded pension systems are in no way more stable than solidarity-based pension systems. Several times the state had to save these systems from insolvency. Precisely these experiences, for example, after the Second World War in West Germany gave the decisive push to introduce the tax- and contribution- based system after the war.

the member states, which continues to constitute only around half of that of the US."[9] Pension funds can act just as, up to then, the universal banks as credit and capital providers for firm founders and established enterprises. Europe-wide pension funds would reduce the financing and administrative costs of the insurance industries due to economies of scale. Old-age security increasingly becomes the play money of the finance branch, which expects good business from that. This in turn strengthens the strategy of increasing the "shareholder value" and the dominance of financial markets. In the European Commission and in governments of the member states only both find all too willing helpers.

The coordination for the future of the health system and long-term care

The third process of social policy coordination in the EU deals with the future of the health system and old-age provision. The EU summit of Barcelona (2002) initiated an open coordination on this topic on the basis of a memorandum by the Commission of the year 2001.

The Commission had formulated three EU-wide goals to be pursued:

- access for each and everyone independent of their income or wealth
- a high level of quality of the health systems and care for the elderly
- securing the financial solvency of the systems.

The member states were asked to prepare a question catalogue about the national situation and strategies in these three areas. On this basis, the first joint report of Commission and Council concerning the national strategies in the area of the health system and old-age care took shape in spring 2003. Whereas the Commission emphasised very strongly the cost-pushing role of demographic change also in this area, the Common Report expresses itself more cautiously in this respect. Overall, the Common Report comes out with much less detail than for example the reports about social integration or the pension systems.

It concedes that there were certainly problems with respect to the equal access to health and old-age provision (especially for elderly people and people with low income; regional differences in provisioning, waiting periods for certain treatments etc.). In most member states, the households bore between 20-30% of the overall health costs, either directly or by way of private additional insurances. Legal limitations of the service catalogue, additional payment and self-payment regulations are the order of the day. This created risks that the "vulnerable groups would not be in a position to afford such expenditures and would therefore either not want or not be able to permit themselves appropriate basic care."

Regarding the guarantee of a high quality of provision, standards for structural quality (medical equipment, personal qualification and post-graduate training, buildings and installation standards) were in the meantime usually available. The situation was more difficult already as far as process quality (treatment guidelines etc.) were concerned. The evaluation of services and results of the health systems and old-age care was only systematically driven forward in a few member states.

Concerning the financial situation of the systems, it is being claimed that since the end of the 1990s, the health expenditures were growing faster than the GDP in some member states. The short-term reactions of the member states were very different from the one another. Some had stabilised their level of expenditures and saw no immediate need for consolidation (e.g. Spain). Others were taking measures to channel more resources into the health system (for example, Denmark, Great Britain). And a third group would, despite the introduction of cost-curbing mechanisms (budgeting etc.), fight to avoid rising expenditures (e.g. Germany and France). The long-term prognoses concerning expenditure increases on the basis of demographic change and expensive medical-technical progress rely essentially on a study of the Economic Policy Committee of the EU (2001). It departs from a rise in health expenditures in the course of the next 50 years (2000–2050) between 0.7 and 2.3% of the GDP. The report warns, however, that these prognoses on the basis of the underlying assumptions were to be treated "with caution".[10] Even if they applied, it is not a question of an insurmountable challenge.

In contrast to the coordination processes for social integration and the pension reforms, the European production of "guiding images" in the area of health care and care for old people has not advanced much. Indicators and

9 European Commission: Proposal for a Guideline of the European Parliament and the Council concerning Activities of Institutions of Business Old-Age Insurance, Brussels, October 11, 2000; COM (2000) 507 final.

10 This sound scepticism at least for Germany is also reaffirmed by an expert opinion by the Deutsches Institut für Wirtschaftsforschung (DIW) for the Federal German Ministry of the Economy of October 2001. It showed on the contrary that demographic change will only have a relatively minor effect on the cost developments in the health system. Decisive for the costs, moreover, is not age, but the proximity to death: in the last year before death, one third of the life-long costs of health care are incurred, for younger dying people they are even considerably higher than for older people. Prognoses about the costs of medical progress, according to this opinion, depend to such an extent on the chosen assumptions of departure that no dependable statements can be made for the medium to longer term. The DIW further established that also medical-technical progress in Germany in the last 3 decades could be digested without any effect on the contribution rate.

guidelines are not yet in existence. At this time, it is still the member states – see the German "health structure reform" and the debate about the "head tax" by the Herzog Commission – which ram in the poles in the direction of a system change. However, it should not be underestimated that the Commission (also in the framework of the "economic policy guidelines", the stability of growth pact and its forays for the liberalisation of the sectors of public existential provision and services) hits at the state-organised health systems and social insurances and includes them in the computation of the public deficit quotas. The industrial lobby anyhow for a long time already unfolds a campaign for a European domestic market for health services and products, which will have the liberalisation and privatisation of the health sector and care for the elderly as a consequence.

In its Memorandum of 2001, the European Commission clearly points at its competence with respect to the application of the principles of the domestic market in the area of health provisioning (patient mobility, liberalisation of services). It points out that, following Article 85 and 86 EU Treaty, the health insurances and the institutions charged with the administration of systems of social security fulfil a task of a solely social state character only, if their activity is based on the principle of national solidarity and is not aimed at making a profit. To be able to do so, the services to be rendered have to be legally enshrined and be independent of the level of contributions paid. The new guideline draft of the Commission for the creation of a domestic market for services until 2010 also concerns the professions in the health system as well as the system itself.

The consequences are unmistakable: "Should the European market and competition law assert itself more forcefully as a result of the new coordination method, this would lead to a deregulation of the whole system of contracts and services. If the health insurances were understood in the sense of the European competition law as economic enterprises, all contracts with the hospital societies, the physician's associations and the other care providers were to be evaluated as collusion contrary to competition. They would lose their validity and everything would have to be steered by market relationships. If then the primacy of cost reduction and privatisation from the Euro financial regime is still added, this would strengthen those political forces, which have anyhow for a day and an age want to deform the health system in the direction of more market, competition, and service exclusions." (Urban 2003).

Lisbon Strategy and competition-oriented embedding of social policy: a new European social model?

The previously mentioned Lisbon strategy several times raises the claim of coherently adjusting economic, employment and social policy to one another. Since the EU Summit of Lisbon (2000), the spring session of the European Council is therefore regularly devoted to these economic and social questions and prepared by a "synthetic report" by the European Commission. Thereby a multitude of coordination processes at the EU level is included in the examination, which is partly listed in the EU Treaty and partly relies on the method of open coordination.

Economic policy coordination

The EU economic policy in the EU Treaty is determined as a "matter of common interest" and should therefore be coordinated in the Council. Following Article 4 of the EU Treaty, it has to pursue the following landmark principles: "Stable prices, sound public finances and monetary conditions as well as a permanently sustainable balance of payments." (The Federal German Stability Law of 1967 by contrast also included goals of full employment and economic growth.) With the Stability and Growth Pact (Council resolution of December 13, 1997 and Guideline 1466/97), the Protocol over the procedure in case of excessive deficit and the provisions of the EU Treaty (Article 104 ECT), there exists a solid framework for the coordination of the budgetary policies of the member states. They are supposed to keep their budgetary deficit under 3% of their Gross Domestic Product (GDP), and the overall state debt is not supposed to exceed 60% of the respective GDP. Going far beyond that, the member states had committed themselves to reach balanced budgets by 2004 and even to achieve budget surpluses. As soon as the budgetary situation in one member state departs strongly from the agreed goals, the Council can, upon proposal by the Commission with a qualified majority, address a recommendation to the member state concerned – the dreaded "warning letter" from Brussels, which up to now was received by Portugal, France, and Germany.

The coordination of the economic policies of the member states takes place by way of annual Guidelines ("Basic guidelines of economic policy") with recommendations for the EU and for each single member state. Main points of emphasis are as before price stability and budgetary consolidation. Since 1998, however, the following themes have also been added: structural reforms of the goods and capital markets (liberalisation policy), the flexibilisation of the labour market, as well as more efficient and better integrated financial markets. Inasmuch as the economic policy of a member state grossly contradicts these guidelines or threatens the functioning of the currency union, the Council can, by qualified majority, also address a recommendation to the state concerned. This was done in the year 2001 in the case of Ireland, because the overheated economic growth there, in the eyes of the other member states, threatened the inflationary goal of the ECB. The European Parliament upon its own initiative sets up a report concerning the economic policy guidelines. Formally, it has in that respect, however, no co-deliberation rights – the Council merely informs it about its decision.

The contractual corset for the economic policy of EU is unambiguously monetarist in nature – at the centre there are low inflation rates and debt reduction. Added to that are policies for the shaping and deepening of the European domestic market. That is mainly the issue in the so-called Cardiff process (1998). Its goals are "Structural Reforms in the EU Domestic Market": a higher flexibility of goods and capital markets, the integration of European financial markets, the coordination of labour market and financial reforms, the fight against state subsidies, the prevention of unlawful tax competition as well as deepening and beginning to extend to further sectors the comprehensive liberalisation projects, which were begun in the framework of the domestic market (e.g. energy, telecommunication, railways, postal service, public tenders etc.). It delivers important substantive preparatory work for the economic policy guidelines and the goal prescriptions of the domestic market strategy.

The EU Summits of Göteburg and Stockholm have, moreover, set their sights on the "environmental dimension of the Community". It is supposed to be taken into account by way of a "Strategy for sustainable development" in the framework of the Lisbon strategy with view to climatic change, transport, public health and natural resources. This does, however, not entail a coordination of the environmental policies of the member states, but an investigation of the effects of the EU policies (agrarian and structural policies, transport and trans-European networks etc.) with respect to the achievement of "sustainability goals". Up to now, the "sustainability dimension" has found its expression essentially by the inclusion of a corresponding paragraph into the economic policy guidelines, which wages primarily upon market economic instruments, for example for reaching the Kyoto climatic protection goals.

The European employment strategy

On the basis of Article 128 ECT, a coordinated EU employment strategy with annual European guidelines – the so-called Luxemburg process (1997) – is also developing. The member states implement these guidelines in National Action Plans for employment policy. The guidelines in the past were grouped around four thematic guidelines: equal opportunities for women and men, improvement of employability, development of entrepreneurial spirit and job creation, promotion of adaptability of businesses and their workers and employees. They have a low degree of binding commitment and are subordinated to the goals of economic policy guidelines. In addition, Article 125 EC Treaty limits "employment policy" in the main to labour market policy and labour market reforms for more flexible labour markets. The parliament is formally consulted, when the employment political guidelines are drawn up, that means, it can make a statement before the Council comes to a final decision.

The social policy side of the Lisbon strategy is covered by the open coordination processes concerning social insertion, pensions, health and care for the elderly (see Chapter 4).

The tightening of the economic, social and employment policy coordination processes in the EU (since 2003)

The coordination processes concerning economic, employment, social and environmental politics in the EU were in this way relatively split up as well as, from the point of view of content and time, hardly in sync with each other. Commission and Council wanted to remedy this by synchronising them as well as bundling and streamlining them thematically. Since 2003, the economic policy guidelines, the domestic market strategy, and the employment policy guidelines are being set up at the same pace. From this the following time sequence results: in January, the Commission presents a comprehensive report which includes the implementation report for the economic policy guidelines, the draft for the common employment Report and the implementation report for the domestic market strategy, the stability and convergence programmes, the Cardiff Report and a few other reports of the Commission, e.g. the state subsidies. At the same time, the Commission presents its spring report concerning the Lisbon strategy, where the most important aspects and strategic policy priorities are put together. These two reports, together with the papers by the subject councillors, containing important demands for the respective policy areas, are presented to the European Council in March.

After the European Council has controlled the realisation and put forward general political orientations, the Commission in April presents its proposals for further progress in the stated policy areas. This guiding package contains the economic as well as the employment political guidelines. Given the desired long-term perspective, this package covers a time span of three years (e.g. at present 2003–2006) and is only adapted in the case of important new developments in the meantime. After further deliberations of the European Parliament (concerning the employment political guidelines) and the responsible ministerial councils of the subject areas, the European Parliament will approve the guidelines at its regular meeting in June.

To guarantee their better implementation, the Commission wages upon an improved national report system, e.g. fewer, but more comprehensible and sharpened reports. These are supposed to be presented by October. On this basis, but also on the basis of bilateral contacts and the results of benchmark comparisons, the Commission is able to control the success in implementing the guidelines and can present the results in a new performance report in mid-January, whereby a new cycle is begun.

As far as the actual coordination is concerned, the basic features of economic policy (as the "big guidelines") continue to remain at the centre. They will, however, be more strategically aligned, with the points of emphasis on macroeconomics, economic structural reforms (liberalisation, integration of financial markets) and measures for the promotion of growth, employment, social cohesion, and sustainable development. The employment policy guidelines are simplified and expressed more briefly, the domestic market strategy elaborated in more detail. The Commission proposes, moreover, to supplement this tightening of the coordination processes after 2006 by a comprehensive strategy in the area of social protection (2006–2009, that means in time for the next "synchronisation period"). This would then include the areas of social integration, pensions as well as health care provision and care for the old, which would then be bundled in "a common report concerning social protection" and be put into operation by way of national strategy reports and all-European goals.

Unchanged leading function of the economic policy guidelines

It is doubtless necessary to bundle and to tighten the many coordination processes. While the rhetoric of the Lisbon strategy up to now emphasised a balanced treatment of economic, employment, and social policy as well as environmental sustainability and demanded effort on the conflicting goals of the various endeavours, the current tightening and synchronisation reinforces the hierarchies that already exist among the various policy fields. The "economic policy guidelines" clearly dominate, which is highlighted once more by the inclusion of social, employment and environmental policy declarations in the guidelines. Economic policy guidelines and domestic market strategy together give the tightened coordination a bent in the direction of strict budgetary discipline, cost-curbing as well as liberalisation and flexibilisation. Employment political guidelines and social protection must support this framework and be adapted to it.

In the economic policy guidelines 2003, it becomes clear: "The basic features (of economic policy; A.B.) stand at the centre of the efforts for policy coordination, which characterises the system of economic policy leadership in the EU and its member states. In these basic tenets, the EU expresses that higher and sustainable growth rates are of decisive importance and that it is resolutely decided to take the measures necessary to their achievement. To increase economic welfare in a sustainable way, sound macroeconomic conditions and a solid macroeconomic policy are needed. A stronger entrepreneurial spirit and reinforced investments in knowledge and innovation are of central significance for new growth opportunities. Better functioning and more compatible labour, product, and capital markets are indispensable to reaching a more flexible economy and increase potential growth. (…) In particular, the wages should, in the case of a possible cyclical recovery of productivity or of an inflationary push due to oil price increases, continue to grow moderately, so that the profit margins may recover further and thus favour investment growth leading to job creation."

The Guidelines contain an "explanation" of unemployment in the EU which takes one's breath away: "That the per capita GDP (of the EU; A.B.) lies clearly below the U.S. level, is explained mainly by the fact that fewer persons have a job and as a tendency work fewer hours. This may in part be attributable to the fact that leisure time is accorded a higher status; in many cases, however, it can be reduced to the simple question, **whether work is worth it** (emphasis in the original; A.B.). By way, of relatively generous or rather liberal social protection systems or by way of early retirement incentives, many people were effectively encouraged to leave the labour market or to remain unemployed." The social state is thus to blame for high unemployment. Thus it has to be "modernised", and the labour markets have to be freed of regulations.

In what follows, one finds recommendations, which the EU summit at Barcelona 2002 had already urged. The wages had to be more strongly differentiated according to productivity and qualification (that means, mainly, be lowered even further in the lower brackets). Furthermore, "the costs in connection with the formulation and ending of labour contracts" should be re-examined. In plain text: a flexibilisation of the labour contract law and, for example, slackening of protection from dismissal were demanded.

Claims to benefits, their duration, wage replacement quota and supplementary payments etc. in the unemployment insurance should be re-examined and tied to sharper obligations. In this respect, also the employment policy guidelines of 2003 send the same clear message to the member states: "They will, in particular, under maintenance of an appropriate level of social protection, control the wage replacement quotas and the duration of receipt of benefit, they will, taking into account the individual situation, guarantee an effective administration of payments, in particular with respect to tying them to effective job search, including access to activating measures for the improvement of individual placement chances; they will, if need be, consider the granting of wage replacement benefits and strive for the elimination of non-gainful employment traps. Measures will be aimed in particular at substantially lowering, until 2010, the high effective marginal tax rates and, if need be, the tax and supplement burden on the wages of low-wage earners under observation of the national conditions."

Thus the fight against poverty and social exclusion is then seen essentially from the point of view that flexibilised labour markets and more mini-jobs and low wage employment offer the best protection against their increase: “Important in particular are measures that will improve the functioning of the labour markets and are conceived such that the wages reflect productivity differences in the various trades and local labour market conditions.” (BEPG 2003).

The reforms of the pension and health systems are addressed: “The requirement to insure the long-term sustainability of public finances has been underscored by the European Councils in Lisbon, Stockholm, and Barcelona. To deal with the economic and budgetary impact of the ageing of the population, the European Council in Stockholm decided to pursue a three-pronged strategy. The main emphasis of this strategy should lie on the strengthening of the gainful employment quota (compare Section 2.2 i), the lowering of the state debt, as well as on the reform of pension and health systems (BEPG).” As central orientation for the pension systems, prolonging life-time employment, the achievement of financial sustainability and the extension of “additional pension provisioning systems” are offered.

The employment political guidelines (and future declarations concerning social protection) have to follow the tenets of the economic policy guidelines. The latter, however, already include an ensemble of economic and social policy statements, which can hardly be “mitigated” and even less corrected by other political strategies and points of emphases. The tightening and synchronisation of the Lisbon strategy in fact achieves the production of coherence between economic, employment and social policy: the social state is being demolished.

A new European social model?

Social protection in Europe has always been understood as a “productive factor”. The prevention of accidents by way of measures for security and health protection at the work-place, an efficient health system, state educational policy and active labour market policy (retraining, qualification, post-graduate education) have also strengthened the productivity of the businesses.

While in the Keynesian welfare state, this was partly also linked with a social quality of wage labour, social policy now is supposed to become a much more immediate factor for improved international competitiveness: “Gradually, at the level of the nation state as well as on the European level, the contours of a New European Social Model are becoming visible, which aligns in a straight line with the competitive political formation of the economic space of Europe in the sense of the Lisbon strategy. In this model social policy continues to exist, however, it is one which will no longer contribute much to securing the social rights of citizens and to protecting against the impositions of the capitalist market economy. In this New European Social Model, social policy gradually becomes a variant of competitiveness policy. The social policy programmes of the EU aim above all at the improvement of the supply conditions of businesses, for example by way of increasing the qualification and the health status of the employees or a quick placement of the unemployed. It is above all a matter of firm-level competitiveness and economy-wide value creation.” (Urban 2003).

The “New European Social Model” still exists predominantly as a European guiding image – as a blueprint which is being implemented by the nation states in accordance with different historical traditions and social power relationships. The already severely hit Keynesian welfare state is being closed down on the basis of the developments introduced by the neoliberal revolution. While the guiding ideas of “modernising the social state” are the same all over Europe, the implementation should bring with it not only convergence, but also still further differentiation of the national “social states”. Their “implementation” by the nation states is still mostly tied in the manner of “path dependence” to the national welfare state traditions, as they have developed historically. New “systems’ logics” (capital-coverage principle for pensions, liberalisation and competition in health care and long-term care, private job placement etc.) are intertwined with the cut-back remainders of the old structures.

On the one hand, a hole-riddled social protection, as we already know it from the liberal welfare state, is gradually imposing itself. Yet, the “modernisation of the social state” clearly goes beyond the known liberal model. Since, where Beveridge still saw social minimal protection as a legal claim of the individuals to secure a dignified existence, today the spirit of the work house charged with moralising imperatives of duty and punishment rules ever more. The partial privatisation and individualisation of the pensions system (columns with capital coverage) turns the previous “solidarity-based system” into a vehicle for speculation and a play-ball for the financial markets. The health system is steered increasingly by the imperatives of competition.

While the social state (and even more so the extended Keynesian welfare state) formerly put reins on capitalism, in order to provide protection against itself, the film is now being played backwards: complete unleashing of the market forces, and this with the support of state social policy. The insecure European public will probably still take a while before it understands, what the historical performance is that it is being offered here in the name of the New Europe.

The future of the social state in Europe – 8 Theses

Since the end of the 1970s, the Keynesian welfare state has been under constant fire. Until the 1990s, the prevailing pattern was to cut the social net in a "system-immanent way": cuts in unemployment support, pensions and health system etc. Since the mid-1990s, these politics of cuts are combined with a "systemic restructuring": partial privatisation of pension systems, the primacy of individual self-provision, the restructuring of labour market policy in the sense of the workfare philosophy, the creation of competitively organised educational, post-graduate training and health markets. It seems as if the Keynesian welfare state, in this way, is to disappear sooner or later and should yield the place to a competition-oriented market state (Bobbit 2002).

The political left in Europe vacillates mainly between the option of an "adaptation of the social state to the conditions of globalisation" and the "defence of what has been achieved". It tends to be the minorities, who want to place the social states on to a new foundation – in Germany, the pertinent keywords are "value creation tax", "citizen and gainfully employed insurance", "social basic insurance" etc.[11] Broadly, defensive mass protest by trade unions and social movements in Europe up to general strikes (Greece 2001, Italy 1994/95, 2002/03, Spain and Portugal 2002, Austria and France 2003, Germany 2003 and 2004) have been able, at times, to delay the continuous social demolition and the liberalisation and privatisation of public goods in the member states of the EU, but not to stop it. The path from defence and protest to an actual alternative is apparently a long and arduous one. Nevertheless, we cannot avoid asking ourselves the question: What has to be changed in order to maintain and renew the social state?

1.The "social state class compromise" has only modified the basic asymmetrical distribution of power between capital and labour, but has not structurally dissolved it. It functioned only under the good weather conditions of the long post-war upswing until the beginning of the 1970s, as long as high growth rates would just offer the basis for distributing the increases in growth. Thus, in a somewhat abbreviated manner, ran the core of the thesis of social state illusion. According to this argument, a fundamental systemic transformation to a socialist society is the only way, holding long-term promise, for overcoming this power asymmetry and the harmful social consequences linked to it. A mere concentration on "just compensation" and transformation of secondary distribution by way of social state instruments, therefore, promises no permanently stable solution in the interest of the great majority of the population dependent on gainful employment.

This position can call upon Karl Marx: "If the material conditions of production are the cooperative property of the workers themselves, there also results a distribution of means of consumption different from the one prevailing today. Vulgar socialism (and from there again a part of democracy) took over from the bourgeois economists the observation and treatment of distribution as independent from the mode of production and thus present socialism, as if it turned mainly around the question of distribution." (Marx: Critique of the Gotha Programme).[12]

If, together with Marx, we ask ourselves the question of a "socialist way of production", which among other things, would rely on a democratic socialisation of the means of production and includes the moment: "produce differently, live differently" – what concretely would we then be able to imagine? Marx and Engels, as we know, shirked from this question – it contradicted their idea of "scientific socialism", to give, if only a preliminary answer to that. They rather criticised the "sectarians" and "Utopians", who imagined another society concretely, as unscientific dreamers and handicraft modellers far removed from reality. Of the "real socialism" of Soviet making only a field of ruins has remained. Economically, it was not fit for survival, and socio-politically, by and large, it was also not particularly emancipative. That from a certain form of overcoming capitalist property relations (state ownership of the means of production), there would immediately result a liberated society, has turned out to have been too simplistic an assumption. For the rest, there is at this point no developed debate about alternative visions of a socialist society, not even about the old social-democratic demand for "economic democracy". What follows, therefore, practically from the call for a "socialist alternative", which springs from the thesis of "social state illusion"?

To start with, not even a more or less well-anchored "theory construction site". The globalisation critical movement is only just starting to think about concepts such as global public goods, new property forms in the "knowledge society" (free software, "copyleft"), about participative budgets and the strengthening of communal democracy ("Reclaiming the State"). It usually does this in a framework which is quite clearly oriented towards "re-

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11 Concerning the concept of financing of the social insurances by way of a value creation tax in Germany compare Christen/Kahrs/Weise 2000. The concepts of the German green and alternative Left from the 1980s and 1990s concerning the "citizens and gainfully employed insurance" and the "social basic insurance" have meanwhile, by the Agenda 2010 and the Rürup Commission, received a radical reinterpretation. Compare on that critically Bartelheimer 2003 and Kreutz 2003.

12 Marx by the way even declined to even speak about a "social question", which lies at the basis of the later discourse about the social state: "In the stead of the existing class struggle, there enters a newspaper writer phrase – the 'social question', whose 'solution' one 'prepares the ground for'. Instead of from the revolutionary transformation process of society the 'socialist organisation of total labour' 'emerges' from the 'state help' that the state gives to productive cooperatives, which IT, not the worker, "calls into being". This is worthy of the imagination of Lassalle that one can with state obligations build a new society just as well as a new railroad!" (Marx: *Critique of the Gotha Programme*)

form" in the sense of Keynesian thinking. Small circles of intellectual lefties on a high level of abstraction belabour the question of "market socialism" or "participative planning" (Roemer 1994 and 1996; Elson 1990; Creydt 2001; Bischoff/Menard 1990; Krätke 2002; Albert 2003). From there, one can learn quite a few things, but the debate is at best in its beginning. It is still far from offering, in all breadth, more concrete projects for political and economic strategies – be they in the sense of a "market socialism" or of a "participative economy" (PARECON). To develop these approaches further and make them fit for "daily life" is a task that will probably take a lot of time and especially public, political resonance. In any case it belongs to a serious debate about the future of the social state and also about conceptions of a "socialist social statehood".[13]

Let us, however, not forget one thing: the social state even now is not "mere illusion". Even in Great Britain, after the hard cuts of the neoliberal revolution under Margaret Thatcher, it still moves about 27% of the national Gross Domestic Product – about as much as the EU average. One was not able to kill it as fast as many right-wing ideologues would have wished. Once taken, a path of social development can apparently not as easily be erased again. Without the undoubtedly already strongly demolished instruments of the Keynesian welfare state, the social reality and the crisis in Europe would look much more brutal than they are right now. Even though as yet "only" the secondary distribution has been touched by it, it is an achievement to be defended and a starting point for more.

2. In 1952, the social state theoretician Gerhard Mackenroth had already formulated a fundamental insight: "Now the simple and clear sentence holds that all social expense must always be covered from the popular income of the current period." Whether social protection, social insurance, universal social basic insurance, capital-covered or tax-based mechanism – the sentence holds for everything in equal measure: "There is no accumulation of funds, no transfer of shares of income as source for the social expense. (…) The problem of national economics cannot be solved or pushed aside by acting according to the principles of an ordinary businessman and insuring private risks. At the national economic level, there does not in fact exist an accumulation of consumption funds, which can be consumed when needed, and which can then in a way be a welcome addition to the popular income of a later period." (Mackenroth 1952).

The financial markets are in no way a miracle weapon for "saving the social system", as many politicians and economists want to make us believe. Thus the system of capital coverage is also dependent on the permanent rise in productivity and on the financing, for example, of old-age consumerism by restraining the gainfully employed from immediate consumerism (thus on saving).

The individuals may lay aside money for tomorrow by saving today. A national economy as a whole cannot do that. It can guarantee social consumerism in the future only in the case of real physical and social investment today. The return of a pension fund or a life insurance, before later payment, must first of all, also be generated in the current period. If this is not possible, the expected value increase is also exploded.

The international trade with obligations (e.g. pension funds) also does not solve this basic development. Because capital flowing in from abroad (purchase of "German" or "European" securities) also at first has to be produced and is a subtraction of the GDP in these countries. This also holds the other way around – one should only think of the glorious idea that European pension funds should invest in Chinese stocks and bonds and the Chinese workers are than supposed to produce "our pensions". Whichever way one turns it, one economic truism always holds: There is no free lunch!

Before simply stubbornly claimeing that "we" could no longer afford the social state, the double question arises:

- How is the current popular income produced (Karl Marx' core question) and
- how is it distributed (the equally justified core question of the old social-democratic workers' movement), so that a sufficient social expense in the current period can be served out of it?

Surely, the economy in Europe is no longer growing as rapidly as in the 1950s and 1960s, but after all it is still growing. If we "save" in social expenditures under these conditions, possibly other social groups will receive a larger share of the national income pie.

3. Many look at the controversy over the social state almost exclusively from the point of view of "social justice". This is surely important. At first, however, we have to remember that "It's the economy, stupid!" In times of high mass unemployment, there is the need to first try to come to terms with the political economy of the social state.

Heiner Flassbeck has pronounced a truth that was at first bitter for the left: "The conflict over justice, the social net and solidarity in society is completely meaningless in times of high and rising unemployment. In such times, any measure that creates 100,000 jobs is considered just; any renunciation to wage, to social protection or insur-

13 Marx has addressed the latter question in the criticism of the Gotha Programme. He referred to the fact that from the "products of labour" there after all also had to be formed "funds for those incapable of working", for "common needs" such as schools and health institutions as well as "insurance against accidents and disturbances".

ance protection which brings others wages and bread, as solidarity-inspired to the highest degree." (Flassbeck 2003).

It is after all not an accident that in the last 25 years large parts of the trade unions also believed in the general propaganda that now all had to "tighten their belts" and save – from the point of view of the trade unions, just simply "in a socially just way", so that the entrepreneurs, the high income earners and wealth holders were also just a little bit fleeced. The background is the solidified and continuously high mass unemployment, which apparently cannot be addressed. It can hardly come any better for the executioners of the social state: the general logic of austerity and apparently necessary flexibilisation is widely accepted. The dispute is no longer about the economy, but about who, in the name of "solidarity", has to make what contribution to the general "saving".

From the economic point of view, however, the following question must be asked: When the state as well as the private households both restrain their expenditures, in other words "save", how then should the entrepreneurs (quite independently of who owns them) expand sales and be able to again invest more? If some entrepreneurs now try to improve their situation by constant "cost reductions" (of wages, wage supplements etc.), they will only worsen the position of other entrepreneurs and the demand potential of other households. In the then following round, the state has less tax income and higher expenditures, because there is a larger number of unemployed. Again, nothing becomes of the envisaged budgetary consolidation and the debt reduction – new holes have to be mended. This cycle is known as the "debt paradox". From the point of view of the whole economy, this policy, socially as well as economically, leads to a downward-pointing spiral, in which in the end, everybody loses. It is not only socially unjust, but wrong precisely from the economic policy point of view. The current popular income stays far below the possibilities, which could be reached by way of another economic and financial policy.

4. Keynes has very clearly pointed out these connections between economy, distribution and the social state and developed strategies, as to how they can be worked on, given the goal of a durable "well-being for all". In his conception, the social and welfare state was embedded in an expansive macroeconomic policy for full employment, state investment guidance, control of the financial markets, curbing of speculation and a more balanced distribution of income and wealth.

Against this argument, it is today held that such a policy would only have a chance at all under conditions of closed national economies, not, however, under the conditions of "globalisation". A series of emerging industrial economies, which have pursued a more strongly domestically-oriented strategy (e.g. Thailand, Malaysia, China, and Argentina after the crash) show at least that they are thereby able to reach better economic results than those applying the neoliberal mantras of structural adaptation.[14] For EU Europe, another argument is much more decisive: "Before the background of the fact that less than 10% of the GDP of the EU is exported into non-EU countries, it is no exaggeration to characterise the EU as a closed economy." (Kleinknecht/Wengel 1998, p. 641). The (rather medium and small) European nation state may in the meantime have become too small to deal with the economic problems, the EU as a whole is not.

That also means, however, that social, tax and environmental standards can be regulated at a European level and thus be withdrawn from global competition. A coordinated European tax and financial policy for solid and distributively just financing of the social state tasks of the member states, a coordinated economic policy for strengthened public investments in social infrastructures and environmental structural change, a coordinated monetary and budgetary policy for the strengthening of the European domestic economy, and environmentally sound revival of domestic demand – all this can be worth it and lead to full employment.[15] The social state in Europe can thus be maintained and renewed.

Ecological circles criticise Keynes' strategy as fixated upon growth. High economic growth, however, sharpens the environmental problems, due to the higher energy and raw material consumption. This criticism of Keynes, however, is only partly justified: "The Keynesian long-term strategy (Keynes, 1943), which forecast decreasing growth (stagnation) for the highly developed national economies, such that it would no longer be possible to achieve full employment on the traditional path of high growth rates, thus then also did not usher in an elaborate new edition of growth stimulating politics, but Keynes already recommended successive reductions in labour time more than half a century ago in the middle of the Second World War (1943!). The argument for this way back to full employment is also supported by the most recent ecological problem discussion: Ultimately, any kind of growth harms the economy, so that also in the future, it will be necessary to solve the employment and social problems also without (high) economic growth rates." (Zinn 2003).

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14 My reference pertains not only to the quantitative economic results (increase in the GDP and the national popular income), with which the mainstream economists are after all mainly concerned in their arguments. That the social position of people, the income distribution, the income pollution etc. in these countries are anything else but desirable, stands on another leaf, and this can also only be changed by different social relationships of forces and corresponding political conceptions in these countries themselves.

15 I submitted more concrete proposals for such policies some time ago (compare Brie/Dräger 2001, Brie 2002). Much of it can also be found in the programme of the PDS for the European elections.

Zinn's proposal for a "qualitative Keynesianism" at least as a transitional programme in the medium term (20 to 30 years) has some plausibility. In common with Marx and political ecology, it places the changing of "the exchange of materials with nature" into the foreground: ecological and social restructuring for a sustainable development. At the margins of trade unions and the environmental movement, a basic framework for a comprehensive, sustainable strategy (ecological, economic, socio-cultural) (HBS Project Work and Ecology 2000; Spangenberg 2003) has already been developed. The individual tools recommended certainly require discussion (compare Brie 2002), but the fundamental alternative development logic points in the correct direction.

Ecological innovation on a broad front leads to a multitude of new products and services: solar-hydrogen-economy, fuel cells, drastic energy and resource saving, ecological farming, plant-based chemistry, bionics, ethno-botany, green information technology, mobility and energy services. It will take a while until new satiation levels are reached on this way. The environmental innovation is closely linked with social innovation: eco-efficient services, extension of social and cultural services, social citizenship rights and rights of economic democracy, education and qualification, a new work-time standard and "Good Work". The return to high growth rates does not stand at the centre, but rather a far-reaching dematerialisation of the economy and the targeted improvement in the life conditions of the majority of the population.

Qualitative Keynesianism thus promotes lasting ecologically sound and just well-being for all. It is fully compatible with farther-reaching eco-socialist conceptions. And it creates an economic environment, into which a social state renewed on the basis of solidarity can be embedded.

5. The "demographic challenge" – until 2050, the share of people over 65 in Europe as a rule will have doubled, after that the population will begin to shrink significantly – is, as already known, only seen as a cost problem. This will be met by cuts in pensions, in health systems and the duty to "more private prevention".

The "cost problem" of an ageing and shrinking population development, however, can be met comparatively easily. When the average productivity development of the past 100 year can be continued, Europe will be in a position to produce enough welfare even with a shrinking gainfully employed potential to guarantee an adequate material life security for young and old equally. Without any doubt, in order to do that, the (tax and contribution) basis for the financing of the old-age security systems has to be broadened and the income and wealth differentials have to be more strongly levelled out.

The political mainstream, however, does not ask the really important questions: how do the work and living conditions have to be changed, so that people can, until reaching retirement age, be lastingly healthy and happily gainfully employed and can remain it even afterwards? Which social, educational and other infrastructures does a society need, in which the share of elderly and older people over several decades continuously increases? And how should the life conditions of children and young people be designed, so that they can develop in an all-round way?

Under these future conditions, rather than ever more stress and entrepreneurial, conformist "flexibility", deceleration, sufficiency, distributive justice, health promotion and individual freedom are demanded – instead of more inequality and market constraint. The solution of the demographic question does require more of and a better social state, in parallel to the necessary changes in work and economic life.

6. In light of the diversity of welfare state traditions in the EU, the debate about a renewal of the social state in Europe can only be held on the level of guiding images and functions, which the social security systems are thus supposed to fulfil.

Socialist policy stands for a social state concept that guarantees social citizenship rights materially by way of universal and unconditional services in the framework of a public all-encompassing insurance.[16] Health, education, protection against social risks etc. have to be considered as public goods, which should be withdrawn from market compulsion and market forces. From there, as guiding vision for the renewal of the social security systems , there follows the concept of a people's or citizens' insurance. Contribution duties (whether as taxes or social contributions) and service claims in this respect tie in with the inhabitant status and no longer exclusively with gainful employment, as in the conservative-corporatist welfare state.

The financing of the social state tasks is to be borne by all inhabitants and the businesses in relation to their financial capability. Thereby, the contribution basis will be broadened as well as the principle of solidarity-based redistribution strengthened. There exists a considerable spectrum of proposals on how this general guiding image is to be implemented concretely. In the Federal Republican context, some propose to finance social security generally by way of a value-creation tax. Thus part of the value creation would be taken out of the conflict about the primary distribution (capital and labour) and reserved exclusively for the financing of the social-state tasks. Others envisage replacing the employers' contribution to social insurance by a value-creation tax. Others again want

16 The same is also claimed by the Scandinavian social-democratic welfare state model; yet, social democracy in Sweden has also introduced its reconstruction. However, it should still be stressed that the Scandinavian model in the EU comparison, economically as well as socially, still obtains better results than the others (comp. Corsi/Orsini 2001).

to extend the contribution base of the social security systems personally (e.g. to self-employed, civil servants, housewives etc.) as well as with respect to the inclusion of other kinds of income (e.g. rental, interest and capital returns). In this context, it is often referred to already existing national state models of a "citizen insurance" (for example, health insurance in Austria, pension insurance in Switzerland). The strength and weaknesses as well as the consequences of the respective "models" are tied predominantly to the national state context and to be evaluated in this framework. They all have in common that they imply a completely different direction of social state renewal than the "social reforms" now being implemented in the member states and the current socio-political guiding visions at the EU level.

Socialist politics wants to reach comprehensive equality between women and men. Opposing this are still the social concepts of normality, which are imbued with the patriarchal image of the male head of the household and which still characterise most social states in the EU. The renewal of the social state has to overcome the multiple disadvantages of women and insist on egalitarian patterns of gainful employment: equal payment for work of equal value, equal career opportunities, shorter working times and access to protected part-time employment for both sexes. On this basis, an individualisation of the tax and social systems is to be taken on, that is, the abolition of the social and tax policy privileges for the "housewife marriage" and the "marital partnership". Whether people live together with or without a marriage certificate is their affair. The tax and social system should not favour one or the other life form.

Thereby, the advantage to the married couple must be completely cleared out of family policy. The simple sentence applies: family is, where there are children. In this respect, the renewal of the social state has to be above all service-oriented: an area-wide extension of public child-care centres, which enables the compatibility of family and profession. A targeted financial support of households with children ("family burden compensation") is to be borne in solidarity by the whole community, in the form of tax-financed basic allowances per child.

Socialist policy strives for the project of a social basic security, which prevents poverty and enables an equal participation in social well-being (participation justice). Old-age provision is to be secured by solidarity-based, redistributive public systems. It must fulfil two functions: social basic security in old age (as basic security for all) and maintenance of an adequate living standard (performance justice). Periods for child-rearing, care for old relatives etc., basic and post-graduate training as well as phases of unemployment and sickness have to be adequately taken into account. The health system (inclusive of the securing and risk of long-term care) has to be financed on the basis of solidarity (income-proportional and thereby redistributive contribution assessment) and must provide qualitatively high-level services to all, independently of their income. A "citizen insurance system" in this context allows a more targeted prevention policy (and thereby opens considerable cost-reduction potentials) than a market-economically dismembered health system (Kickbusch 2000). Unemployment support has to remain an unconditional social legal claim, guarantee the freedom of choice of occupation and support and renew formerly acquired qualifications.

The repair of all three pillars of social protection (care for the elderly, health, gainful employment) requires a new policy of full employment and social redistribution (compare Thesis 4). Without it, an egalitarian renewal of the social state will not succeed.

7. In the EU, social statehood is first of all only developed at the level of the nation state, and this in very different ways. In accordance with the dogma of strengthening their "competitiveness", a hard regime competition of the national social states has been established. The member states are constantly tempted to achieve competitive edges by way of demolishing social benefits. Therefore, the question at the European level is first of all to prevent a reinforced social dumping in the extended EU.

To do so, agreement on a social stability pact is necessary. This builds on the simple fact that there is a very close connection between the economic development of a country (measured as GDP per head) and its social performance quota (the share of the whole social expenditures in the GDP).

In the framework of a social stability pact, at first the social performance quotas of the 25 EU member states would be recorded and countries with similar social performance quota put together in a group ("corridor"). A departure from the initial value downward would entail a consultation procedure for the countries concerned and, if needed, sanctions. In this way, the social would be coupled to the economic development. The more weakly developed national economies in the EU would not be overtaxed by this form of social policy regulation. The more they would gain in economic development level, the more their social performance quotas would approach those in the rest of the EU. The economically stronger member countries would thereby have their path to social dumping (under average social benefit quotas in relation to their income level) barred.

The EU, however, can and must do considerably more than just prevent social dumping. It must, in the future, set binding quantitative and qualitative social policy tasks: for example, for the improvement of health insurance, for the minimum level of social protection, for European minimum wage standards, for overcoming poverty and social exclusion, homelessness and illiteracy. It has to be possible, in the framework of this procedure, to commit the member states to concrete programs of measures, whose implementation will be continually analysed and controlled. The EU can supplement these programs of measures by European promotion. Thereby, European social policy would begin to unfold an independent effect, which would go beyond merely gathering information, agreeing on indicators and a comparison of “best practices”.

In perspective, in the area of social policy, the question also arises as to the “finality of European integration” – towards which goal should it ultimately strive? Does not, in the framework of a federal or confederated European Union, a European social union (“Social State European Union”) also have to be created as was demanded by the anti-fascist European movements after the Second World War? Is it sensible to lay down, at the European level, unified norms for service prerequisites, level of benefits, specific service supplements, service limitations as well as rules adaptation?[17] This could, for example, be strived for in the core ingredients of social security: for example, for social basic security, old age and invalidity pensions, unemployment support, family benefits, and health services, Thereby, the manifold practical problems with the “coordination of social protection systems” up to now, in the area of free mobility and freedom of residence of persons, would resolve themselves.

The key to such a solution lies in choosing relative reference parameters: for example, as far as a European social basic security is concerned, there should be a benefit level of 60% of the national average income of the member state, in which a person chooses to reside. Thereby, there would be no incentives for a “social tourism” – for example, by taking along the relative generous social basic protection of the Netherlands when settling in regions with low living costs such as Apulia or Extremadura, if, for instance, the national state social insurance were to be made “transportable” all over Europe. The economic performance capacity of the respective member state of residence would be taken duly into account by the choice of relative reference parameters.

This debate today still sounds like the distant music of the future. If one wants to prevent, however, that by way of the increased “European-wide patient mobility” presently being discussed, the course will be opened up for a EU domestic market of health services, which would then constitute an additional gradual undermining of solidarity-based health systems of the nation states which have already been severely hit by the recent “health reforms”, then one also has to think about European solutions.

8. Who are the social and political forces which can produce a dynamic in the direction of a social Europe?
Under present conditions, these are still relative minorities: the trade unions, acting until now mainly on the terrain of the nation state, which are opposed to social demolition, the social movements coming together in the European Social Forum (ESF), associations and initiatives, the European left-wing parties as well as minority tendencies in the European Greens and Social Democracy.

The ESF undoubtedly makes an important contribution to creating a European democratic political public – next to the formations of European political parties and Foundations as well as existing European associations and networks. The European action days of the ETUC and the social movements on April 2 and 3, 2004, were perhaps the beginning towards gradually overcoming the resistance against social state demolition on the national state level and to come to a discussion about a common European perspective and capability for action.

In this respect, nobody should be taken in by the illusion that it might be possible to compensate, at a European level, the fights one has lost at the local, regional or national levels. The fight for a social Europe must rather be viewed as an initiative within a political system of several levels. In this respect, it stands: the social state, public services, and public existential provision can maybe be defended at the local, regional and national levels. If it is, however, not possible to insure this policy on a European dimension (social stability pact, Social Union), these efforts are always structurally in the defensive. The EU economic policy, the stability and growth pact and the deregulation policy in the EU domestic market, continuously erode anew possibly achieved successes. Without the perspective of a turnaround in this development logic also at the European level, these struggles remain precarious and incomplete.

If we succeed in building up a European dimension of resistance against the demolition of the social state, this in turn can have positive feed-back for the activities in the same direction at the national, regional and local levels. After all, nothing is more inspiring than to discover communalities with a multitude of sympathetic minds and to see one’s own activities reinforced and supported by those of others. In the present phase, the issue will mainly be, whether by a common European discussion and activity, a minimal consensus can emerge between the participating actors and actresses concerning core elements of the renewal of the social state which then develops a discursive influence on social majorities. When the widespread belief that “there is no alternative” is for the first time seriously challenged, then it will become possible to gradually overcome the present defensive situation.

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Hans-Jürgen Bieling

The New European Economy and Social Welfare Reform

Introduction

Although the European Union contains very specific national models of the welfare state, we may distinguish four ideal types: a social-democratic one in the Scandinavian countries; a liberal one in the British Isles; a corporatist-conservative one in continental Europe; and a post-authoritarian model in the Mediterranean region. The structure of the various welfare states has been historically influenced not only by the productivity and performance of the individual national economies, but also by the social balance of power and the shifting patterns of political alliances and co-operation between various social forces (cf. Esping-Anderson 1990).

In the 1970s and 1980s, however, following a phase of expanding welfare-state benefits, the national regulatory models all over Western Europe found themselves in crisis. Against a background of economic crises, overstrained budgets, unfavourable demographic factors, etc. the national governments have been trying for some time now to reorganise the functioning of their labour markets and social welfare systems (cf. Bieling/Deppe 1997). This entitles us to advance the following – hardly controversial – theses:

First, the structural reform of the welfare-state with regard to labour markets and social benefits is a general European phenomenon, in some ways even a global one;

Secondly, all member states of the European Union show the same, or at least very similar, symptoms of crisis. They are experiencing the same problem situations (weak growth, unemployment, negative demographic trends, overloading of the social welfare systems), to which the reform process is a reaction;

Thirdly, despite all national differences (local details, special financial or institutional arrangements, political welfare taboos) a basic strategic consensus has finally emerged that is driving the national reform processes.

This basic consensus mainly concerns enhancing the competitiveness of the European economy, partly by making labour markets more flexible, and partly by privatising and deregulating the social security systems (i.e. reducing benefits and limiting the number of beneficiaries). The argument is that this specific – largely neoliberal – concept of modernisation, or something very like it, has more or less been incorporated into the running of the new European economy. This will be elaborated below in three stages. The first stage will show what the new European economy basically means. The second will discuss the mechanisms linking the functioning of the new European economy to the reform of the social security systems. The third is a brief outline of the political options this situation offers left-wing organisations and movements.

The new European economy

Despite all differences in chronology, European integration is best described by Albert Statz who defines it as “a relative solution of the contradiction between the internationalisation of capital investment (trade, investments, financial relations) and the narrow confines of national markets and the limitations of the nation-state” (1989: 16). The creation of the common market and the partial merging of the functions of national governments – e.g. in the regulation of trade, competition and monetary policy – is mainly aimed at bridging the differences in reach of various economic and political functional spheres. This bridging process is, however, quite differently regulated in the various phases of integration:

1. The old European economy matched the global economic arrangement of the post-war decades. As a product of the Bretton Woods system, the Marshall Plan, the Organisation for European Economic Co-operation (OEEC), the European Payments Union (EPU) and the European Economic Community (EEC), these institutions both promoted and politically controlled the opening of the national economies. The resulting interplay of international trade liberalisation strategies and Keynesian economic, social and employment strategies has often been studied and sometimes succinctly formulated. Take, for example, John Gerard Ruggie’s formula (1982) of “embedded liberalism”, which points out that the political regulation of the world economy in the post-war decades was aimed at reconciling the contrasting models or principles of “economic liberalism” and “social protection” (cf. Karl Polanyi 1978) to produce a highly productive synthesis. This state of affairs moved Robert Gilpin (1987: 355) to describe the constellation that emerged after the Second World War as a case of two complementary key schools of economic thought: “Keynes at home and Smith abroad”. And Kees van der Pijl (1984), contemplating the balance of social power and political strategies, coined the phrase “corporate liberalism”, a kind of synthesis or compromise between two opposing tendencies within industry and finance capital, one state-monopolistic and the other liberal-internationalist. In the course of European integration this was reflected in the

fact that most areas of policy – coal and steel, agriculture, services, and especially money and capital markets – remained highly regulated. At the same time, however, the customs union gave rise to a common market which acted as an additional stimulus to economic growth and increasing productivity. The old European economy was thus characterised by a limited opening-up of the national economies, an opening which neither weakened the national Fordist paths of development or the welfare states but indirectly secured and stabilised them through the growth effects achieved without the need for any supranational welfare objectives (Ziltener 1999:123 et seq.).

2. In the crisis and stagnation period of the 1970s and early 1980s this arrangement was already beginning to crumble before being fundamentally overhauled as a result of the global upheavals on the international monetary and financial markets and a new surge of integration. Consequently the new European economy differs from the old constellation outlined above in important respects: one, it fits into the global "Wall Street dollar regime", i.e. into a global monetary and financial architecture in which the actors of Wall Street and the US administration (Treasury and Commerce departments in co-operation with the International Monetary Fund (IMF) and the World Bank) pursue their global liberalisation and privatisation strategies (cf. Bhagwati 1998; Gowan 1999). Two, the concept of the new European economy also stands for the transition from market liberalisation to market integration, i.e. from the opening to the gradual regulatory alignment and intermeshing of the national economies. This is apparent in the fact that integration encompasses a growing number of policy areas: the liberalisation and integration of money and capital markets; the promotion of direct cross-border investments; the opening of the service sector; the (partial) privatisation and adaptation of public services to market realities; the abolition of non-tariff trade barriers; the centralisation of monetary policy in the hands of the EU; the restrictive definition of financial policy; and the abolition of the Exchange Rate Mechanism. This process of intensified market and monetary integration had enormous consequences for the national welfare-state systems.

The restrictive macroeconomic EEMU regime sharply curtailed the scope of economic and financial policy, while the increased cross-border competition stepped up pressure for competitive deregulation, especially regarding labour markets, social welfare systems and public services. European integration (Bieling/Deppe 2003) no longer aims at stabilising and conserving the development of the national welfare-state models, but at promoting and advancing their reorganisation along market and competitive lines.

The development of the new European economy was also based on a series of key political integration projects. Without going into the interests, motives and negotiations in detail (cf. Bieling/Steinhilber 2000; 2002; Bieling 2003), the most important stages can be described as follows:

The European Monetary System (EMS), created in 1979, was mainly intended to even out exchange rate fluctuations in order to counteract their negative consequences for inner-European trade. In view of the asymmetrical character of the EMS – and the dominance of the Bundesbank – it also promoted a process whereby the other countries drew closer to the "German stability culture", i.e. a combination of restrictive monetary and financial policy with supply-side economic, employment and social policies.

The single market project launched in 1985 was intended not only to intensify inner-European competition, but also – in the course of competing within the Europe/ USA/Japan triad – to stimulate "economies of scale" and hence rises in productivity which would lead to higher investment, stronger economic growth, lower inflation and increased employment. At the same time, however, the steps taken to this end – the abolition of all non-tariff trade barriers, the introduction of qualitative majority decisions, and the comprehensive application of the principle of mutual recognition of national regulatory standards – ensured that the level and extent of national employment and welfare regulation came under strong pressure to modernise and adapt.

From the late 1980s onwards a whole series of very specific monetary, economic, competitive and political power considerations caused the EEMU (Economic and Monetary Union) project to be placed on the European agenda with a view to giving the EU more weight in the global competition among currencies. What made the consequences of this project so momentous was that the design – an autonomous European Central Bank, the convergence criteria and the Stability Pact – was very much modelled on the German Bundesbank and the primacy of financial stability. In the absence of a differentiated set of economic, cyclical and employment-regulating instruments – i.e. additional financial resources including extended economic powers – national-level employment strategies and wage negotiations were placed under structural pressure to adapt once the exchange-rate factor had disappeared.

Since the late 1990s the integration of financial markets has intended to create further stimuli to modernise the European economy. The idea is that improved conditions of capital procurement across the EU will enable companies to raise their equity and expand their capital spending and investment opportunities, thus boosting the rate of innovation, economic growth and employment. The EEMU has already defined a uniform framework for monetary and financial policy to act as a catalyst in the integration of financial markets. Nor should we underestimate the expansion and acceleration of regulatory legislation in the EU, as reflected in the Action Plan for Financial Services and the setting up of two new committees – an EU Securities Committee and an EU Regulators Committee – as proposed by the Lamfalussy Group.

The measures and initiatives listed above have had the effect of not only deepening and expanding the integration process economically, but also of giving a constitutional status to the European economic zone by underpinning it with treaties and institutions. Thus a specific mode of Euro-capitalist reproduction has emerged (cf. Bieling/Deppe 2003):

- This is borne out first by the fact that the economic core projects and their countless directives, guidelines and decisions have brought important aspects of capitalist accumulation in Europe – specifically goods, capital and lending – into alignment and integrated them. Thus over 60 percent of European countries' foreign trade is conducted within the EC; in many sectors transnational European supply, manufacturing and distribution structures have emerged; cross-border mergers, acquisitions and joint ventures have given rise to European corporate structures; an almost completely uniform currency has been brought into existence by the EEMU; and the integration of financial markets means that those seeking loans – whether governments or transnational corporations – are no longer limited to national markets.

Table 1: European projects for political and legal reorganisation and socio-economic restructuring

	EMS	**SEM**	**EMU**	**Financial market integration**
Structural change and public perception of problems	Collapse of the Bretton Woods system; world economic crisis; uncertainties of exchange-rate fluctuation	Sluggish economic growth, rising unemployment; relative weakness of European economies vis-à-vis North America (US) and South-East Asia (Japan)	Foreseeable instability of the EMS, power of financial markets and German Bundesbank to dictate; political control of Germany after unification	Deferred "take off" into a finance-led information economy; technological innovation gap in comparison to US
Concrete initiatives and policy measures	An arrangement of fixed, but adjustable currency exchange rates (ERM); backed by common currency unit (ECU)	Abolition of non-tariff trade barriers by a qualified majority decision-making procedure; some basic minimum regulation; mutual recognition of national regulatory standards	Three-stage implementation process; institutionalised autonomy of the European Central Bank (ECB); convergence criteria and stability pact	Action Plan on Financial Services; Lisbon strategy; a new mode of regulating securities markets by two new expert committees as suggested by the Lamfalussy group
Political interest and/or rationality	Stabilisation of exchange rates and price levels, improved international trade conditions	Intensified economic and regulatory competition; pressures for deregulation; economies of scale; productivity increases, additional employment as trickle-down effect of economic growth	Completion of the SEM; lower transaction costs for TNCs; common control of tight monetary policy; legitimising of sound budget policies; a better stance in global currency competition	Accelerated change due to more dynamic financial markets; intensified international competition through the medium of big banks and institutional investors; stimulus for a capital market- based reform of pay-as-you-go social security systems

Source: Hans-Jürgen Bieling

- Secondly, over and above these contours of a transnational European accumulation regime a European mode of regulation has also emerged. It may be more fragmented and precarious in comparison to national regulations, but it is characterised by a specific assignment of powers and increasingly close patterns of interaction. Some fields, especially those of market and monetary integration, are buttressed by elements of a European statehood in the shape of very far-reaching political decision-making powers by supranational institutions such as the European Commission, the European Court, the European Parliament and the ECB. Other fields related to market and monetary integration – such as agricultural, regional, research, employment or environmental policy – are at least partially integrated into the Community. In others, where supranational powers either do not yet exist or only in rudimentary form – e.g. fiscal, tariff, employment, social, educational or infrastructure policy – issues are increasingly being voted on as part of trans-governmental co-ordination procedure and adapted to conform to the needs of the integrated economy.
- Thirdly and finally, embryonic forms of a transnational European civil society are also discernible, which on the one hand lends legitimacy to the integration process as an institutional forum for reaching social consensus, and on the other provides repeated impulses for further specific steps along the road to integration (cf. Demirovic 2000; Bieling 2001a). European civil society comprises a large number of very heterogeneous actors or groups of actors. It not only involves cross-border mass-media communication or the activities of academics, think tanks and expert bodies, but also the strategies and initiatives of transnational political organisations in the narrower sense, such as parties, trade and professional associations, trade unions, NGOs, or social movements. Finally, a key role is played by the transnational corporations and their associations, which as "strategic planning bodies" clearly have privileged access to the European decision-making bodies – the European Commission, the Council of Ministers, and the EU Parliament.

The dimensions listed above make clear that the process of integration was extremely dynamic over the last two decades. Regardless of all crises, not only have the relations between the fields of economics, politics and society been redefined, but a specifically European path of development has emerged, a path which has three main characteristics:

- an increasingly integrated European economy;

- a transnational, financially driven accumulation regime; and
- increasingly close co-ordination between the national reform processes (mainly in the fields of labour markets and social welfare systems, especially pensions, but possibly health-care systems as well)

The features and dimensions of intensified economic integration in the fields of trade, services, production structures, etc. have just been sketched. As the extent to which they have produced a transnational, financially driven accumulation regime has probably not become clear, the following indicators may serve to illustrate this development:

During the second half of the1990s, the market capitalisation of companies listed on the stock exchange rose enormously as a percentage of GDP. In the euro zone it almost quadrupled, rising from 25% in 1990 to 89% in the year 2000. It is even greater in the other EU countries (Britain, Denmark and Sweden), in which it rose from 65% in 1990 to 161% in 2000. This is higher than the proportion of market capitalisation in the USA, which was 54% in 1990 and 152% in 2000 (cf. ECB 2001: 10). This development was partly stimulated by the soaring stock markets and associated expectations, partly by the initial public offerings of companies in the high-tech, media and telecommunications sectors, and partly by the privatisation of state-owned enterprises. Within the OECD the proceeds from privatisation rose continuously from 1990 (US$ 24 billion) to 1999 (US$ 104 billion), with the EU accounting for US$ 15 billion in 1990 and US$ 61 billion in 1999. In the first half of the 1990s privatisation was concentrated on the manufacturing, banking and transport sectors, followed by a shift in focus to public utilities and telecommunications. In countries like Italy, Spain and Portugal the privatisation of state-owned enterprises is responsible for more than half of the entire market capitalisation (cf. OECD 2001a).

An even more dynamic development – both globally and in the EU – was apparent in equity trading. Shares are no longer held, as they were in the early 1980s, for an average of 10 years, but for seven months. Globally this means that the turnover volume of the traded shares has increased by a factor of ten from US$ 5.8 trillion in 1990 to US$ 58.3 trillion in 2000, and in the EU, where they rose from US$ 1.4 trillion in 1990 to US$ 19.1 trillion in 2000, by a factor of more than thirteen. The European share of the market thus rose from 24.1% in 1990 to 32.8% in 2000 (cf. Huffschmid 2002: 6f). Some of the equity trading is caused by the merger-and-acquisition strategies of the transnational corporations. In Europe the total volume of mergers and acquisitions (M&A) with European participation rose from €177 billion in 1995 to €1,607 billion. in 2000. Above all the share of inner-European cross-border M&A has recently risen significantly from €92 billion in 1998 to €499 billion in 2000 (cf. ECB 2001: 19). This implies growing activity by the major investment banks which usually handle the M&A (cf. Huffschmid 1999: 74 et seq.).

The changed status of financial markets is also reflected in the investment strategies of companies in the non-financial sector. Whereas fixed capital (as a percentage of GDP) rose only insignificantly from 16.8% in 1993 to 18.5% in 2000, financial assets in the same period rose from 13.0% to 21.1%. Thus the mode of financing investments has changed substantially. Up until 1995 the volume of external financing came to 7.4% of GDP, before it jumped to 21.1% in 2000. This means that "the rapid build-up of financial assets was mainly financed not from retained profits and household savings [...] but from external resources, be it bank loans, the issuance of bonds or equity." (Huffschmid 2002: 5)

The increasing tendency of companies to be guided by shareholder value, i.e. gearing management strategies to the development of share prices, also points to the greater influence exerted by shareholders. This group includes not only other companies, large banks and small investors, but also institutional investors, i.e. investment companies, unit trusts and pension funds. Between 1990 and 1999 the financial assets administered by institutional investors grew by an average of 11%. Thus in most EU countries their volume as a proportion of GDP more or less doubled and has now reached 76.8% in Germany, 125.4% in France and 226.7% in Britain (cf. OECD 2001b: 46). It is also striking that in the euro zone the proportion of company shares in the total portfolio of institutional investors rose from 15% in 1995 to 40% in 2000, whereas in the other EU countries it has been over 70% for some time (cf. ECB 2001: 29).

Finally the dynamic development of securities markets was also boosted by another change in the operational infrastructure, namely that the stock exchanges were more geared to international competition. Even into the 1990s the stock exchanges were relatively cosy clubs that operated within a protected economic environment. In the second half of the decade, however, this situation changed radically with the growing significance of cross-border trading in securities and demutualisation, i.e. the profit-orientation of the stock exchanges (cf. Huffschmid 2002: 22f). Now there is considerable competition between stock exchanges. In the member states of the EU specific reform coalitions composed of stock exchanges, market operators, regulatory and supervisory authorities, political parties and governments have emerged with the aim of modernising the rival financial centres (cf. Moran 2002: 267 et seq.). Although the intensified competition is creating more interest in an all-European system of regulation (level playing field), what we tend to see is a battle for market share among the regulatory special interests.

Some of these trends were halted or reversed when the share bubble burst without seriously calling into question the transition to a finance-driven European economy. On the contrary, as far as the processes of institutional and regulatory alignment are concerned, the actors involved – the European Commission, the various committees, the financial associations – often use the crisis as an opportunity to increase their efforts to press on with the integration of the financial sector. This is also echoed by the voices raised in favour of publicly legitimising the integration of financial markets. If we look at the commentaries and stated aims of influential networks of actors, we will find that they continue to stress that the integration of financial markets is closely linked to the EC single market and the EEMU. In this sense it represents an inevitable next step as a result of which the previous projects – the EC single market and the EEMU – will be completed and strengthened, thus creating additional investment and employment (cf. Bolkestein 2001).

Both aspects – additional investment/employment and the strengthening of the euro – are clearly linked to the increasing calls for improved European competitiveness. In many discussion forums the close connection "between changes in capital markets and competitiveness" (CAG 1998: 1) is explicitly emphasised. Ultimately, however, this connection remains ambivalent:

On the one hand the accelerated integration of financial markets would appear to be a "win-win" strategy, from which everyone should profit in the end. It is indispensable for the revitalisation of the European economy, at least according to the ERT (2002: 7): "An integrated pan-European capital market would drive down the cost of capital, increase financing options, lower the cost of doing business (dramatically in the case of securities), increase the yields on investment and pension funds for all citizens, and release more venture capital." The integration of financial markets is not only needed to mobilise additional resources for technological innovations, however – it is also represented quite generally as an instrument for stimulating investment, creating new jobs and opening up opportunities for defusing the "demographic time bomb".

On the other hand it is equally clear that the competition between financial markets will be accompanied by a realignment of employment and welfare. The EU commissioner responsible for the single market, Frits Bolkestein (2001), has made precisely this point: "No one is forcing the European Union to become more competitive than the United States in nine years time. But if that is what we really want, we must leave the comfortable surroundings of the Rhineland and move closer to the tougher conditions and colder climate of the Anglo-Saxon form of capitalism, where the rewards are greater but so are the risks. If we spurn the means we must lower our sights lest we lose credibility and become ridiculous. So we must force ourselves to carry out those microeconomic supply side structural adjustments we decided upon in Lisbon."

Reform of the social security systems

The Lisbon strategy of the year 2000 is mainly associated with the very ambitious aim of turning the EU into the world's most dynamic and competitive economic zone by 2010. But even more important than this proclamation is that the Lisbon strategy makes very clear how the functioning of the new European economy – i.e. of the EEMU and the financial markets – will affect, via the "Open Method of Co-ordination" (OMC), the reform processes in different fields of policy. This includes care for the elderly, health, and social inclusion – i.e. fields in which the European Union has but few supranational powers.

On the one hand the Lisbon strategy is based on further deepening the single market, the EEMU and the integration of financial markets. The latter constitutes, so to speak, the backbone of the Lisbon strategy. To quote Bolkestein (2002) again: "Financial integration is a building-block of our single market. It is at the heart of the EU's strategy to give the Union the most dynamic, competitive and inclusive knowledge-based economy in the world by 2010."

On the other hand the Lisbon strategy is also based on the "open method of co-ordination". The OMC may be seen as an attempt to generalise the co-ordination of employment policy and apply it to other areas of policy, such as infrastructure, research, education and certain social issues. At the summits in Nice, Stockholm and Gothenburg the heads of governments agreed to successive extensions of the co-ordination approach. Although co-ordination is regulated differently in each field, it is based on the same principles. Within a framework of common guidelines and benchmarks for national reform policy, a kind of peer group pressure is generated which finally steers the reform dynamic in a direction that will stabilise the new European economy.

Put differently, the European economy is very much defined by EEMU and monetary policy and market integration, with other areas of policy tailored to suit (cf. Bieling/Deppe 2003). Finally the integration of financial markets – caused by the growing influence of institutional investors, i.e. investment companies, unit trusts and pension funds – promotes the market capitalisation of publicly traded companies, cross-border mergers and acquisitions, the emergence of a European market for company control, and a reorganisation both of corporate governance structures (gearing them to shareholder interests) and of social security systems (mainly in the fields of old age and health). In some fields European law applies directly (in the shape of directives, decisions or guidelines), while in others it tends to operate indirectly, in that growing market integration increases pressure for structural adaptation and modernisation, or that national governments co-ordinate their reform processes. In this sense we may distinguish the following basic dimensions:

Table 2: Economic and monetary integration and mechanisms of modernisation

	European regulation	**Regime competition**	**Co-ordination**
Single market	Single European Act White Paper (1985) (279 meas-ures)	Collective bargaining, social pol-icy, education and training, etc. Public sector reform (prohibition of government aid, liberalisation of public infrastructure)	Monetary policy (EMS) Fiscal policy (Ruding Committee)
EMU	EU treaties (Maastricht, Amster-dam)	Collective bargaining	Broad economic policy guidelines, new policy mix Financial policy (stability pact) Employment policy (Amsterdam), social policy, public infrastructure, education and training, etc. (Lisbon strategy)
Financial market in-tegra-tion	New procedure of accelerated decision-making; FSAP (42 measures)	Corporate governance (in the broadest sense)	Action plans on eEurope and venture capital ESOPs, occupational pensions (consultation)

The first dimension refers to the – relatively direct – alignment of regulations that takes place in the course of core projects, i.e. the contractual and other legal frameworks (directives and guidelines) required to set up an integrated economic zone. This mainly involves measures of "negative integration", i.e. forms of legal co-ordination aimed at expanding market competition. The integrated European economic zone is thus primarily based on common commodity relations, and only secondly – due to the integration of financial markets – on compatible capital and credit arrangements. The recent adoption of a common currency – i.e. the uniform monetary framework of the EEMU – has further strengthened this development.

The second dimension of regime competition concerns all those aspects which have not yet been subjected to common regulations. This refers mainly to the redistributive components of macroeconomic reproduction such as infrastructure, labour markets, social welfare and tariffs, which are still largely the province of national systems. This second dimension is determined by the limits of "positive integration", i.e. the difficulties of integrating the very specific national systems of employment and welfare. On the other hand the competition between the regimes also reflects the dynamic with which the national structures are drawn into the battle for market share and direct investment.

The third and final dimension consists of those fields (areas of policy or partial aspects), which are politically co-ordinated in keeping with the functional requirements of the integrated European economy. In the context of the EC single market this mainly affected monetary policy. With the introduction of the EEMU, efforts at co-ordination grew considerably. After employment policy, which was even included in the Amsterdam Treaty, the national governments agreed in Lisbon to extend the co-ordination approach to other areas of policy in accordance with the "open method of co-ordination". This involves co-ordinating the modernisation of the European economy on the basis of a best-practice comparison while at the same time stabilising the EEMU by aiming financial policy at cutting costs. As regards the integration of financial markets co-ordination is still very informal, affecting such fields as the promotion of information technologies (eEurope) and venture capital and giving employees a material stake in productive capital (ESOPs and various other company pension schemes).

If we look at the areas of policy in which political modernisation is based on the second and third dimensions, i.e. regime competition and the various forms of "soft" co-ordination, the following picture emerges:

Table 3: The European context of socio-economic governance

	EU regulation	**"Regime competition"**	**Co-ordination**
Collective bargaining	No regulation	Strong	Independently organised by some trade unions
Corporate governance	Some regulations (more recently: European Action Plan)	Strong	Independently organised by financial investors
Fiscal policy (taxes)	Few regulations	Strong	Weak and partial
Financial policy (public expenditures)	Strong regulation (stability and growth pact)	Modest competition (so far)	between the Commission and national ministries of finance
Employment/labour market policy	Few regulations	Strong	between the Commission and national ministries of labour
Reform of social security systems	No regulation	Strong	"Open method of co-ordination"

Once again the co-ordination efforts seem to be ultimately focused on reforming the social security systems, primarily pension and health-care systems (cf. Beckmann 2002; Urban 2003). The causes of this development are undoubtedly complex:

First, the EEMU and the stability and growth pact are increasing the pressure on national governments to consolidate their social welfare budgets, i.e. to minimise costs and outlays. Secondly, there is also "objective pressure for reform" as continuing weak economic growth and demographic trends that cannot be influenced in the short term are undermining the existing social welfare systems from the revenue side. Thirdly, institutional investors (investment companies, pension funds) are pressing to forestall the financial overloading of the social-welfare systems by privatising them. This last measure would have the welcome side effect of releasing additional financial assets to boost capital markets.

Political options

The above remarks may be summarised by saying that, as a result of the economic core projects of European integration – the EMS, the EC single market, the EEMU and most recently the integration of financial markets – a new European economy is emerging that implies a competition-based transformation of the European development and modernisation regime. The effects of this transformation are finally extending to the organisation – financing, level and extent – of the social security systems. This reform dynamic is being transmitted and driven by:

- an often diffuse element of competition between the various regimes and the consequent urge to improve competitiveness with all available means;
- individual guidelines and an approach to co-ordination that helps ensure that guidelines, benchmarks, best practices, national action plans and a certain peer group pressure are used to channel the pressure for reform in the direction of more market forces and competition.

These tendencies are undoubtedly the defining elements of the reform and transformation process. At the same time these dimensions also show that the reform of the social systems, whether at the national or European level, is always a political undertaking. This naturally raises the question of political alternatives to the European reform and modernisation process.

The first option would be to set up a European welfare state through very comprehensive harmonisation of employment and social policy. Admittedly this option– given all the resistance to it – is unrealistic and not necessarily desirable. Problems would arise from the far-reaching centralisation of political powers and the difficulties of democratic control. Also, for all its apparent ambition, such an option would ultimately be very limited. This would certainly be the case if efforts were focused solely on corrective social measures that did not question the functioning of the new European economy.

This limitation also applies in principle to the second option aimed at enshrining social criteria in the constantly expanding co-ordination of employment and welfare reform processes against the dominance of competition imperatives. It would soon turn out that social aspects were often nothing more than cosmetic phrases devoid of any effective power, whose primary purpose would be to enhance social acceptance for the reform projects.

The third option – unlike the two mentioned above – goes much farther. It is not limited to narrow social policy goals, but also takes account of the functioning of the new European economy. For if it is true that the pressure for reform and modernisation on the basis of competition is being continuously raised by the new European economy and withdrawn from social control, it is only consistent to make the functioning – or, to put it more precisely, the social embedding and democratic control – of the new European economy itself the subject of alternative concepts for reforming employment and social policy.

In view of the existing balance of power and the dominance of liberal market ideology, it is far from easy to introduce this last option into the public debate. As an allegedly “unrealistic” undertaking it plays no role at all in day-to-day policy. Critical and socially minded forces should nevertheless consider the prospect of putting it back on the agenda in the form of concrete initiatives. There are many good reasons for this: first there is the limited nature and technocratic or market-driven selectivity of the other two options; secondly the danger that – regardless of the official rhetoric about inclusiveness – the processes of social exclusion might further aggravate the European Union’s crisis of legitimacy; and thirdly the problems this might cause for the functioning of the national systems of representative democracy. The list could easily by extended. After all, it is not just a question of citing good reasons for stronger democratic control of economic processes, but also of developing concrete steps towards this. A first step might be to define how the core elements of a new “mixed economy” – public infrastructure, the general provision of basic services, the subjection of fiscal policy to rules and principles, guaranteeing a reasonable minimum standard of living, etc. – would have to be designed in the European Union in order to counteract the pressure for privatisation, to extend social criteria to the private economy, and once more expand the scope of employment and welfare policy. To avoid overburdening countries with less developed economies, one might consider defining standards in the sense of various GDP- and productivity-related bands of employment and social security.

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José Caudron[1]

Reforms for Progress and Effectiveness of the Social Security Systems in France and in the European Union

First of all, it is advisable to recall a few historical aspects of the welfare state (État providence) in France. Even if embryonic and partial forms already existed between the two world wars, it is after the Libération that a true policy of coverage of social risks, old age, sickness, expenses linked with child care came into being. Its objective was as much the securing of economic efficiency so as to put an end to a long phase of difficulties[2] as the establishment of the conditions for a greater social justice, of the kind that was asked by those, who had organised the Résistance.

In 1940 on the occasion of the creation of the Sécurité Sociale (Social Security) in France Pierre Laroque wrote:[3]: "The formula that we want to apply is the middle road between two formulas, that of Bismarck and that of Beveridge." Thus he underlined the intention to set in place a social protection with universal aspirations, on the basis of a financing assured by contributions levied from work. The "Social Security" thus took into account the inadequacies of the "social insurances" that had been out in place by the laws of 1928–1930.

Right from the start the "mixed" nature of the French system tried to solve the seeming contradiction between insurance and assistance. This bet succeeded during the expansionary phase of the "Thirty Glorious Years", despite the lively and permanent opposition of the patrons (French employers) and a fraction of the French right. But from the end of the 1960s, the compromise on which it relied progressively faded, until it was even menaced by explosion in the present. In a second part we will therefore examine the consequences of the financing crisis of social protection that was linked with the economic crisis that started in 1967 and which marked the end of the long cycle.[4] Then, we will take a look at the regressive transformations of the system of social protection based on the neoliberal precepts, which contribute to the encouragement of poverty development in all its forms: planning of a massive lowering of the public pensions, health system with "several speeds", policies of "work incentives" by the hardening of conditions of unemployment support and the reform of the social minima up to the current stage. Since the return of the Right to government in June 2002, everything is from now on orchestrated for the inevitable sliding of the social protection system in France towards a residual welfare state and the principle of workfare, Anglo-Saxon style.[5]

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1 This text has been written by José Caudron, instructor for the economics of social protection at the University Paris I Panthéon-Sorbonne and has benefited from the advice, readings and re-readings of Catherine Mills, senior instructor for economics at the University Paris I Panthéon-Sorbonne.

2 For the analysis of crises based on concepts of overaccumulation-devaluation of capital elaborated by Paul Boccara in *Etudes sur le capitalisme monopoliste d'État, sa crise et son issue* (Studies on state monopoly capitalism), Paris: Éditions sociales, 1973; See also Boccara after 1971; See also Paul Boccara, *Études sur le capitalisme monopoliste d'État*... (Studies on state monopoly capitalism…), 1973, p. 292-391 and, more recently, « Révolution informationnelle et débuts possibles d'un nouveau type de régulation dans un système mixte ouvert » (Information revolution and possible beginnings of a new type of regulation in an open mixed system), *Mondes en développement*, t. 20, 1992, no. 79-80, p. 125 ; cf. C. Mills, *Économie de la protection sociale* (The economics of social protection), Sirey, 1994.

3 Pierre Laroque has remained in collective memory as the "founding father" of Social Security. From the start of his entry into the Conseil d'État onwards, he participated in the setting up of the laws on the social insurances in 1930. During World War II, he prepared the French plan of Social Security in the framework of the *Action Programme of the Résistance* . Upon the liberation, Alexandre Parodi, minister of Labour of the provisional government, then Ambroise Croizat, appealed to him to elaborate and set into motion the great orders of 1945 and 1946 on social protection. Afterwards, Pierre Laroque was general director of Social Security until 1951.

4 The rediscovery of the contribution by Kondratiev and the new developments on the crises, departing from the theory of the long cycles, has been introduced in France by P. Boccara, then by L. Fontvieille. See L. Fontvieille "Cycles Kondratieff et théorie de la régulation" (Kondratiev cycles and theory of regulation) *Issue* , no. 4, 1979 and more recently, « Les mouvements de longue durée dans la pensée économique » (The movements of long duration in economic thinking) *Économies et sociétés* , « Développement, croissance et progrès » (Development, growth and progress), *Cahiers de l'ISMEA*, Serie F-33, No. 7-8, 1993. The works of N.D. Kondratieff on the long cycles have been published in French, *Les grands cycles de la conjuncture* (The large cycles of economic life), edition established by Louis Fontvieille, Paris, Economica, 1992.

5 In opposition to *welfare*, *workfare* makes the payment of benefits dependent on retribution by work or participation in an insertion project. This philosophy of *workfare* implies that the replacement income should be minimised and that, as far as unemployment is concerned, it should be paid for a very brief period. The term residual welfare state is borrowed from Gösta-Esping Andersen, which, in a typology of welfare states remains a work of reference (see Gösta-Esping Andersen, *Les trois mondes de l'État-providence. Essai sur le capitalisme moderne*, PUF, 1999 for a French edition).

Invitation and Extension of the social protection system in the phase of rapid growth after the Second World War

Financing the social needs by way of contributions in the enterprise

The dynamic of the French economy from Liberation until the end of the 1960s translated itself by a "quasi-full-employment"[6], which permitted the health needs to be taken into account according to a logic of Bismarckian financing, gradually extending the health insurance almost up to the totality of the population. At the same time, the gradual initiation of a pension system by redistribution progressively wiped out the identity between age and poverty: an age minimum not based on contributions was already created in 1956 to improve the situation of those that had not contributed insufficiently (or who had not contributed) to the contribution-based pension system put initiated in 1945.

In an original way, France promoted a dynamic family policy that until 1998 was totally financed by the employers' contributions of the company. The family allocations in this way assisted the baby boom which prolonged itself until the mid-1960s and constituted a powerful factor of social cohesion and of integration of the immigrants, whose entry is encouraged, because growth is exceptional, with a medium annual growth rate over 5% in the period 1948–1968.

Yet, the initiation of the system of social protection had to confront constraints and abundant resistance. The Laroque plan wished to institute, on the basis of a Beveridgian principle, a unique insurance for all the employees and for the three risks concerned, but the professional regimes that had constituted themselves in the inter-war period refused to melt with the overall system. These "special arrangements", which still exist today, concerned the whole of the public function, the agents of the large nationalised enterprises (SNCF, EDF-GDF…), the peasant producers, the small retailers and handicraft-men and artisans…This complexity of the structure of social protection would later serve its enemies as an argument for pretending that it engendered "injustices", in particular as far as the pensions were concerned.

The Social Security does not cover the risk of unemployment. This risk, until 1958, was only covered by the social benefit of the municipalities which remained typically at their discretion and was stigmatising. Therefore, the UNEDIC (National Union for Employment in Industry and Commerce) was created and functions on the basis of financing of contributions by workers/employees and employers. The administration of UNEDIC is founded on a principle of equal co-management between employers' unions and trade unions of the employees. However, the conventions signed periodically in the framework of this equality-based co-management have to obtain the agreement of the ministry of employment.

Right from the beginning the financing of social needs largely assured by taxation operated at the level of the enterprises was criticised by the employers, who relied on the doctrine of liberal economy and urged a minimal social protection financed by taxation.[7] Yet during the 30 glorious years, growth remained vivacious and consensus prevailed over the dissidences. In 1958, the return of the General de Gaulle even reinforced the legitimacy of the system of social protection which had been the product of the National Council of the Resistance. However, at the end of the 1960s, the phase of upswing that had begun after the Second World War came to a close, and the spread of the systemic crisis gave the opponents of a strong social protection back their vigour, although the latter had in the global scheme of things fulfilled its objectives.

Realities and ambiguities of the principle of universality

The wish expressed by the Laroque plan was actually realized by measures aiming at the universality of social protection. Thus, in 1974, the compensations between the regimes were generalised; they permitted, in particular, the compensation of demographic deficits in those professions that were inherent to the modifications of the process of capitalist production. Thus the miners and the peasants, who had chosen to keep the autonomy of their regime of social protection, had to accept that their access to health services and right to pensions was guaranteed only through large transfers on the basis of the general regime and also, as far as the peasants were concerned, from the state budget.

Nevertheless, the promised extension of social protection to the whole population was only late and partially made concrete. Thus the working people, who for some reason were not employed, really benefited from the

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6 This full employment, in the definition by Beveridge, and even for Keynes, admits for an unemployment rate of about 4% and goes along with a massive under-qualification of the producing work force.

7 Compare *La Sécurité sociale. Son histoire à travers les Textes* (Social security. Its history seen through the texts), Volume 3, under the direction of Alain Barjot, Association for the Study of the History of Social Security, Ministry of Labour and Social Affairs, Paris, 1997; *Un siécle de protection sociale* (One century of social protection), Files of the International Colloquium of the Senate (October 1996), Paris, La Documentation Française, 2001; *Contribution à L'Histoire financière de la Sécurité sociale*, Michel Laroque director, Centre for the history of Social Security, Paris, La Documentation française, 1999.

health assurance only as late as 1966; similarly, it was only in 1978 that the criterion of gainful employment was suppressed for access to family benefits. As far as the institution of a minimal income was concerned, it had to wait until 1988, and even then it was still established under restrictive conditions: it contained stipulations linking it to professional integration and persons of less than 25 years were not eligible. Definitely, the universality promised in the Laroque plan and taken over into the Constitution of the 4th Republic has revealed itself on numerous points to have been of particularly programmatic character.[8]

Other particularities have exceptionally complicated the French system of social protection. Their restraining action had never completely disappeared and, to a large degree, it turned against the system itself, when it had become the object of lively criticism in the context of resurgence of liberal dogmas.

One of these particularities is that health insurance in France was established in 1945 on the two-tier principle: an obligatory basic coverage and a supplementary voluntary coverage administrated in great majority by mutual insurance groups. It would in fact have been necessary to take into account the important development of the mutual insurances between the two wars, when these were required to close the gaps in the obligatory medical insurance set up in the framework of the laws on social insurance of 1928 and 1930. The mutual insurances, which could pride themselves on guaranteeing to their members a rather coherent coverage, have opposed a rather fierce resistance to the idea of a health coverage that would have assured the total gratuity of treatments, which seems to have been intended by the Laroque plan. This "two-tier" architecture of the health insurance in what followed rather forcefully accelerated the phenomenon of inequality of access to treatments, when they took off the politics of cost management for the health expenditures (see below).

The French health system has another specific aspect, which is to rely on a mixed system of a public sector (in particular as far as the hospital treatments are concerned) and private medical practice, which predominates in the towns. The freedom to choose one's physician in the frame of a socialised medical expense, freedom inscribed in the Constitution, has maybe been a factor of increase in the costs of the system, but it has constituted a factor of effectiveness. At present this freedom of choice is unique in Europe.

As far as the pensions are concerned, these are composed for those employed in the private sector of a basic pension and an additional obligatory pension, which contributes in an important way to the overall level of the public pension (on average 25%). The attention of course has been to complete the basic pension of the general regime of Social Security in order to let pensioners access a sufficiently substantial pension, and this has been made concrete first for the employees (creation of the AGIRC in 1957) and then also insofar as the workers were concerned (creation of the ARRCO in 1967). This additional pension allowed a form of "collective forced saving" for pensions on the basis of a system of distribution. The pensions thus relied on an inter-generational and inter-professional solidarity, financed by a mutual tax on value added and on profits, going beyond the mere work relationship and permitting the financing of non-commercial socialised revenues.[9]

The promise of a coherent revenue beyond work activity based on employment has evidently constituted a major element of social cohesion, but it also explains, for one thing, that during the 30 glorious years the gains in labour productivity have been particularly high in France compared to other European countries. The pensions have constituted a mighty instrument of economic regulation, which organised the promotion of all the stages in the life cycle by supporting effective demand.

Finally, at the level of the financing of social protection, one must also recall the importance of the duality between contributions imputed to the employees and those contributions attributed to employers'. The promoters of Social Security admitted themselves that this dichotomy was in the final analysis fictitious, because it was their totality that it was necessary to take into account in relationship to the total cost of overall labour. But beyond that, instituting contributions of the employees for sickness and pensions meant that they were "contributable" risks of more of an insurance nature. On the other hand, the imputation of the family allocation to the contributions of the employers was rather attributable to a logic of "assistance", which was justified by the need to renew the work force, at the same time permitting the employers to profit from a plentiful work force in good health. With the rise of the systemic crisis, this dichotomy between contributions of employees and contributions of the employers was to favour the successive questioning of the system, based on the dogma that the importance of financing by contributions represented a millstone around the neck of the enterprises' competitiveness. Two modifications of the financing structure then suemerged. First of all, the relative increase in the part to be borne by the employees, which of course tended to lower the direct salary, then in a second stage, the decrease in the

8 The Constitution of the 4th Republic (1946) made clear that "The Nation assures to the individual and its family the necessary conditions for their development… It guarantees to all, especially to the child, the mother and the old workers, health protection, material security, rest and leisure. Any human being, who – as a result of his or her age, state of physical or mental health, economic situation – finds him- or herself incapable of working has the right to obtain from society the means to lead a decent existence." This preamble was picked up again by the Constitution of the 5th Republic.

9 In turn, the contributions contribute to the increase in effective demand, due to the amelioration in the life conditions of the employees and their reproduction, thus the increase in value added. They constituted value added available for the working people and the populations. This principle of mutuality announced a beginning of the possible overcoming of the wage relationship and the labour market, which also explains the vigour that neoliberal economic thinking used in its criticism of the pensions based on redistribution.

share of the employers in the name of the necessity of having to organise the "competitive disinflation", to be clear, the decrease in wages and salaries. It was thus a question of systematic refusal to increase the contributions, then of developing a large-scale policy of exemptions from employer charges, which were said to favour the competitiveness of the enterprises and employment.[10]

At the hour of ultraliberal reforms, this cascade of "two-tier constructions" of social protection in France has facilitated its questioning, which up to the present has amplified demolition orchestrated by the liberal forces.

Crisis and modifications of the structure of financing social protection

From 1949 to 1967, the social expenses grew from 12% to 17.5% of GDP. This increase, which is in the final analysis moderate, corresponds to the rising costs of maintaining the system itself, for pensions and for the health sector. But with the crisis, which started in 1967, the acceleration of expenses played itself out in full, in spite of the attempts to master them. The social expenditures reached 25.3% of the GDP in 1981, culminated at 31% in 1997 and stayed from then on at the limit of 30%, despite the attempts to lower costs, which nonetheless limited the response to the social needs. At the same time the economic crisis has generated a rise in social expenditures and a contraction of resources, which revealed itself but in a profound crisis of financing.[11] This scissors' effect can be resumed very simply: less resources faced with increased needs.

The transformations of social policies have certainly tried to respond to new needs. Some are of demographic nature – thus the increase in life expectancy and the decrease in birth rate – but, fundamentally, they remain the consequence of the explosion of the economic and social disequilibria, especially of unemployment and precarious existences.

Already since the 1970s, the objective had become to reduce the growth rhythm of the social expenditures to that of the GDP, but this wish in accordance with the liberal dogma was actually only realised in 1996-97. Even during the slight upswing from 1998 to spring 2001, when the growth of the GDP is superior to 3%, the policies of cost reduction at all costs aimed at reaching the accounting equilibrium, without taking account of real needs, especially concerning the health system.[12] This policy of accounting control was announced as being unavoidable due to the convergence towards the unique money and the obligation to maintain the running public and social deficit at 3% of the GDP and the debt stock to 60% of one year's GDP.

From 1992 to 1997 the cutting of resources has plunged the system into an exceptional growth of deficits. The economic crisis provokes and exacerbates the social needs, those linked to unemployment especially, whereas, at the same time, the incomes have been eaten away by this increase in unemployment, as the financing is levied for a very large part on the wage funds.

10 For a history of the modifications of the structure of financing of social protection, one should turn to Catherine Mills, *Économie de la protection sociale* (Economics of social protection), Sirey, 1994 and Catherine Mills (with José Caudron), *Protection sociale. Économie et politique. Débâts actuels et réformes* (Social protection. Economics and politics. Current debates and reformes), Montchrestien, 2001.

11 For an analysis of the articulation between economic crisis and the crisis of the system of social protection, see C. Mills, *Économie de la protection sociale* (Economics of social protection), 1994, chap. 3 and 4.

12 This policy has been pursued by the Left in power from 1997 to 2002. Overall, the total financing of hospitals has remained fixed at constant Francs. Among other things, the law on 35 hours has been applied to the hospital personnel without the necessary measures of hiring new personnel being taken.

The decrease of the relative part of contributions in financing

This decrease has stemmed from two essential factors:

- the insufficient growth of the wage funds. This has been apparent since the 1970s, but it has recently accelerated. From 1990 to 1997, the medium annual growth rates of its two components, people employed and payments per head, was clearly inferior to that in previous decades. Between 1990 and 1997, the medium annual growth of employees reached only 0.3%, that means much less than that of the GDP, 1.4%. This weakness of the wage funds has clearly affected the growth of contributions. Even more obvious, the share of work incomes in value added has dropped very strongly in France from 1983 to 2003, practically by 12 points (58% in 2002 against 70% in 1983).[13]
- The growth of resources from contributions was slowed down strongly and amounted to only 0.8% on average per year from 1990 to 1997. This partly explains itself by the weak economic growth, especially during the recession of 1993 and the renewed growth of the unemployment rate, which reached 12.7% in this same year. Nonetheless, the strong growth of the relative share of the contributions by the wage recipients is the marked tendency of the period 1981–1997, since it has passed from 33.1% of the whole of the contributions in 1981 to 41.6% in 1997.

The pretext of labour costs being too high, served as a reason for not increasing the contributions, to then justify their reduction in the name of maintaining employment, whereas, at the same time the share of contributions and of taxes and payments charged were increased, in particular the generalised social contribution (CSG).[14] From then on, the part of contributions in the financing of social protection represented only two-thirds of the whole of the resources, whereas it still exceeded 80% in 1980.

The argument of equity

The reduction of the social contributions' share was legitimated by the wish for something which would be a "clarification" of the modes of financing: what was the realm of national solidarity would be financed by taxes, and what more directly concerned professional solidarity would continue to be financed by contributions levied from salaries. Following this argument, the dichotomy between "non-contributive" and "contributive"[15] would permit the costs of labour to be kept as they are and thus to favour the competitiveness of enterprises.

From the beginning of the 1990s, the discourses over the perverse "unjust" effects of social protection multiplied itself, in particular as far as the pensions were concerned[16], but also the unemployment compensation, which was supposed to be a "counter-incentive" to taking up another job.

The CSG is presented as a financing reform, addressing the "equity" argument by way of two motives:

- Being a tax rather than a contribution, it is said to permit the financing of "national solidarity" without disequilibrating the cost of work,
- Applied in theory to all revenues, it would call to contribution in "equal measure" returns on capital and on labour. This is denied by the numbers, since the CSG is in reality financed to 85% by the employees and the replacement incomes (pensions, unemployment support), which essentially explains itself by the fact that the financial revenues of enterprises escape from the CSG, which we will develop in more detail later on with reference to the reform proposals. The development of the CSG has come to let the financing and the deficit weigh even more on the households, which have seen their various contributions go up and the benefits go down at the same time. In fact, all this has contributed to darken the prospects for deep-reaching reforms of financing, which might be capable of assuring the necessary resources for social protection, by developing employment and valuing human resources.

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13 In France this distribution disadvantages the returns to labour as compared to the returns to capital much more than in the other countries of the European Union, since the average of the European Union is at 66% for the returns on labour and 34% for the gross profit from the exploitation of enterprises.

14 The generalised social contribution (CSG) was created under the government of Michel Rocard in 1991, when François Mitterand was President of the Republic. The CSG was presented as a contribution to social protection calling for the contributions by capital as well as labour in equal measure.

15 Among the reports which have recommended a reform of social protection in the name of "equity", one should cite in particular the one by Jean-Baptiste de Foucauld, *Le Financement de la protection sociale* (The financing of social protection), report handed to Prime Minister Alain Juppé, Paris, La Documentation française, 1995.

16 Here, one could in particular cite the dossier by the magazine *Économie et statistique* "L'avenir de nos retraites" (The future of our pensions), coordinated in 1990 by Denis Kessler, who later became vice-president of the MEDEF.

- The CSG is particularly profitable from the point of view of revenue, because it is, just as the contributions, levied just at the source on the salaries: one point of CSG currently represents about 7 billion Euros. Since 1996, the contribution for the repayment of the social debt (CRDS) of 0.5% is added on top of it, established in the framework of the Plan Juppé, which is applied to all household incomes and whose return is even higher, because this half point represents currently almost 4 billion Euros. In 1998, Martine Aubry, Minister of Employment in the Government of Lionel Jospin, decided to integrate a very large part of the contributions by the wage and salary earners into the CSG[17], so that at present the total levy by CSG-CRDS reaches a rate of 8% on wages, small salaries and replacement revenues. From now on this is about 66 billion Euros, which are collected, meaning more than three-quarters of the taxes and payments attributed to social insurance and more than 16% of total financing.

The argument of the too high labour costs in France

It will be the goal, to flexibilise the cost of labour downwards with the lowering of social charges levied from the enterprises as an essential instrument.[18] The argument of a too high labour cost in France appears particularly questionable, since as far as the "low" and medium qualifications are concerned. in the European Union they are amongst the lowest.

In 1997, the MEDEF (French abbr. for Association of Enterprises in France) succeeds to the National Centre of the French Employers (French abbr. CNPF). It gathers quite a number of large enterprises and quickly conquers the discourse concerning a reform of social protection designed to preserve the competitiveness of enterprises. Already in 1998, the MEDEF launched its project of "new social foundation", capable, so it suggests, of adapting social protection to the "new nature" of the risks judged inherent to the economic context, in particular due to the globalisation of exchange flows.

The seven "building sites" of the "new social foundation" of the MEDEF thus address the totality of social risks, pensions, health, family, unemployment but also professional education and health in the working environment.[19] From 1997 to 2002, the president of MEDEF, Ernest-Antoine Seillière, was helped and inspired by Denis Kesrler, president of the French Federation of Insurance Societies (French abbr. FFSA), so that there could be little doubt that the private insurances were lobbying with the MEDEF and the right-wing governments, the goal being to recuperate the management of the solvable risk that at the moment are covered by the system of social protection.

In this way, the MEDEF discourse accords precisely with that of the liberal right to urge a system of protection with three floors, which would permit noticeable inroads of private insurance mechanisms:

- a minimal protection corresponding to what was defined as dependant on "national solidarity", because it is not recognised by dominant thinking as directly linked to economic life and the enterprise, family policies for example; the financing of these risks would be totally assured by taxes by means of a massive take-off of the CSG. The project of the MEDEF explained in November 2001 leads to the conclusion that this super-CSG could represent 27% of revenues from work;
- an obligatory protection linked to work would continuously be financed by contributions, but before long, this would only concern public pensions, who were done in by the stipulations of 1993 and 2003;
- a supplementary protection for those who would deem themselves insufficiently covered and would then turn to a private health insurance and to a capital fund for their pensions. Thus, the dispositions of the Fillon Law for the pensions (July 2003) permit the blossoming of pension funds "à la française", which the neoliberals and the finance lobbies had been dreaming of [20]; in the same way,

17 The contribution of the employees to sickness insurance has gone from 5.5% of the gross salary to 0.75%; in the same period the CSG has risen by 4.1%.

18 See also the report by Gérard Maarek, *Coût du travail et emploi: une nouvelle donne* (Cost of labour and employment : a new situation), Commissariat general du Plan, Paris, La Documentation française, 1994.

19 One may at the site of MEDEF (www.medef.fr) consult a certain number of documents devoted to the "new social foundation" and, in particular, *Pour une nouvelle architecture de la Sécurité sociale* (For a new architecture of Social Security), which describes precisely the dismantling operation projected by the organ of the employers.

20 The consequences of the Fillon reform on the future pensions are analysed and criticised in *Les retraites. Des luttes immédiates à une réforme alternative* (The pensions. From the present fights to an alternative reform), work coordinated by Catherine Mills and Paul Boccara, with the participation of Frédéric Boccara, José Caudron, Yves Dimicoli, Denis Durand, Fabien Maury, Benoît Monier, Alain Morin, Bruno Odent, Paris, Le Temps des cerises, coll "Espere" , 2003.

the coming reforms of the health insurance would permit the promotion of private insurance and would favour private hospital establishments over public ones.[21]

The policy of exemption from the employer's charges

The policies of exemption from the employers' charges, especially for the lower wages, have developed progressively, the compensation by the state budget playing but one part among them. Thus, either it was another attempt at transferring the charges for the financing of social protection to the households, or simply to lower the expenditures for social protection.

The total exemptions from the social charges has thus gone from 14 billion Francs in 1990 to 90 billion Francs in 1999, then to 19 billion Euros (124 billion Francs) in 2003, adding the exemptions applied to the "low wages" until 1.3 times the SMIC and those that directly flow from the application of the 35 hour-week. The addition of these two regulations insofar permitted a total exemption of employer charges at the level of the minimum inter-professional growth salary (SMIC), then a degressive exemption up to 1.8 times the SMIC. While the present government has stopped some of the exemptions linked to the 35 hour-week, by contrast, it has otherwise multiplied those on the low salaries, especially through the "youth contracts".

This policy of exemption from the employer charges encouraged numerous perverse effects. The most evident is that it creates an effect of "low wage trap", locking the employed in the wage and salary brackets that opens the right to an exemption, but it also incites the employers to substitute low-paying jobs for new qualified jobs.

The tightening of unemployment compensation

The rise of unemployment has been very high in France, rather clearly higher than the European average, especially during the period 1993 to 1998, when the official unemployment level was over 10% and even reached 12.7% (1997) at its height. From 1984 on, the reforms accelerated and lowered the rights of the unemployed.

In 1984, the specific allocation of solidarity was created, so unemployed persons whose benefit period was exhausted, could get out of the unemployment insurance, which was administrated by the UNEDIC. The ASS is a social minimum of the same amount as the RMI, but where the unemployed retains a certain number of rights, in particular the validation of periods for retirement. In 1992, the unique digressive allocation (AUD) limits the rights of workers compensated by the unemployment insurance by establishing a standard for rapid digression of the compensation. In 2001 this digression has disappeared with the PARE, but its reestablishment is to be expected because of the considerable deficit of the UNEDIC.

The mechanism foreseen by the plan for help to return to employment (Pare) is significant for the slide towards the workfare. In the year 2001, after a debate that lasted more than six months, it was finally accepted by the government of Lionel Jospin..[22] From now on the salaried employee signs this PARE, which directly conditions his or her access to the benefits and formalises the relationship between the beneficiary of unemployment benefits and the institutions. A personalised action project (Pap) defines the "professional capabilities" of the unemployed. It has to be underscored that, upon urging by the MEDEF, from now on this term is attached to that of "qualification" contained in the work code. This is not without danger, since talking about professional capacities rather than of qualification permits an eventual push of the unemployed towards positions different from their initial profession and not corresponding to his aspirations, while all the same forcing them to lower their salary demands. In the case that employment or a training course are refused, a system of sanctions is scheduled, which can mean anything from a warning to a reduction, the suspension or finally even the suppression of the benefit.

Primarily these reforms have penalised the very poor and marginalised them to the point of excluding them from the unemployment insurance, transferring the long-term unemployed towards the RMI and social benefits. At present, only 40% of the unemployed are compensated by the unemployment insurance so that only two-thirds of the costs of unemployment are assured by the UNEDIC, the remainder by the state. The reforms have thus consecrated the dichotomy between insurance and solidarity and at the same time reduced the right to compensation. These measures reinforce the effects of the periods of depression over the economic cycle and aggravate the

21 For an analysis of the reform of the health insurances projected by the right in power, one may read *Main basse sur l'assurance maladie* (Strong hand on health assurance), Note by the Fondation Copernic, collective work signed by José Caudron, Jean-Paul Domin, Nathalie Hiraux, Michel Maric, Catherine Mills, Paris, Syllepse, 2003.

22 Compare Jacques Freyssinet, *La réforme de l'indemnisation du chômage en France, March 2000- July 2001* (The reform of unemployment compensation in France, March 2000- July 2001), Work document no. 02-10, IRES; one will also note the appeal launched against the institution of the Pare by Paul Boccara, Yves Dimicoli, Catherine Mills, which gathered more than 1500 signatures of university people, trade unionists, representatives of unemployed associations. This appeal has given the occasion for a debate at the Sorbonne in September 2001 (Files published in the magazine *Issue*, May 2001)

dualism of the two populations of unemployed. The changes in regulations do more to lower the rights of those unemployed whose work was precarious and the salaries weak.[23]

The RMI, which had been conceived as the last security net for filling the gaps of the system of social security protection, has thus drifted towards being a third component of unemployment compensation: the degradation of the labour market, long-term unemployment, restrictions on the conditions of compensation have led to the explosion of the number of beneficiaries from the minimal insertion revenue (French abbr. RMI).

The current reforms: "Incentives to work", programmed regression of public retirement pensions, partial privatisation of the health insurance

The socialist party won the elections of 1981 and led a policy of restart relatively favourable to social progress until 1983, but the second Mauroy government (1983) plunged France into a policy of so-called "competitive disinflation", from which since then, it has not departed. The link-up of the Franc to the Mark in the period preceding the Maastricht Treaty up to the entry into the Euro thus had the effect of a deflation of wages, concerning both, the direct and the indirect wages and salaries.

In the subsequent period, the government of the so-called plural Left (gauche plurielle) (1997–2002) has adhered to the theses of socio-liberalism. The continuing decrease of the cost of labour has been considered as a necessity in the context of globalisation under the pretext that it would be the best weapon against unemployment, but unemployment has not decreased, with the exception of the slight economic recovery from 1998 to spring 2001. This short brightening up of the economic horizon has all of a sudden favoured the idea that a large part of the unemployment was "voluntary" and that, if that was the case, the social minima and more generally the whole of social protection permitted "dissuasive" replacement revenues and that a great number of unemployed were little "incited" to take up a job, or to begin a new one.

The "primacy for employment" and the incentive to work of the beneficiaries of social minimum rates

This measure was taken on January 11, 2001 upon the recommendation of the Council of Economic Analysis report, which was established by Jean Pisani-Ferry and presented in December 2000 to the Prime Minister Lionel Jospin.[24]

A tax credit will be given to those whose wages do not exceed 1.4 times the SMIC and taking the composition of the family into account. Nine million persons benefit from it. The employment benefit is on average 300 € per household and per year, which compared to the objective of "incentive to work" the beneficiaries of social minimum seems quite modest. The adoption of this measure of negative tax into the French social and fiscal system has provoked numerous reactions, since this formula is the trademark of the Anglo-Saxon countries, where in accordance with the dogma that it would constitute a handicap for the economy social protection is weak.[25] The fear exists that on the basis of this experience an important form of negative tax could develop in France, which would substitute itself progressively to other benefits, in particular certain social minima and social services, so that the whole thing could become closely interconnected from then on. As if to confirm this fear, two of the current debates in France are concerned with two other forms of negative tax. One should be used for the subscription of an additional health insurance for the revenues less favoured, in case the liberal reform would win the day. As for the second, which is the object of a recent report[26], it animates the universal allocation, named "universal dividend", as integral substitute for the different social services.

The idea of a negative tax is based on a neoliberal conception of the labour market, social protection and functioning of the economy.[27] The United Kingdom here seems to serve as example in Europe, Tony Blair having

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23 See Christine Daniel and Carole Tuchszirer, *L'État face aux chômeurs* (The state face to the unemployed), Flammarion, 1999, in particular on the reform of 1984, creating the specific allocation of Solidarity (French abbr. ASS) and that of 1992 instituting the unique degressive allocation (French abbr. AUD).

24 Jean Pisany-Ferry, Council of Economic Analysis, *Plein emploi* (Full employment), La Documentation française, 2001 (comments by Olivier Blanchard, Jean-Michel Charpin und Edmond Malinvaud).

25 Especially the Earned Income Tax Credit (EITC) in the United States and the Working Family Tax Credit (WFTC) in the United Kingdom, but Australia and New Zealand have also adopted measures of the same order.

26 In October 2003 the deputy Christine Boutin has remitted a report to the prime minister Jean-Pierre Raffarin concerning the "universal divided", which proposes the substitution of a negative income tax for the whole of the family benefits and to the social minima on the order of 300 €. This proposal inspires itself clearly from theoreticians of universal allocation, in particular Philippe van Parijs; compare by this author "De la trappe au socle: l'allocation universelle contre le chômage" (From the trap to the socket: the universal allocation against unemployment), *Actes de la recherche en sciences sociales,* Liber, supplement to the number 120, December 1997.

27 The already quoted Pisany-Ferry, *Plein emploi* (Full employment) has provoked quite a number of reactions on occasion of its publication. On this debate, one should consult especially Liêm Hoang-Ngoc, "Le retour de la pensée unique" (The return of total thinking), *Le Monde*, December 9, 2001; Jean Pisani-Ferry, "Le plein emploi sans la pensée unique" (Full employment without the total thinking), *Le Monde*, December 15, 2001; André Gauron, "Le débat capital du rapport Pisany-Ferry" (The capital debate of the Pisany-Ferry), *Le Monde*, December 27, 2001. See also on this debate, Council for Employment, Revenues, and Social Cohesion, Report no. 1, *Accès à*

accelerated, in 1999, the credit measures in favour of families with low revenue, of whom one member is working. The unemployment rate will perhaps seem to be reduced by this measure,[28] but this is largely counterbalanced by the rise in the working poor. As a matter of fact, if one trusts recent studies, as far as poor workers are concerned, France from now on has no one to envy.[29]

The wage deflation has still accelerated with the return of the Right into power in 2003 and the government of Jean-Pierre Raffarin: new accelerations of exemptions from social charges (the youth contracts in particular), new forms of "incentives to work" with the passage from the minimal insertion revenue (abbr. RMI) to the minimal activity revenue (abbr. RMA)[30], tightening of compensation conditions for the unemployed. The new measures announced in September 2003 will still complicate the fate of the unemployed, since the right to the ASS will be limited to two years, so that the long-term unemployed will drop even faster into RMI.[31] This policy of dismantling social protection is accompanied by an economic policy, which seems to be derived directly from reagonomics, lowering of taxes favouring the high incomes, almost complete disappearance of taxes on wealth etc. at the price of a very noticeable increase of public deficits.

The programmed decrease of public retirement pensions

The reform of pensions was carried out in two stages:

- The stipulations imposed in 1993 by the government Balladur, Simone Veil acting as minister of social affairs. These dispositions, which concerned nothing but the wages and salaries in the private sector, already organised the fall of the replacement level (extent of the state pension[32] in the relationship to the last wage) from 79% to 64% in the year 2040.
- The provisions of the Fillon law, definitively voted in July 2003, after two months of important demonstrations in the whole country, although two French out of three opposed these measures. The Fillon law complete with the planning of the bulldozing of the pensions, to the degree that certain stipulations frighten with the prospect that in 2040, a third of pensions will be at the poverty level.

The "reforms" in France have played with three components:

- the increase in the necessary periods in order to claim a pension at full level
- the extension of the reference period for the calculation of the pension, knowing that the longer it is, the lower will be the average salary considered
- the indexation of the retirement pensions on the prices and no longer on the wages and salaries, as before 1993, so that the pensioners no longer benefit from the productivity gains in the economy.[33]

The planned privatisation of the health system

The accounting control of the health expenditures has been the object of successive measures for almost 20 years in France, especially through the Juppé plan (1996), but these plans have failed. The rationing of treatments has contributed to driving the deficits even deeper, while at the same time reinforcing the social and geographical inequalities and drawing profound dysfunctions in its wake. The health system in France is marked by a notorious insufficiency of prevention.

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l'emploi et protection sociale (Access to unemployment and protection), Jacques Delors President, March 2001; *Avenue du plein-emploi,* (Michel Husson, Thomas Coutrot, dir.) published by ATTAC at Éditions Mille et une nuits, March 2001; Foundation Copernic, *Pour un plein emploi de qualité. Critique du social-libéralisme* (For a full employment of quality. Criticism of social-liberalism), Notes of the Fondation Copernic, No. 6, March 2001.

28 The percentage of poor households in the United Kingdom remains shockingly high : 40% poor households before redistribution by social transfers, practically 25% after social transfers…

29 See Christine Lagarenne and Nadine Legendre, "Les travailleurs pauvres en France: facteurs individuels et familiaux" (The poor workers in France: individual and family factors), Économie et Statistique, No. 335, 2000.

30 The revenu minimum d'activité (minimal activity revenue, abbr. RMA), which will soon be employed consists in maintaining the RMI to a person, who works, whereas the employer in the first two years has to pay only the complement to the minimum wage (SMIC), concerning the direct wage, and the social charges benefit from an exemption. The cost of one worker at full time on SMIC would thus represent about 1000 € per month. This subsidy to the employers should thus be analysed like a considerable negative tax compared to the premium for employment.

31 This measure taken in the context of the budgetary law of 2004 represents only 150 millions €s economy for the state budget. The specific solidarity allocation (abbr. ASS) is of the same amount as the Minimum Insertion Revenue (RMI). Yet, since it is submitted to less draconian budgetary resource conditions, some beneficiaries who are receiving the ASS will not be able to touch the RMI afterwards. It is estimated that 250000 will be in this case from 2004 onwards.

32 This replacement takes into account the accumulation of the basic pension paid by the Social Security and the complementary pension.

33 For the detail and the criticism of these reforms, see Les retraites. Des luttes immédiates à une réforme alternative (The pensions. From the immediate struggles to an alternative reform), opus cit.

The considerable deficit of the health insurance in 2002 (6 billion Euros), in 2003 (almost 11 billion probably) and the one prognosed for 2004 (14 billion) is linked to a large part to the policies that have tended to reduce the share of wages and salaries and social expenditures and, at the same time, have reduced growth, employment and contributions collected. The deficit now serves as an alibi to the liberal forces for promoting a partial privatisation of the treatment expenditures, which would lead to the dismantling of the French health system. The wish to reduce public expenditures of health in order to limit the obligatory taxes, among them social taxes, opens the "health market" to the private operator, especially the insurance companies.[34]

This reform was announced for autumn 2003 by the minister of Health Jean-François Mattéi, but the proximity of regional elections has made the government flinch, so that they will now start in spring 2004. Essentially the measures consist in the establishment of a system of multiple "treatment baskets", where the treatments taken over by the basic insurance were limited.[35] A second category of treatments defined by the state would be assured by the mutual and the private assurances with help in the form of tax credits for the persons not favoured financially. Beyond these "two baskets", only the recourse to the private sector assures one coverage. This architecture would thus institutionalise a system of health insurance with several speeds.

As far as the hospital treatments are concerned, a new mode of assessment called "charging by activity" makes one fear that the private establishment will be favoured at the expense of the private hospitals, which would also be a manner of encouraging a system of treatment at "multispeeds". The subscription of a complementary private insurance would be necessary to be able to financially afford more expensive establishments, so that it would inevitably lead to a selection of patients by money.

Opposing alternatives to a merchandise logic of ultra-liberalism

The recent fight against the dispositions of the Fillon law on pensions has revealed the Parti Socialiste pursuit of the logic of social-liberalism. Overall, the proposals by the Socialist Party have contented themselves to plan with priority the increase in the CSG and a possible reinstatement of the tax on wealth, even if some timid allusions have been made to a possible contribution on the added value of the very big enterprises.

Among the parties of the "Plural Left", having accepted participation in the government of Lionel Jospin from 1997 to 2002, only the French Communist Party has proposed any alternatives. Proposals of reforms of financing social protection, sent out long ago[36] , have been re-examined during the debates on pensions and will reinforce the fight against the planned privatisation of health insurance. This reform of the financing base would permit taking the social needs into account that have emerged during the crisis and to develop a true system of employment and educational security[37], so as to really envisage a process of finding a way out of the crisis. The essential axes of this reform would be:

- application of an additional contribution for financing social protection from the financial incomes of the enterprises (79 billion €s in 2002), which at the moment escapes the general social contribution (CSG). Thus, the application to these financial revenues can be envisaged at a contribution level of 8%, which would bring close to 6.4 billion supplementary €s to the financing of social needs;
- a new foundation for the system of calculating employers' contributions. At present the system tends to penalise those enterprises which are creating jobs and appreciating human resources and, on the contrary, is giving advantages to those enterprises, which sack people and take refuge in financial growth, since as a proportion of their exploitation charges, the social contributions appear less high. This consequence of the wage and salary set-up for the employer contributions might be corrected by a contribution calculated on the basis of the ratio salary mass/value added. One could imagine this as a powerful incentive, since the enterprises, where this ratio is low, would have to pay a higher contribution, and on the contrary the enterprises which contribute to real growth by employment, wages and salary, and by training people would benefit from lower contribution rates, all the more so, since their policies of job creation, wages and salaries and training is also source of contributions from other points of view;

34 See *Main basse sur l'assurance maladie* (Strong hand on the health insurance), op cit.

35 The measures foreseen , as far as the health insurance is concerned, are described in a report handed over in April of this year to Jean-François Mattei by Jean-François Chadelat, *La repartition des interventions entre les assurances maladies obligatoires et complémentaires* (The distribution of the interventions between the obligatory and the complementary health insurances) (report put on line on the site www.sante.fr).

36 The principle of a proposal for a reform of the employers' contributions based on the ratio salary mass/value added has been advanced by Paul Boccara already since 1977; see also "Un débat d'idées pour l'efficacité d'une politique économique nouvelle" (A debate of ideas for the efficiency of new economic policy), *Économie et politique*, May 1981. One should also read Catherine Mills, *L'Économie de la sécurité sociale* (Economics of social security), Part II of the *Traité de Sécurité sociale* (Treatise on Social Security) (directed by Yves Saint-Jours), LGDJ, 1981, *Économie de la protection sociale*, opus cit. and Catherine Mills (with José Caudron), *Protection sociale. Économie et politique. Débats actuels et réformes* (Social protection. Economics and politics. Current debates and reforms), op cit.

37 See Paul Boccara, *Une sécurité d'emploi ou de formation. Pour une construction révolutionnaire de dépassement contre le chômage* (A security of employment and of education. For a revolutionary construction of overtaking unemployment), Paris, Le Temps des Cérises, coll. « Espere », 2002.

- simultaneously, the promotion of advantageous credit levels for enterprises which participate in real growth and create jobs, whereas the current functioning of the BCE is solely based on the monetarist criteria of the Stability and Growth Pact. The interest rates accredited for the enterprises would be lowered, even down to zero due to subsidies, the more the enterprise works towards employment and training efficient conditions.

Conclusion

The success of the system of social protection in France stems from the global acquisition of all social risks that are initiated. The coverage of social risks had been envisaged with profound articulations, between health and retirement, between family policy and public health, between retirement and social policy, more largely between social protection and economic efficiency and social cohesion.

The liberal counter-reform focuses on the prevailing individualism, which it largely contributes in reinforcing by arguing that the social risks supposedly have changed in nature. This is a profound dichotomy between the economic and the social, which serves neo-liberalism as a theoretical justification, even if it pretends to "save", the system of social protection by way of its regressive reforms although it is tapping pensions and health system. Affirming the dogma of inefficiency of a social coverage, whose socialised financing is produced in the businesses, it seems to be a matter of definitely cutting the solidarity between enterprise and social protection. If this project was achieved, which is being attempted by the current government, the welfare state in France would no longer exist but as a miserable leftover.

Yet, the struggles against this liberal counter-reform, which all over Europe organises the regression of the systems of social protection, become fierce. Thus, the reform of pensions and the health system in Germany brought almost half a million onto the streets in Germany in spring, similarly in Italy, and also in Austria and led to lively demonstrations. The forces opposed to the ravages of ultra-liberalism have to act in concert and together for the reestablishment of conditions, which will again permit economic efficiency and social progress in all countries of the Union.

Thanasis Maniatis

The Welfare State in Greece

The Greek welfare state is at a critical point. Its late development, the influence of both social-democratic and liberal traditions and the lack of a coherent structure, the fiscal austerity inherited from the period of the integration of the country into the EMU and established afterwards, increased demands from the unemployed, the poor and an aging population, chronic demands for higher public education and public health spending, the annoying realities of intense income inequalities and high poverty rates have created a difficult but interesting situation for an analysis of the prospects and limits of social policy in a capitalist economy. For the moment, they have turned the direction of the still emerging (and in some areas already retrenching) welfare state towards a marginalist, liberal cash-oriented model that tends to the needs of selected groups officially stamped as the "really needy" and neglecting any social policy measures which could possibly promote solidarity and social citizenship.

What is the welfare state?

The growth of what is usually called the welfare state is one of the characteristic features of modern capitalist economies. However, it is difficult to define it precisely, and it has come to mean different things to different people in different countries.

Depending on the author, and the particular theoretical field (orthodox economics, political economy, political science, sociology) it is treated in the literature or in public debate and political discussions as:

a) a set of policies and arrangements (at a minimum concerned with social insurance and social welfare) which mark the functions/responsibilities of the modern state,

b) an institution which shapes individual attitudes and behaviour, it influences work effort and savings and the way the labour market functions and therefore affects conditions of production, productivity growth and economic performance,

c) an entire socioeconomic system, a variant of capitalism ("welfare capitalism") or a stage between capitalism and socialism.

What caused the development/growth of the welfare state? Left attitudes on the welfare state?

It could be argued hat there is currently almost unqualified acceptance of the institutional arrangements related to welfare state activity in Left circles. However, up until the mid to late 1970s most people in the Left (especially the Marxist tradition in the political economy literature) used to view typical welfare state arrangements negatively or at best with suspicion and regard it either as a:

- Bismarckian authoritarian construct for the legitimisation of the system and the incorporation of the working class,
- Beveridge/social democratic conception for "social engineering" with the purpose of alleviating intense class conflict and the explosiveness of acute social problems,
- a necessary by-product of the industrialisation/proletarianisation process in advanced capitalism, of the changing requirements for the reproduction of labour power, as well as a result of demographic development,
- a system exercising tax exploitation against the working class, the flip-side and necessary complement of the "warfare state" for the legitimisation of the system (O'Connor, 1973),
- a "so-called welfare state" that could not possibly be structured around the interests of the working class (Shaikh, 1984);
- an institution regulating and replenishing the reserve army of labour (and wage pressure, inflation etc.) and especially in periods like the current one when "flexibility" and "employability" of labour acquire priority. Long-term unemployed and discouraged workers are not useful for capital as they do not exert downward pressure on wages. Thus, "workfare" policies which swell the ranks of the reserve army help discipline labour (especially at the lower end of wages). The more the reserve army is "employable", the more its deflationary effect in holding down wages will be heightened.

- an institution based on the interests of male industrial/production workers excluding women and certain social strata and minorities.
- A compromise (involving social classes and the state) and a response to what went on before (mostly the Great Depression experience). This compromise has been eroded as one of its poles (the working class and the socialist camp) has lost power. The welfare state thus remains "a great contradiction" within advanced capitalism.

But there were also positive views, especially around the end of the "golden age" period of post-war growth which regarded the growth of the welfare state:

a) a product of social and political pressure by leftist parties and labour unions creating a redistributive vehicle in favour of income and standard of living of the working class,

b) a major institution playing a crucial role in determining the incomes of the majority of the population and which has permanently and irreversibly transformed the nature of advanced capitalist economies (Therborn, 1984,1986)

c) the most important part of the strategy for the transformation of capitalism into socialism (passing from political democracy and social democracy to economic democracy through the expansion of the welfare state in a particular universalistic, solidaristic direction in the manner of Scandinavian social democracy, Esping-Andersen 1984,1987,1990), Korpi (1984), Stephens (1979)

And as things have become worse for labour due to the attack by capital and the state since the late 1970s and early 1980s, it has been regarded as:

- a functional requirement for the smooth and successful operation of the capitalist economy,
- welfare state, but not "so-called" anymore. Some leftists even try to show that it is helpful for/consistent with economic efficiency,
- a necessary institution for income maintenance of the workers and the poor which needs to be defended against neoliberal attacks. There is fear that there will be a convergence of welfare states through a race to the bottom even though it has not occurred yet to a significant extent. Instead, there is a turn from universalism to individualism and the emergence and dominance of a "third way" of social policy which has as a "chief goal to integrate rather than to segregate the poor. The policies are targeted at relatively small groups, the assumption being that social problems are restricted to small but intransigent groups" (MacGregor, 1999, p. 109).

Understanding as clearly as possible the nature, the effects and the possible limits of the welfare state is of paramount importance because in the debate about its future course, its effects on economy and society and the responses to the efforts at curtailing or restructuring it, our position has to be based on our broader vision about the prospects regarding the transition to a socialist economy and society as well as on our critique of the most adverse aspects of the present socio-economic system.

Welfare state effects

Economic aspects/effects:

The prevalent view in mainstream literature emphasises the following mostly negative effects:

- disincentives to work either due to high taxation or "welfare dependency", therefore negative effects on labour supply and labour market functioning, increase in the unemployment rate by lengthening job search.
- the social security system lowers private savings, hence (in the savings-investment nexus) it lowers investment and economic growth,
- negative effects on public finances which in the current era of "globalisation" (intensified internationalisation of capital) result in outflows of financial capital and problems for the real economy as well,
- positive effects on the demand side but negative effects on the supply side from low private savings and low work effort ("There is a risk that the welfare state will destroy its own economic foundations. That risk is today a reality in several countries", Lindbeck, 1995, p. 9),
- alleviation of income inequality and (extreme) poverty which in some versions may have positive effects on labour productivity and economic growth

Sociological effects/aspects:

- creates or improves social cohesion,
- avoids marginalisation of large segments of the population but creates "welfare dependency" problems with negative effects on labour supply,
- discourages or eliminates anti-social behaviour, strengthens family and community ties.

Political aspects:

- welfare capitalism as a distinct system (variant of capitalism), the development of the welfare state (in its Scandinavian social democratic form) creates a vehicle suitable for the transition to socialism.

Mainstream (not necessarily neoliberal) economists have long argued that the welfare state has become a drag on growth leading the way for an attack and a serious curtailment of its range. They have been the most successful and influential where the welfare state had advanced the least (mostly in the US, but also in the UK) but also in Europe lately. Their arguments have been criticised on theoretical and mostly empirical grounds by theorists like Korpi (2000), Atkinson, and Maddison.

"It is difficult to reach strong conclusions on the influence of the welfare state on economic development because the evidence does not warrant them. Strong judgments on the question are influenced mainly by ideological positions, or predictions about what might happen in the future." (Maddison, 1984). More recently, Sandmo (1995) and Atkinson (1999) have reiterated this point based on the experience of the fifteen years which have intervened.

From a radical/Marxist point of view, Shaikh (2003) has commented that the mainstream arguments regarding the effects of the welfare state:

(Welfare) state growth → *public deficits* ↑ → *growth slowdown*

do not hold since the period of healthy economic growth coincided with welfare state expansion and there were public surpluses and negative (small) net social wage for labour. Later as

growth slowed down → *unemployment rate* ↑ *net social wage* ↑ *public deficit* ↑

hence the correlation between public deficits and positive net social wage for labour that were both consequences of the (independently caused) slowdown in growth.

Thus, underlying the attack on the welfare state was the faltering of the long post-war boom. Whatever public deficits exist(ed) were a result of that slowdown and they were not caused by the subsidisation of the income of labour (see Shaikh, 2003). However, since the response to the economic crisis took the form of redistribution in favour of capital, the welfare state was attacked, and checked in its growth in order to save resources and place them at the discretion of capital in order to facilitate the process of accumulation.

Historical evolution of the welfare state in Greece

The Greek welfare state is a "late" welfare state which started to develop beyond its embryonic stage only a few years after the fall of the military dictatorship in the late 1970s – early 1980s. That was the time of the first neoliberal attacks on the welfare state in Europe and the US since it was regarded as one of the fundamental causes for the stagflationary experience of the period.

Petmesidou (1996) provides a fairly accurate picture of the development of the welfare state in Greece but his study stops at ca. 1993 and gives the impression that the system is collapsing and some irreversible regressive reforms and drastic cuts were occurring in the beginning of the 1990s. The study misses the relative increase in social expenditures that has occurred since then, but makes the (still valid) crucial point that social citizenship (universality, social solidarity) had not developed sufficiently in Greek society at the time the welfare state crisis erupted.

Possible reasons for the late development of the Greek welfare state:

- Even in the 1970s it was not long since the early phases of intense capital accumulation in the country. Greece in the 1950s and 1960s was in an early stage of a process of the accumulation of capital,
- relatively low percentage of wage and salary earners in the economically active population, large segments of self-employed agricultural workers relying on family and own production for their reproduction,
- defeat of the Left in the Civil War,
- state-controlled labour unions,

- emigration as a means consciously used by the government in order to solve problems of employment, low unemployment, low share of wage labour in total labour force,
- "Hegemony" by the suppression of dominated classes, not by incorporation/legitimisation,
- demographic profile,
- strong role of the family as in all South European countries.

It is quite telling that there is almost a complete absence of studies (also due to lack of sufficient statistical data) measuring income inequality and poverty (with Karageorgas (1973), Karageorgas (1977) probably being the first in this direction). There is virtually no reliable estimate of inequality and poverty for the whole country before 1974.

In addition, it should be noted that the first steps towards establishing the pillars of a welfare state attempted by the Centre governments of the 1960s were violently interrupted by the period of military dictatorship which neglected social spending and related social policy measures. In addition, the first years after the fall of the military dictatorship placed the burden of increased defence expenditures (due to the conflict with Turkey over Cyprus) on the state budget leaving small room for increased social spending.

It is interesting to note in Table 1 below the different trajectories in economic growth and social policy measures (and expenditures) which Greece and the EU have experienced since the early 1980s. It is obvious that the experiment of creating a welfare state in Greece started in a context of unfavourable economic conditions, nationally and internationally, which explains its problematic development since then.

Table 1 GDP growth and social security transfers as a percentage of GDP, Greece and EU 15 (in %)

	1960-1973	1973-1979	1979-1989	1989-1997
	GDP growth			
Greece	7.7	3.7	1.8	1.5
EU 15	4.7	2.5	2.2	1.7
	GDP per capita			
Greece	7.1	2.6	1.2	1.0
EU 15	4.0	2.1	2.0	1.3
	Social Security Transfers as a percentage of GDP*			
Greece	7.1	8.1	13.5	16.9
EU 15	11.4	15.2	17.3	20.3

Social security transfers consists of social security benefits for sickness, old age, family allowances etc., social assistance grants and funded employee welfare benefits paid by central government.
Source: OECD, Historical Statistics, 1999.

As we will see below, if we adopt a somewhat different definition of social security expenditures, there has been a process of convergence in terms in terms of social protection expenditures as a percentage of GDP, but Greece is seriously lagging behind other EU countries in terms of other social indicators like income equality and fighting poverty situations for large segments of the population.

Description of the current state and recent developments in the social situation

The Greek welfare state as it has developed in the past two decades (in an unplanned, spontaneous way) shares certain elements and typical characteristics with all four welfare state models/regimes of Esping-Andersen's and Ferrera's typology (Esping-Andersen, 1990, Ferrera, 1996).

First, it is marginalist in its arrangements, selective, non-universal and for the most part provides low levels for most types of social benefits ("low social protection", high poverty rates, intense inequalities, absence of national basic pension schemes or guaranteed minimum income for the population are characteristics that pertain to the liberal welfare regime).

Second, it is corporatist/actuarial (and the government is increasingly trying to transform it in this direction) as far as social insurance (especially pensions) is concerned with some generous isolated cases (though mostly overstated in numerical significance and applying probably only to some cases for employees/pensioners in public enterprises) and the majority of pensions stuck at low levels.

Thirdly, ironically, even though the welfare state in Greece has been developed almost exclusively by centre and social democratic governments, it is social democratic in the forcefulness (in the sense of rapid expansion of public expenditures but with no coherent plan and vision) with which it developed in the 1980s.

Fourthly, it resembles the "southern" model as a synthesis of the above (also with regard to its universal but insufficient and expensive health care system). Its clientelistic features have to do mostly with public sector jobs (in exchange for political support) instead of the provision of welfare benefits.

Finally, its redistributive effect vis-à-vis the working class is minimal (virtually zero) and very similar to that of the US welfare state.

Public attitudes towards the welfare state

Public opinion polls place unemployment, poverty and social exclusion at the top of the list of people's major concerns/worries and certainly not "welfare excesses", and "welfare dependency", which are totally absent from such lists.

Not only the opposition parties of the Left but also the government are now in favour of expanding the welfare state instead of rolling it back. The government in particular very often uses in its rhetoric arguments and promises for social protection, social coherence, and a "strong society" achieved through social policy.

The major opposition party, the right-wing New Democracy does not deny that more social protection is needed (it actually fares much better than the social democrats among the unemployed, pensioners and farmers in public opinion polls) but it is hesitant to propose an expansion of social programmes and social spending (especially since there was explicit opposition to this prospect by employers' organisations in the fall of 2003). Instead, it focuses on the efficiency of social spending and points out that the poverty rate does not change by much (the poverty rate falls from 22% to 21%) after social transfers. However, this is mostly due to the fact that those social transfers referred to do not include pensions, which contribute to producing one of the lowest poverty rates in the EU (22% in Greece compared to 26% for the EU average in 1999). The above statistic more than anything else implies that non-pension social benefits (around 50% of the total recently in Greece and 45% in the EU) are not effective in reducing poverty because they are not high enough.

PASOK in part shares ND's approach in the sense that it has abandoned all universalistic ambitions in the direction of social policy and tries to focus on the persons or families "really needing" social protection. In fact both parties explicitly regard the family and not the individual as the object/unit of social policy.

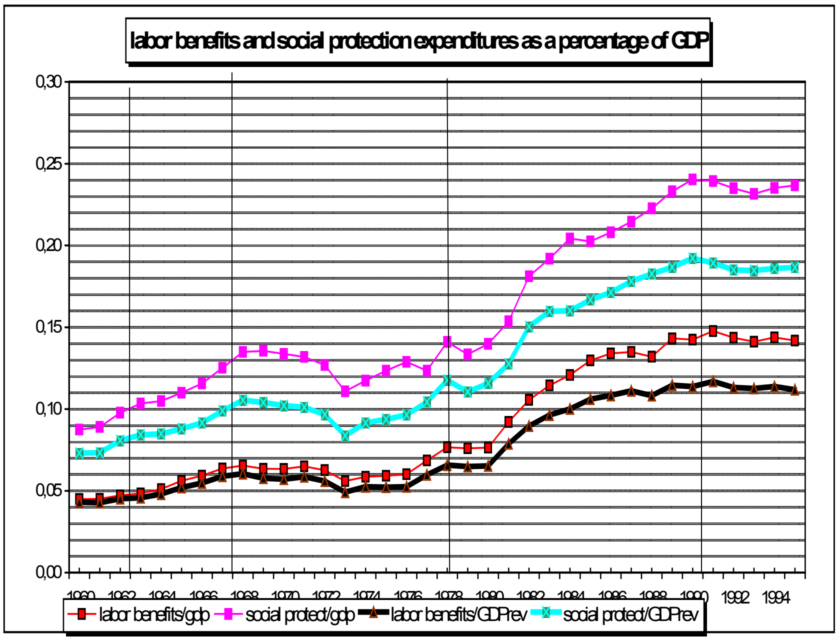
In Greek society up to now, despite the persistently high rate of unemployment, it is not the unemployed as individuals who are stigmatised and blamed for their situation. Instead there is a strong effort (but largely unsuccessful) to alleviate this problem by training and other active labour market policy measures, which are now taking the form of subsidising firms in order to hire unemployed people for some time.

Since there is no generosity in benefits (regarding mainly basic pension, minimum wage, level and duration of unemployment benefits), there has been no "welfare state backlash" against recipients. The latter attitude is evident only as far as the "waste" of administrative costs are concerned.

Using a revised definition, social protection expenditure as a percentage of GDP (ESSPROS) in Greece now approaches the EU 15 average (26.4% in Greece compared to 27.3% for the EU 15 in 2000, with this difference being five percentage points in 1991, and the catching up being mostly a result of the relative stagnation in EU since this ratio changed from 26.4% in 1991 to 27.3% in 2000, and it actually fell from 28.8% in 1993). However, social expenditure per capita in PPS remains the third lowest in EU 15, being around two-thirds of the EU average.

Figure 1 below shows total social spending (from the social budget) as a percentage of GDP as well as social benefits by wage and salary earners only as a percentage of GDP (old series and revised data) for the 1960-1995 period. The two series move together and two episodes of increased social spending and welfare state build-up in the early 1960s and the 1980s are quite evident.

Graph 1: Labour benefits as a percentage of GDP and total social spending as a percentage of GDP



In trying to overcome the difficulties that stem from the discontinuities in the data[1] in Table 2 below, we observe how the different measures of social spending as a percentage of GDP have behaved in the 1990s. Spending defined according to ESSPROS has increased while spending as defined in the annual editions of the Social Budget has remained most constant during the decade.

Table 2: Social spending/GDP, Greece and EU 15 (in %)

YEAR	Social protection Spending/GDP	Social protection spending/GDP revised	Social protection spending/GDP revised (ESSPROS)	Social protection spending/GDP EU15 (ESSPROS)
1990	24.0	19.2	23.2	25.5
1991	23.9	18.9	21.8	26.4
1992	23.5	18.5	21.5	
1993	23.1	18.5	22.2	28.8
1994	23.5	18.6	22.3	
1995	23.7	18.7	22.6	
1996		19.4	23.1	28.4
1997		19.5	23.6	28.2
1998			23.7	27.7
1999			24.6 (25.4)	27.6
2000			25.5 (26.4)	27.3

In Atkinson (1999), the following break-up is proposed in order to decompose the changes in social spending:

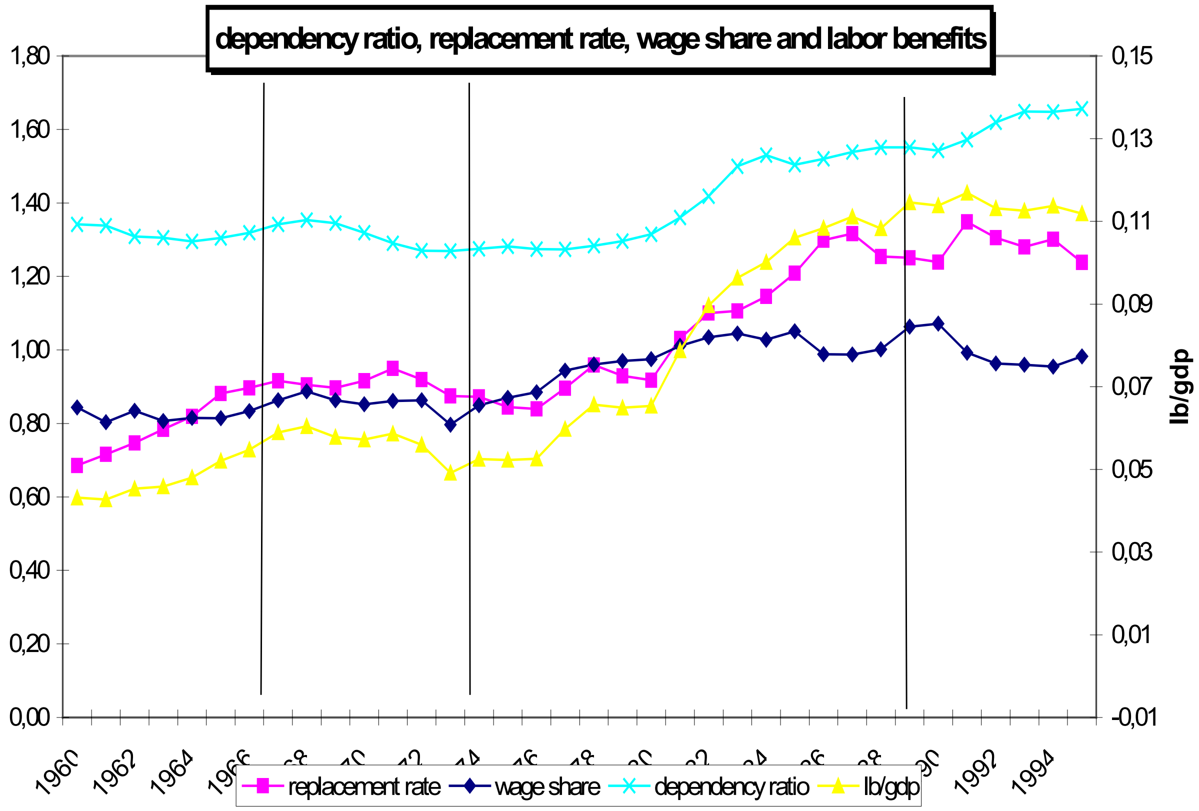
$$\frac{\text{SocialSecurityBenefits}}{\text{GDP}} = \frac{\text{averagebenefit}}{\text{averagewage}} \cdot \frac{\text{averagewage}}{\text{GDPperworker}} \cdot \frac{\text{recipients}}{\text{workers}} =$$

= Replacement rate x wage share x dependency ratio

1 There are two definitions of social spending, one in the social budget and one (giving higher figures) according to ESSPROS. There are also two definitions of GDP, one that goes until 1195 (old series) and one from 1960 until 2000 with generally higher figures (according to ESA).

The first term reflects the generosity of the system, the second term the share of GDP which goes to labour and the third term the developments regarding demography and unemployment (recipients = active labourers + unemployed + (wage and salary) pensioners).

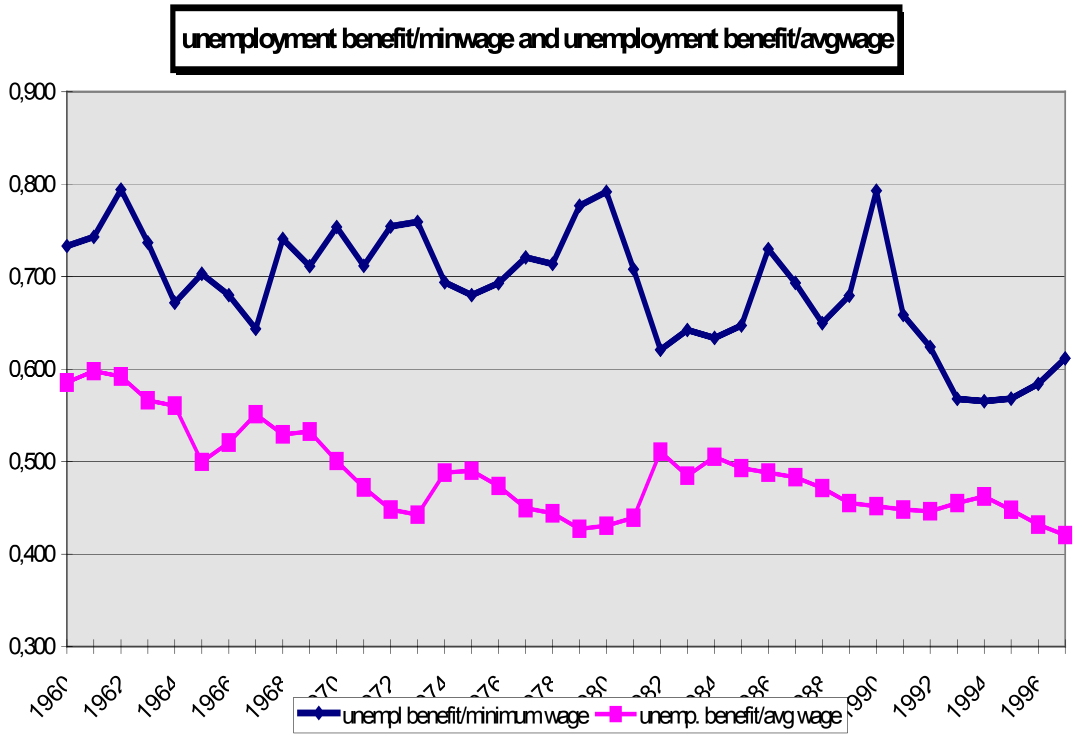
Graph 2: dependency ratio, replacement rate wage share, and labour benefits as a percentage of GDP



It is evident from Graph 2 that both in the early 1960s and in the 1980s, it was the increases in the replacement rate that caused most of the increase in the ratio of labour benefits to GDP. Also we observe that the dependency ratio continued to increase in the 1990s initiating the neoliberal attacks of the time against labour wages and its welfare benefits.

Another way to look at the generosity of the system is to look at Graph 3 below, where we observe the development of the ratio of the unemployment benefit relative to the minimum wage and the average wage in the economy.

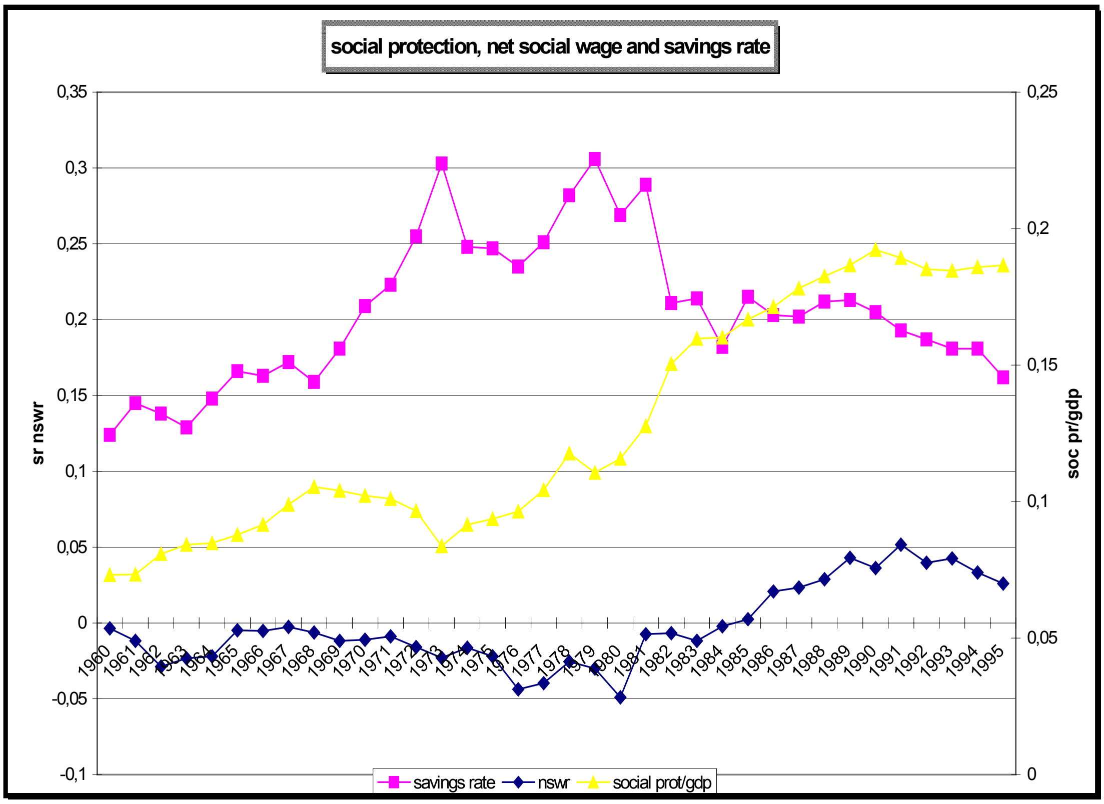
Graph 3: Unemployment benefit as a share of the minimum wage and unemployment benefits as a share of the average wage, 1960 –1997



As Graph 3 shows, unemployment benefit as a percentage of the average wage follows a clear downward trend for almost the whole post-war period. On the other hand, unemployment benefit as a percentage of the minimum wage is more or less constant until 1990 and declines in the early part of 1990s, then reversing this trend from 1994 until 1997. Even though economists focus on unemployment insurance as a major factor of labour market functioning, expenditures for unemployment benefits represent quite small fractions of total public and social spending.

We can also look at the relationship between welfare state development as expressed either by rising social protection expenditures and/or by the behaviour of the net fiscal position of the working class and the (private) savings rate.

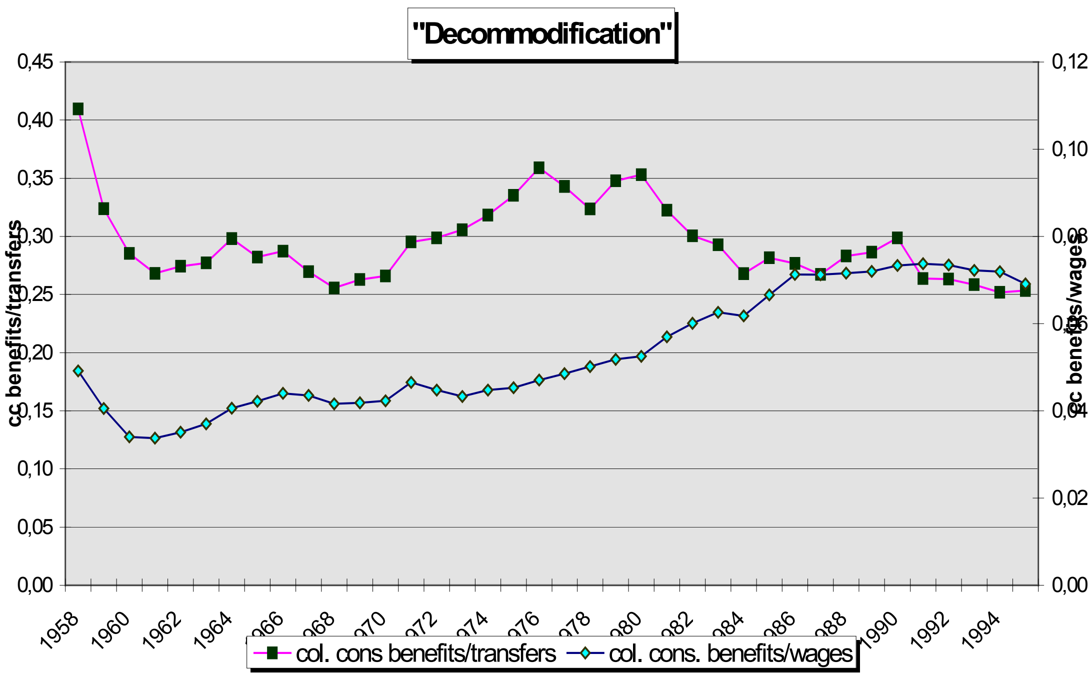
Graph 4: Welfare state effort and private savings rate



At first sight the fall in the private savings rate (for both households and firms) did begin to fall with the development and maturation of the welfare state, but this is probably a result of the fall in profitability and the subsequent fall in growth rates, which resulted in lower incomes and lower savings.

Finally, we should note that benefits derived from the state for the working class have remained cash-oriented especially after the 1970s when the welfare state developed. As Graph 5 shows, the "de-commodification effect" of the growth of the welfare state was low in the early stages of the welfare state and diminished steadily over time as welfare policy placed emphasis on monetary transfers rather than on collective consumption services provided by the state. The latter have not surpassed the level of 10% of wages and salaries, which remain by far the predominant source of net income for labour.

Graph 5: Structure of labour benefits and collective consumption benefits as a share of wages



Employment – Unemployment

Greece is second from below (next to Spain) in terms of the employment rate with 55.4% in 2001 compared to 64% for the EU 15 and 71.7% in Sweden, 76.2% in Denmark and 68.1% in Finland as a way of comparing the Greek situation with the social-democratic model which openly encourages labour force participation and (mainly) public sector employment.

The same applies to the unemployment rate, which stood at 10.5% (7% for men and 15.6% for women and 5.4% for long-term unemployment) in 2001 compared to 7.4% (6.4% for men and 8.5% for women and 3.2% for long-term unemployment) for the EU 15.

Clinton's 1996 Personal Responsibility and Work Opportunity Reconciliation At affected Labour in Britain, which turned in this direction (with New Labour concerned not about equality of outcome but equality of opportunity, placing emphasis on economic growth instead of redistribution) but this "welfare reform" or "welfare to workfare" switch is not relevant for the situation in Greece regarding either public assistance and/or unemployment benefits.

It could be safely argued that public pressure is directed at the part of government to create job positions and not at the unemployed to accept job offers. The few cases of plant/firm closings have been taken seriously, not shrugged off as inevitable outcomes of a new and flexible economy. Of course, there are calls for labour market flexibility, new production patterns, greater reliance on knowledge and education, employability, no job for life, all as requirements for increased competitiveness in the new world economic environment. The situation now is not characteristic of what has been described as "Eurosclerosis". There exists at the same time high unemployment <u>and</u> inadequate social protection for the unemployed or the discouraged workers.

Also the weak and undeveloped welfare state (especially at the time when the unemployment rate was rising) did not help in achieving flexibility and economic adjustment in a short period of time and high unemployment has persisted for some time now. This contradicts the finding in orthodox economic literature that the degree of persistence of unemployment depends significantly and positively on the benefit duration variable, but not on the replacement rate, Layard, Nickell and Jackman 1991). There are differences in the institutional structure of unemployment benefits in different countries, but certainly there is no unlimited duration as it is assumed in the economics literature, and in some cases, there exist very strict eligibility requirements regarding (even recent) contribution conditions, efforts to search for new work, availability for any new job offer, income of other household members, reasons for losing the previous job (check MISSOC for specific conditions, similarities and differences among member countries).

The public institution handling unemployment insurance and benefits (OAED) was founded very late, in 1954, and it is the first time in its history that faces situations with high and persistent unemployment.

In Greece (as opposed to Germany, for example, where there were cuts recently in this field), the direction is more towards extending coverage in terms both of eligibility requirements and benefit duration (MISSOC shows no changes for Greece between 1995 and 2000).

Overall, it could be argued that (due to the inadequate protection before that period), Greece is one of the few cases (the others mostly in continental Europe), where when unemployment rose in the 1990s, benefit levels and duration as well as eligibility were not reduced. UK cut unemployment benefits drastically, and Germany has done so recently. Austria, Belgium, Finland and the Netherlands did so before that.

However, as mentioned before, unemployment benefits are a very small fraction of the overall social budget and the same applied for most of the other non-pension benefits like maternity, family, housing, recreational benefits that are low in level and limited in coverage.

Income-Inequality Poverty

The trend of income inequality and the poverty rate: After a great decline in income inequality between 1974 and 1982 (which occurred mostly in the last year of this period), inequality had remained remarkably constant at least until 1994. The poverty rate has followed a similar trend but its absolute level (even though its meaning is not clearly comprehended in relevant discussions) is regarded as unacceptably high by public opinion.

Again, despite the increases in social spending that we mentioned in previous sections, income inequality has remained quite high by international standards and poverty rates (even though what is measured is again income dispersion and not fulfilment of absolute needs) are high and persistent.

In Table 3, the situation – as far as inequality and poverty are concerned – in Greece and in the EU 15 is depicted, and again we observe that Greece is second from the bottom in 1997.

Table 3 : Degree of inequality in the personal income distribution and poverty rate in EU countries, 1997

Countries	Poorest fifth	Second fifth	Third fifth	Fourth fifth	Richest fifth	S80/S 20	Gini	Poverty Rate 1999 (%)
Denmark	11	15	19	23	32	3.0	0.21	11
Sweden	11	16	19	23	33	3.1	0.22	9
Finland	11	15	18	22	34	3.2	0.23	11
Austria	9	14	18	23	35	3.7	0.26	12
Netherlands	9	14	18	23	36	3.9	0.27	11
Luxembourg	9	14	17	23	37	4.0	0.28	13
Germany	9	14	18	22	37	4.3	0.28	11
France	8	13	18	23	38	4.5	0.29	15
Italy	7	13	18	24	38	5.5	0.31	18
Ireland	8	12	16	23	41	5.1	0.33	18
UK	7	13	17	23	40	5.8	0.33	19
Belgium	8	13	16	21	42	5.5	0.34	13
Spain	6	12	16	23	42	6.5	0.35	19
Greece	6	12	17	23	42	6.7	0.35	21
Portugal	6	11	16	22	45	7.3	0.38	21
EU-15	8	13	17	23	38	5.1	0.30	15

Source: European social statistics: income, poverty and social exclusion, 2nd report, Eurostat, 2002.

In order to see how this degree of inequality is produced we can look at the different elements (especially the elements of the state budget), which determine the final distribution of income. In Table 4 below, we observe the progressiveness or regressiveness of direct and indirect taxation in 1994. As the government has declared (and has done so very recently), state revenues will be based less and less on direct personal income taxes, and this development will most likely increase income inequality.

Table 4: Direct and direct taxation, per capita income distribution, 1994 (in %)

Income group	Direct taxes	Disposable Personal Income	Net indirect taxes	Gross indirect taxes
1st	0.49	2.27	2.00	2.99
2nd	1.79	4.01	3.62	4.87
3rd	3.12	5.10	5.03	6.24
4th	4.15	6.23	6.51	7.62
5th	5.61	7.38	7.80	8.58
6th	7.04	8.63	9.22	9.75
7th	8.81	10.17	10.96	11.08
8th	11.86	12.30	13.87	13.13
9th	17.01	15.60	17.01	15.39
10th	40.12	28.30	23.98	20.36
total	100.0	100.0	100.0	100.0

*Direct taxes = Personal income taxes + (employees) social security contributions (Source: EHCP, KEPE)

One way of looking at the overall redistributive effect of the state is to look at the market distribution of income and compare it with other distributions which are formed after the effect of the main categories of the state budget like direct taxes (personal income taxes and social security contributions), indirect taxes (before and after subsidies), various transfers to households (pensions, unemployment, sickness benefits, etc.) and (ideally, but their redistributive effect has not been included here) public consumption expenditures (health, education, etc.) which provide benefits to the population as a whole.

Table 5 Distributions of household per capita income and state redistributive effect, Greece, 1994

Income groups	**Gross market income in %** **(1)**	**Net market income in %** **(2)**	**Total gross in-come in %** **(3)**	**Total dis-pos-able income in %** **(4)**	**Total net income in %** **(5)**	**Total final income in %** **(6)**	**Total change in %** **(7) = (6) - (1)**
10	0.0	0.0	2.1	2.3	2.1	2.3	+2.3
20	1.6	1.7	3.8	4.0	3.8	4.1	+2.5
30	3.9	4.1	4.9	5.1	4.8	5.1	+1.2
40	5.4	5.7	6.0	6.2	5.9	6.2	+0.8
50	6.9	7.1	7.2	7.4	7.1	7.3	+0.4
60	8.5	8.7	8.5	8.6	8.3	8.5	----
70	10.3	10.5	10.0	10.2	9.9	10.0	-0.3
80	12.9	13.1	12.2	12.3	12.1	12.0	-0.9
90	17.1	17.0	15.8	15.6	15.7	15.4	-1.7
100	33.5	32.2	29.6	28.3	30.4	29.0	-4.5
SUM	100.0	100.0	100.0	100.0	100.0	100.0	
Gini	0.472 (0.482)	0.458 (0.468)	0.382 (0.391)	0.364 (0.373)	0.388	0.367	-22.2%

= market income (wages and salaries, interest, profits, rent, self-employment income) + own consumption + family supplements.
= market income - direct taxes (on personal income) - employees social security contributions.
= gross market income + government transfers to households.
= total gross income – direct taxes (on personal income) - employees' social security contributions.
= total disposable income - gross indirect taxes.
= total disposable income – net indirect taxes (= gross indirect taxes- subsidies).

As a general comment, we could observe that the substantial size of the state budget (which is close to 50% of the Gross Domestic Product in the year examined) does not appear to have a sizeable redistributive effect, as only 7.5% of the total income generated in the market is redistributed from the richer half to the poorer half. The same also applies for the different constituent elements of the state budget except perhaps from public transfers (mostly due to the methodological way we look at the issue)[2] which seem to have a significantly progressive redistributive effect. Therefore, the rapid growth of the role of the state in economic activity during the post-war period does not seem to have been accompanied by similar growth in its redistributive role/effect in one or the other direction. This is due to the fact that expansion of social programs and spending implies/requires a similar expansion in the tax base and therefore in personal taxation and social insurance contributions.

In Tables 6 and 7 below, by comparing the degree of inequality in Greece with other OECD countries in the same time period of early to mid-1990s, we get a more accurate picture in an international context. The situation in Greece regarding income inequality was quite close to that in the US in the 1990s. The US economy has been notorious for the inequality inherent in its economy, and it has moved in the last years in an even more inegalitarian direction as Tables 6 and 7 below show.

Table 6: Degree of inequality in the distribution of household equivalent disposable income in the 1990s, selected countries

Country	Gini coefficient (per equivalent adult)
Finland, 1991	0.223
Sweden, 1992	0.229
Belgium, 1992	0.230
Norway, 1995	0.242
Denmark, 1992	0.239
Netherlands, 1991	0.249
Italy, 1991	0.255
Taiwan, 1995	0.277
Germany, 1994	0.300
Canada, 1994	0.287

[2] Compare this piece of information with the evaluation of the redistributive efficiency of social transfers by certain commentators (and the ND party) on social policy.

Spain, 1990	0.306
France, 1989	0.324
Japan, 1992	0.315
UK, 1995	0.346
USA, 1994	0.368
Greece, 1994	0.354

Source: Gottschalk and Smeeding (2000), Centre of Planning and Economic Research, Athens, Greece.

Table 7: Distribution of personal disposable money income in Greece and USA

	Greece Unadjusted	**(1994) per capita**	**USA* unadjusted income 1995**	**2000**
Poorest quintile	4.0%	5.9%	3.7%	3.6%
Second quintile	9.9%	10.9%	9.1%	8.9%
Middle quintile	15.8%	15.7%	15.2%	14.9%
Fourth quintile	23.6%	22.2%	23.3%	23.0%
Richest quintile	46.5%	45.4%	48.7%	49.7%
total	100%	100%	100.0%	100.0%
Gini coefficient	**0.426**	**0.373**	**0.450**	**0.460**

(*U.S. Department of Commerce)

The crucial point to be made here is that Greece at least as far as inequality and social protection is concerned is very close to the US situation (without sharing the alleged dynamism of the US economy). In fact as Table 6 above shows, it is not only the EU 15 countries (except Portugal) that have a more egalitarian income distribution than Greece, but almost all other OECD countries exhibit less inequality than Greece except the US.

Any curtailment in (net) social protection expenditures (and especially pensions) would probably place Greece at the most inegalitarian position in the list of advanced economies in the world.

Finally, we should note that, as neoliberal ideology is advancing, structural causes of poverty and inequality are not addressed by the would be reformers of the welfare state and even by some of its supporters. The most recent developments in income inequality and poverty rate, even though fragmented and not settled, nevertheless suggest that wage inequality was increasing in the 1990s for both men and women and in 1999, it was greater than it was in 1974, the increase in low-paid service jobs probably being responsible for this development.

There is no specific anti-poverty program as such, with quantified targets (even in the recently announced program by the government for economic convergence with the EU by 2008 and public spending on education as a percentage of GDP remains the lowest in the EU (around 3.6% in 200 compared to a 5% for the EU 15 average).

Reform attempts

In recent studies of cross-country welfare spending Taylor-Gooby (2002) and Castles (2001) have pointed out that, when placing emphasis on social spending, it appears that resilience and adjustment of the welfare state and catching up is still going on, but emphasis on particular areas (and especially on pensions) shows that some important and sometimes radical changes are happening in the interior of the system. The same reasoning probably applies to Greece, as increases in social spending as a fraction of GDP have coincided with attempts to reform in a less generous way the social security and the health care systems.

A social security reform of 1992 by the right-wing government, an attempt at a radical restructuring in 2001, which failed due to the wide mobilisation of public and private sector unions (controlled by social democrats) and a milder version in 2002 by the social democratic government, were the major incidents in the last decade towards reforming existing welfare state arrangements. (Their inherent logic was mainly redistributive against the income/share of labour in a broad sense including active labourers and future pensioners and they stemmed from a concern over public finances at a time when fiscal austerity had to be imposed on the way for integrating Greece in the EMU). It affected in an adverse way all persons insured after 1993. More specifically, the replacement rate for a full pension was reduced to 60% of pensionable income from 80% of pensionable income and the legal retirement age for women was raised from 60 to 65 years for persons insured after 1992.

Also the legal retirement age for early pensions was raised for both full and reduced pensions. Moreover, supplements for spouses were eliminated and the supplements for children were reduced (except for the income supplement for the third child, which was raised from 10% to 12% of the pension).

Contributions for social insurance were increased from 20% to 30% of the total wage (introducing and/or increasing state participation state participation in the social insurance contributions) and wage and salary ceilings were removed for pensions as well as for unemployment insurance, and family allowances.

Health care system restructuring involves mostly efforts to curtail spending by hospital and increase users fees by recipients again out of concern for deficits in the system.

Labour market measures try to promote part-time employment which has not expanded yet (lowest in the EU), and it was recently introduced in the public sector in order to alleviate the (low) employment and the (high) unemployment problem. It is evident that they are tuned with the "employability" concerns of capital and the state in the current era, and they are targeted mostly towards the maintenance of an "employable" reserve army able to strongly affect labour market bargaining exerting downward pressure on wages.

Conclusion and outlook

Economists arguments against the welfare state claim that social security (pay as you go) lowers private savings and therefore (unless public saving increases sufficiently) in the long run reduces investment and economic growth. Social protection in the labour market also (in the form of high unemployment benefits spending on active labour market policies, and collective bargaining) causes or increases unemployment, lengthens job search, lowers participation in the labour force, and reduces the tax base.

Low participation in the labour force as a result of "welfare dependency" has not been an issue (this is also an indirect way of assessing the maturity of the welfare state).

The equality/efficiency (growth) trade-off is only present in the sense of the deterioration of public finances due to social spending and the (presumed) negative influence of public deficits on economic growth. The accidental/"conjunctural" high growth rates since the mid-1990s may not have solved the low employment (56.9% in Greece, 64.2% in the EU 15) – high unemployment rate problem but they have temporarily postponed any discussions on public spending induced equality/efficiency trade-offs.

We could reasonably argue that there is no serious social safety net in Greece which could be attacked. It is still being constructed. Pensions seem to be the weakest link and the first target in reform attempts.

Since there exists no other general assistance scheme after the expiration of the period of unemployment benefits (12 months maximum and three months at a reduced rate after that), it cannot (has not) be(en) argued that the structure of unemployment insurance in Greece discourages a return to work.

There is no statuatory minimum pension or basic pension as in Scandinavian countries. A guaranteed minimum income or basic income was first proposed by PASOK deputies, then rediscovered by the now ruling ND party, but it did not find approval.

By way of a low level of unemployment benefits and their limit duration, the recent attention on the long-term unemployed and the new entrants in the labour market, it has been tried to maintain "employability".

Missing from the public discussions of the welfare state in Greece so far are slogans and attitudes such as "welfare abuse" – "work absenteeism" – "welfare dependency" and "welfare trap", as well as transition from "welfare to workfare".

Missing from Greek reality are welfare benefits such as universal child benefits, national basic pension, guaranteed minimum income, and therefore a marginalised underclass living on "public assistance". Finally, one does not encounter arguments such as low (private) savings leading to low investment and growth, high unemployment benefits leading to a high unemployment rate, and about the equality/efficiency trade-off. One does observe the argument that public (social) spending leads to deficits and to less growth.

Therborn (1984) argued that in advanced capitalism, the welfare state was irreversible. This argument has been at least partly verified.

There is, however, a whole political economy of "calls to roll back the welfare state": are they endogenous economists, or what determines who attacks the welfare state? The limits of the welfare state may be similar to the limits of the system itself. Within a context of slow or zero growth, its logic may not be defensible within the logic of capital unless labour and the poor sections of the population are willing to accept lower standards of living.

Should we place so much (strategic) emphasis on an "institution" that seems to depend so much on economic growth? Can we afford to argue that it is simply a matter of choice, if others argue that the maintenance of welfare state arrangements is not feasible?

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Susana López and Elvira Salce

The Process of Social Divergence between Spain and Europe and its Perspectives in the European Union

Social protection in Spain

The process of real convergence with the European Union (EU) can be defined as one, which should permit the less developed economies, Spain among them, to advance, and to approach, as far as the quality of life of the population is concerned, the average parameters of the union. One of the most important aspects of real convergence, from our point of view is social protection, understood as the sum of public expenditures assigned to attend to social needs.

The following attempts to present the broad features of social protection in Spain, in comparison to the EU, show that our country is still showing an important backlog in its social expenditures and that, moreover, this differential has been rising constantly during the last years. From 1993 onwards, with the government of the Socialist Party (PSOE) and, in an even sharper form, from 1996, with the conservative governments of the Partido Popular (PP), we have moved away from Europe as far as social protection is concerned.

These governments have, one after the other, carried out a fiscal policy that has provoked a decrease in tax revenue and increased profits and capital yields and has reduced the public deficit at great speed. As a consequence, important gaps in technology and in human capital have been maintained compared to the EU. These limit the efficiency of our economy, and above all, sharpen the social deficits that separate us from Europe.

The expansive economic cycle that began in the end of 1994 has not been used for lowering the differences that divide us from Europe in the social area. On the contrary, the differences have increased to such a degree that we can affirm that the governments of the PP have provoked a real social “disconvergence” with Europe.

To be more concrete, social protection expenditures in Spain in 1993 represented 24% of the GDP in 1993, and 28.8% in the EU (meaning a differential of 4.8% of the GDP). Nonetheless, in 2000, following data by Eurostat (deflated on the basis of the GDP in 1995[1]), Spain in 2000 spent 20.1% of its GDP on social needs and the EU 27.3%, which means a difference of 7.2 percentage points.

Spain, thus, today occupies the penultimate place in the EU as far as social spending as a proportion of GDP is concerned, with the peculiarity that countries such as Portugal or Greece, who have a per capita income much inferior to ours, spend 2.6% and 6.3% of their GDP, respectively, more than Spain.

Definitely, while between 1995 and 2000 the spending on social protection in the EU reduced slightly (0.6 points of decrease), the fall in Spain is much more drastic (2%), and this tendency continues, given that the estimates of public spending on social spending are plunging, as a proportion of GDP in 2001 (19.7%) and 2002 (19.2%), whereas the average of the community appears to stabilise itself around 27%.

It should be clarified here that the economic growth of the Spanish GDP has been superior to the European medium and has alleviated the spending on unemployment benefits, an argument used by the past government in the intention of embellishing these negative data. Nonetheless, as has been said, the total social spending between 1995 and 2000 went down by 2% whereas the spending on unemployment decreased by 1.1%; the difference (0.9% of GDP) can not be explained by the decrease in unemployment itself.

What is more: if we compare the evolution of social spending by inhabitant in terms of purchasing power parity, the argument of different economic growth levels must be taken back, since we know that in 1995 social spending by inhabitant in Spain amounted to 62% of the community average and in 2000 has been reduced to 60% of the said average.

And if this was still necessary, we could also take into consideration that, if we talk about social spending in relationship to the GDP, we are ignoring the shadow economy – which in Spain, according to the European Commission, amounts to more than 20% of the GDP (much more than the community average). This is to say that, if we approximate the real GDP, the percentage of social spending will be even less and the difference to Europe by that much more elevated.

1 The majority of the countries of the EU calculate their macroeconomic numbers on the basis of the European system of accounts of 1995 (SEC-95).

In any case, it is clear that the important growth in our country has not been used for improving our social protection in the context of the Community, and on the contrary, we have experienced a period characterised by a policy that was regressive and antisocial. Effectively, there cannot be any social progress, if in a country like Spain, with a per capita profit rate equivalent to 83% to the European average in 2000, social spending per person is only equal to 60% of the European average in this year.

Referring back to Eurostat, which estimates the spending on social functions in the EU in % of the GDP in 2000, the results are the following:

As far as *spending on health and medical attention* (economic payments for sickness and spending on medical attention) is concerned, Spain dedicates 5.4% of its GDP to that task as opposed to 7.1% in the EU, a difference of 1.7 %. In our country, the spending under this area has decreased in the last couple of years as a consequence of the reduction in health spending and the lowering of economic benefits in case of illness. Moreover, according to OECD data, public health spending per capita (established in terms of purchasing power) in Spain represents around 68% of the community average.

It is also important to point out that, if we deduct spending on medication, the comparisons will be even more unfavourable to our country, given that expenditures on medication in Spain (due to the pressure by the multinationals of the pharmaceutical industry) represent almost 25% of public health spending and that Spain is exceeded in this respect, on the European territory, only by Portugal (27%).

Under the title *Invalidity* (spending on pensions for permanent invalidity for people under 65 years), the spending situates itself at 1.2% of GDP in Spain, at a similar proportion as in the EU overall.

Under the title *Old-age pensions* (pensions of all types for people over 65 years), the most important difference is observed, as it represents 7.5% of GDP in Spain and 9.5% in the EU; a difference of 2%.

Under the title *Survivor's pensions* (spending on pensions for orphans and widows under 65 years of age), Spain dedicates 0.8% of GDP as compared to 1.2% on average in the Community (difference of 0.4 percentage points).

As far as the rest of pensions is concerned, which are considered by their classification (early and partial retirement), Spain spends 0.5% of the GDP and the EU 0.6% (a difference of 0.1 percentage points).

If we sum up the functions that refer to pensions, it is here that we encounter the biggest difference as compared to the European medium. Spain commits 10% of its GDP as compared to 12.5% in the EU, a difference of 2.5%. Without downplaying the future demographic tendencies (and also considering other fundamental aspects like employment creation and the quality of the latter or the activity and employment rate), these data should not be forgotten in the moment of approaching the "future of the pensions" and certain scenarios of catastrophe (interested ones and inflated by the media) that are being presented to us in order to justify new restrictions, which are being announced (increase of the retirement age, extension to the whole work life of the period for calculating the pensions etc.).

The expenditures for *Families* (a title which includes child allocations and maternity allowances) amount to 0.4% of GDP in our country and 2.2% in the EU (a difference of 1.8%). Spain is by far the country of the whole EU, which devotes the least resources to this title.

In effect, Spain assigns almost seven times less means to family benefits than the average of the European countries. Following a study published in 2000[2], the lack of a global politics of assistance to families have turned Spain into the country of the world with the lowest fecundity rate, with 1.07 children per woman (another question to consider under the topic of pensions). In any case, it is a priority to develop the public services for dependent persons and to explore mechanisms (reduction of the work day, for example), which would truly permit to reconcile "family life" and labour (by men and women, naturally) and which would facilitate, in its turn, a distinct distribution of household work, which in our country presents one of the major disequilibria between man and woman of the whole EU.

We also would like to point out here that the fiscal reforms favoured by the government of the Partido Popular with the argument that they supposedly benefit the families with less incomes, are absolutely regressive in the sense that it is the families with major taxes, which obtain a more advantageous fiscal treatment, through the playing with the alleviation of the taxable base for the calculation of the tax.

This being as it is, the "disconvergence" in this matter collides frontally with the official propaganda of the former conservative government concerning aid to families. Following a recent study, only 8% of the infants from 0 to 3 years old have access to public pre-school institutions, as compared to 40% in Sweden, 44% in Denmark, 21% in Finland, 23% in France and 30% in Belgium. By the same token, only 1.5% of our elderly people has access to public services of care in their homes, as compared to 30% in Sweden, 20% in Denmark, 28% in Finland, 7% in France, 8% in Holland and 9% in the United Kingdom.

2 *Las políticas familiares en una perspectiva comparada* (Family policies in a comparative perspective), Fundación « La Caixa » 2000.

Expenditures under the title *Unemployment* (economic support to persons unemployed, expenditures for professional re-education, including counter-intuitively, the compensations for dismissal) is the only one, where Spain, paradoxically, exceeds – in relative terms – the European average. Spain commits 2.5% to that end and the European average is located at 1.8% (0.7 points more in our country), even if it is sure that we find ourselves below countries such as Belgium (3.2% of GDP), Denmark (3.2%), Finland (2.9%) and Sweden (2.6%).

However, it is not surprising that Spain should spend more on unemployment as a percentage of its GDP, given that the unemployment level is also much higher. Yet, this does not signify that our system of protection against unemployment is "more generous". Much to the contrary, Spain in reality dedicates less resources to this contingency than other countries of the community with lower unemployment rates. One form of observing this is to compute the spending in percents of the GDP per point of unemployment: Spain spends 0.15% and the EU, on average, 0.19%. Our spending, thus divided, is only superior to that of the United Kingdom (0.14%), Greece (0.10%) and Italy (0.06%).

Moreover, it is important to say that, at the present moment, almost 40% of the resources that our country has assigned to the tasks "active employment policies" are used to finance businesses. This is to say that the resources targeted at subsidies to private enterprises for contract work (in percent of the sum of the active employment policies) in Spain by far exceed the average of the EU.

Under the title *housing* (expenditures linked to the help offered to people to afford living space), Spain spends 0.2% of GDP (and the expenditures concentrates, moreover, on subsidising investments), while Europe devotes 0.6% to this end.

Last, under the heading *Social Exclusion* (economic payments such as, for example, the "minimal insertion revenue" [*rentas mínimas de inserción*]), Spain commits 0.1% of its GDP as opposed to 0.4% that the EU spends on average.

The past Spanish government repeatedly claimed that one of its principal priorities are social policies. However, what has consolidated itself in our country is a spell of divergence with the EU and a high deficit of social protection. The data also show this, and the social necessities – present and future – to put a hat on it, are in stark contrast to the aims followed by the government in its economic policy. The structure of economic incomes, fiscal reforms and the "zero deficit" stance exercise pressure on public deficit and will make it difficult to overcome the social divergence with the EU – larger each time – and improve the social protection of the population.

Perspectives in the EU

Social Europe is more a declaration of principles than a reality. The subsidiarity in fundamental questions such as rights of the employed, legislation, social security, social services etc. and the exclusion of tax mechanisms as tools for redistribution of wealth makes it impossible to homogenise the social rights of the different countries and collectives, and the Extensions that have already materialised complicate the panorama even further.

The present Extension will be an ordeal by fire for the EU, because it will pass – in the coming years, from the fifteen present member states to a total of 25 to 30 countries. And these are countries which, even if there are significant differences among them, present levels of living standards much lower than the actual community parameters and have a productive structure, where agriculture holds – in a good number of them – a relatively important weight.

The political challenge is enormous, and it is not difficult to imagine the accentuation of the social problems that can arise, when for the first time, the Union will affront a major extension without previewing a cost estimate that would permit it to keep its *acquis communautaire* (common communitarian stock) and reinforce economic and social cohesion. This is an irresolvable contradiction, because it seems that the capacities for cost estimation, insufficient as they may have been, which were undertaken in the course of the Unified European Act and the introduction of the Euro, were relaxed, for incomprehensible reasons, where they were most necessary.

With the politics of internal solidarity put into question, Europe will not be much more than a zone of free exchange with internal tensions and frustrated aspirations for the workers, limiting – or making impossible – the project of political integration. The real cost of a miserly Extension could be much higher (in social terms, of course) than that of an Extension with recourses designed to mitigate the inequalities.

Moreover, considering the levels of development of the candidate countries, there certainly will be, as a necessary condition, an economic growth much superior in some of these countries in the next couple of years in order to shorten distances to the European average. This will be much more difficult, of course, if the Maastricht criteria and the adjustments they require are applied to the new members.

One should not forget that the criteria of economic convergence have left aside, in a belligerent way, those of social convergence. Yet, in a further matter, the lack of coordination in the struggle and in the real solidarity among the European trade union organisations (especially those that conform with the ETUC) at the time, where work conditions are equalised among the enterprises, that are included in the same European firm group or concern, fragments and debilitates the resistance of the workers face to the aggressions, to which their rights are subject in a systematic manner, from the side of multinationals and the respective governments under the protection of communitarian executive.

The objective that they are pursuing is to achieve a more competitive European economy, yet this by means of the reduction of social protection and of social guarantees. In other words, competitiveness will be based on the lowering of the rights and guarantees of the workers, in a more extreme way maybe even in countries such as Spain and others which already have deficits in this matter.

The penetration of determined "clichés" into public opinion, in this respect, goes along with the lack of sufficient response from the side of the political and trade union left: it has been accepted as something normal that this society cannot be continuously nourished idly by its taxes; whoever is unemployed or is poor, is poor, because he or she wishes it. Definitively, social exclusion and individualism – as cut-off from the collective – are deepening, and solidarity, key piece for the organised worker movement and for the construction of the European social model is being harmed.

Considering that employment, and above all, the quality of employment is one of the fundamental pillars which sustain the systems of social protection, we must include FULL EMPLOYMENT of quality as fundamental objective of strategy of the left, understood not as the lowering of working conditions, employment at any price and without any rights, that are imposed by the model of precarious employment today en vogue (32% of jobs in Spain, with a high rotation).

In the same line, it is appropriate to also consider the fiasco of the "European constitution", with its pronounced deficits of democracy and whose pronouncements with respect to civil rights, the social and labour rights etc. make it clearly unacceptable.

In economic and social matters there is no progress, because the convention which has written the draft of the "constitutional text", takes as valid the presently existing economic coordination between the member states, the paper on common monetary policy and the general orientations of economic policy. The European social model up to this point has not been on the agenda of the Convention, and a kind of compromise has been accepted that is supposed to order a European social and fiscal policy of European dimension. It is very significant that the positive consequences which might ensue, if the number of areas in the EU were to be decided on by a qualified majority in the Council, does not extend to fiscal policy, nor to a good part of social policy, which continue to be subject to unanimity rule.

All this leaves us with a couple of conclusions. On the one hand, the necessity to attempt true reforms to achieve an advance of the EU in the direction of socially and economically coherent space:

- A coordinated macroeconomic policy that would be more flexible, efficient and democratic (amplifying the objectives of the monetary policy and including, together with price stability, the growth of full employment, and a more flexibilised Stability Pact).
- An embryo of European tax authority, augmenting the *acquis communautaire*, establishing European taxes and introducing harmonised norms for direct taxation.
- A process of real convergence up until to the most developed systems in the EU, with full employment as objective and taking up the idea of Public Service in European construction.
- A compromise between more European policies concerning structural changes in the modes of production and consumption for securing ecological sustainability of the model of development.

On the other side, and closely related to the above, is the necessity of a collective response by the workers at the European level and the necessity to fortify a plural European trade unionism, demanding and with mobilising force.

It is indispensable to draw up a **c***ommon program of the European Left, which together with the trade union movement, would serve as instrument of struggle* – as key to the solidarity between all female and male workers of Europe – for the harmonisation of the employment and social protection policies and the recognition of the political, social, and trade union rights. On its part the European Trade Union Confederation must take a step further, must pass from being a coordinating measure of the trade unions of the member states to constituting itself as an authentic trade union of the male and female workers of Europe, without exclusion.

At the same time, from our point of view, there should emanate from the parties of the Left a fundamental impulse paper to the anti-globalisation movement, without fear and without false suspicions or disputes about the space of their representation.

The immediate minimum objectives of this struggle and of these alliances should include the following aspects:

- Reduction of work time to 35 hours per week, without a reduction in salaries

- Homogenous social Protection, move progressively towards the equalisation of the countries in the worst conditions with a better level (not the reverse), at least in these three aspects: minimum salary, unemployment and pensions.
- Rights and Guarantees of participation in businesses and groups of businesses.

It is appropriate here to refer to immigration, while we should more appropriately speak of immigrant labour force, since this is the only condition under which they are recognised, quite apart from their quality as persons and citizens.

In effect, the stiffening of the immigration laws in the majority of countries and the conceptions advanced by the "summit of Seville" (more control of the borders, more police control) ridicule the subsequent repeated declarations of an integration policy. Key precondition of political integration is the recognition of full citizenship rights, including the right to vote, and of course the employment and social rights of immigrants (in Spain, whoever does not have regular residence permit status is denied basic rights such as that of assembly and demonstration for example, and of association and trade union activity as well as strike, among others).

These policies, which are aimed at the consolidation of a "Fortress Europe", among other things heighten the impoverishment and the destruction of structures in many of those countries from where migrant movements originate (trapped, in so many cases, by their external debts and the policies of the IMF and by the decisions of the WTO) , and at the same time, try to cover up – or at least remove from public view – the irresistible "call effect" represented by the demand for labour power of a Europe that is growing older and has low birth rates, *whose "reserve army" (the unemployed workers) is decreasing. These, however, have achieved minimal levels of protection and organisation which permit them to resist accepting any odd job with bad pay and mediocre working conditions.*

The insistence on achieving a "more competitive Europe" by way of decreasing labour and social costs to maintain the work force, an increasing army of employees develops which are employed in unregulated labour conditions, do not have any legal rights and are subjected to legal insecurity by the new laws. They are therefore turned into ideal instruments for the deregulation of labour conditions and the lowering of labour costs, without having to fear the danger of conflict with the organised labour movement. It is for that reason that the requirement to recognise the labour, social and political rights of the immigrants, non-discrimination and full equality, goes beyond the mere humanitarian and solidarity-founded action; it becomes the basis for defending our own hard won rights and our European social model, which is threatened by the inequality and the "apartheid" of the immigrant population.

The dislocation of the migratory flows and the impossibility for million of people to lead a life in their countries of origin, is one of many reasons for which we consider that the solidarity with the rest of the countries which do not belong to the EU (especially with those less developed or in the process of development) is something that should be emphasised more strongly every day. It could start by something which the director of the ILO proposed at one time and which seems to have been forgotten: the inclusion of SOCIAL CLAUSES into the commercial agreements between countries, which would make sure that the goods produced under conditions of lacking social guarantees of work, trade union activity, social protection, prohibition of child work etc. will not be accepted on the EU market, thus denouncing the manoeuvres of the multinationals, which impose hyper-exploitation, especially in the poorer countries.

Ultimately, a different model of growth and the distribution of wealth in the EU should be argued for and the so-called "unique thinking", which consists of always using the same procedure to solve every social problem: giving the market forces free reign and then transferring the crisis onto the weakest, should be abandoned.

It is therefore all about constructing a solidarity-based Europe, of citizens with full rights, egalitarian, which would have as its priority to reduce unemployment and create jobs of quality, guarantee a system of social protection, which would cover the present and future needs of its population.

The contrary – the way which has been taken – not only signifies a step back as the social model and other achievements are concerned, but moreover leads to the destruction of structures and the exacerbation of the conflict within the working class itself.

Felipe Roberto Pizzuti

Labour Cost, Social Security and Employee Severance Funds

Introduction

There are many significant links between labour costs, social security and employee severance funds (*Trattamento di fine Rapporto* – TFR). Decisions regarding each of them may affect the overall long-term development of economic and social policies in Italy through these links. For example, in the debate on economic policy, there is the widely accepted notion that economic growth and employment can only be bolstered by shrinking the role of the government to a substantial extent. There is nothing new in this, and the fact that this view is gaining currency is in keeping with the ebbs and flows of the debate on the relationship between the state and the market, which at present is strongly affected by the laissez-faire.

In order to assess the rationale of the different arguments, however, it is necessary to avoid the irrational influence of fads and analyse the effectiveness of any general approach by looking into its nature and the specific proposed applications. In the matter at hand, the most appropriate way to reduce the role of the government would be the introduction of a new and radical pension reform designed to further put a curb on the state social security system and to develop a private funded pension system, which might be financed using also the flows to employee severance funds.[1] Downsizing the state social security system and the contribution rates that finance it would lower the cost of labour and boost economic growth and employment.

Before delving into it, it might be worthwhile to clarify the foundations and the building blocks on which this proposal rests, as summarised in the following points:

1. In Italy, the state social security system is apparently costly and its future is a cause for concern; this anomaly should be eradicated.
2. A reduction in the state social security system might lower contributions paid by firms, thereby decreasing the cost of labour. Along with other measures that would make the labour market more "flexible", this would be the most important course of action, as it would stimulate investments, raise competitiveness and improve growth and employment.
3. While preserving the current organisational system, the reduction of social security contribution rates would not translate into a simultaneous and corresponding reduction of social security benefits; these, instead, would diminish at a slower pace, over several decades. If, during the long transition period, additional burdens on the public budget cannot or will not be accepted, it would be necessary to cut pension benefits immediately, curtailing those that are being paid now.
4. Considering that the reforms of the 1990s have already reduced the degree of social security coverage provided by the state system, any additional cut to pension benefits would definitely increase the need for a private pension system, which should be encouraged by the state.
5. Advocates of this proposal hold that contributions to private pension funds would yield greater returns so that, in the transition from a public pay-as-you-go scheme to a funded private one, not only would labour costs for firms fall. But workers might even take advantage of the higher returns provided by the market.
6. Furthermore, a supplementary pension system should help the development of Italian financial markets, thus making the economic system as a whole more efficient, thereby fostering its growth,
7. In order to develop a supplementary pension system, TFRs might be utilised. In fact, according to some observers, TFRs should be dispensed with, because they represent one of the anomalies of the Italian labour market. Within the context of this argument, the latter aspect, however, is controversial because the elimination of this important source of financing is not regarded favourably by firms.

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1 This articles appeared first in Reforming Pensions in Europe. The capital for employee severance funds (TFR) are financed with current salaries. Every month companies withhold 6.7% percent from salaries, setting these sums aside in the TFRs and returning them to workers in a lump-sum when they retire or leave. Firms pay lower-than-market interest rates for using the balances of TFRs. In short, TFRs are a steady and cheap source of capital for firms.

Short remarks on some macroeconomic aspects

The proposal to reduce the social security system stems from a macroeconomic concept that regards the improvement of the supply-side as paramount for growth. However, attention is paid only to some supply-side variables, notably labour costs and flexibility. The existence of suitable demand-side conditions, which is equally relevant for the workings of the market, is ignored.

Economic analysis shows that, in general, an equal reduction in government revenues and outlays would have an overall negative effect on demand, on GDP and on employment (Haavelmo's theorem). In addition, while the adverse impact of a drop in public spending is immediate, the expansionary stimuli of lower taxes, particularly those intended to increase investments, take longer and are uncertain. Thus, one would have to think that, in the present context of the Italian economy, lower taxes would stimulate investments and domestic demands in a way that would more than offset any cut in public expenditures.

While in theory this hope can become reality, it is by no means certain. Indeed, in terms of factional evidence, Italy's experience suggests otherwise. During the past few years, despite the better supply-side conditions determined by lower interest rates, favourable trends in the cost of labour and flexibility in the labour market, by the exit of many state-owned companies from profitable sectors, the new private investments capable of upgrading the Italian productive system and increasing its competitiveness have been well below the required levels.

The point is that, while the supply-side is important – in all its elements, not just some – economic policy in Italy and in Europe has long neglected the demand side. This, however, does not mean that demand should be accorded special privileges to the detriment of supply. Nor would it be acceptable to pick and choose from Keynes's thinking whatever serves our current purposes, as some policies did in the past. Moreover, it should be kept in mind that it would be of little or no use, or it would even be deleterious, to stimulate demand, if this did not exert its action in high-unemployment areas of the country or if its effect was dissipated abroad.

A close cooperation between economic policymakers and market forces might help to mitigate these risks, even if this might imply a planning effort, which is something that runs counter to the zeitgeist.

On the other hand, in order to improve the supply-side, a distinction should be made between measures, mostly short-term in nature, designed to keep salaries under control and other innovative actions that affect competitiveness at a more structural level. The latter would involve the ability to adopt new manufacturing processes and to operate in "dynamic" industries, whose qualitative and technological features shelter them from the competition of low-salary countries.

State intervention as well as more structural supply-side conditions is even more necessary in light of the reluctance of firms to invest in innovation. Indeed, it is a fact that Italian enterprises are not inclined to innovate; actually they even have fond memories of the time before the EMU and of competitive devaluations. Thus, it is hardly surprising that, given this mental habit, firms pursue competitiveness in a way that, given this mental habit, firms pursue competitiveness in a way that is not consistent with the qualitative and technological level of production that global market demands of advanced economies. Firms, on the contrary, try to maintain an improbable price competitiveness *vis-à-vis* the emerging economies, basically seeking to achieve a reduction in the cost of labour and in the rules that govern its market. Besides, not only is this the wrong approach for long-term growth but it is also unwarranted in terms of empirical comparisons with countries more similar to Italy. In fact, according to recent OECD and Eurostat data, Italy's labour cost per unit of output continues to be the lowest in Europe: taking Italy as the base equal to 100, Germany is 174, France is 142, Belgium is 136, UK is 133, Greece is 133, Greece is 118, Spain is 113, and Holland is 105.[2]

2 Dr. Francesca Corezzi cooperated in compiling Tables 1 and 2. For similar data related to the past years, see Delli Gatti, De Novellis, Forti and Padoan (1998).

Table 1: Labour Cost and Productivity – 2000 (Index for Italy = 100)

	Hourly labour Cost (a)	**GDP – per Worker (b)**	**Labour cost per unit of output**	**GDP – per capita (b)**
Belgium	1.37	1.14	1.36	1.23
France	1.29	0.99	1.42	1.10
Germany	1.44	0.90	1.74	1.18
Greece (c)	0.61	0.71	1.18	0.75
Holland	1.19	0.88	1.05	1.27
Spain	0.82	0.83	1.13	0.92
United Kingdom	1.05	0.88	1.33	1.15
Italy	1.00	1.00	1.00	1.00
Japan (c)	1.14	0.80	1.72	1.19
United States (c)	0.93		0.97	1.73

Notes: (a) Manufacturing and service sector; (b) Computed on the basis of the PPP; (c) The hourly labour cost and the cost of labour per unt of output in Greece, Japan and United States refer to 1999 (Source: Compiled on the basis of OECD and Eurostat data)

The so-called tax and social contribution wedge in the manufacturing sector (calculated by dividing the cost of labour, inclusive of income taxes and social security costs, by net salaries) is equal to 1.89 in Italy, 1.89 in Italy, and 2.08 in Germany.[3]

In Great Britain, where that ratio is significantly lower (1.44), the cost of labour in absolute terms is still 10 percent higher than in Italy; obviously, the take-home pay of salaried workers in that country is bigger in that country than that of their Italian (and French and German) counterparts. However, with that excess amount, British workers have to buy in the open market (thus incurring greater management costs and risks) the very social security benefits that continental workers receive from public institutions at no additional cost.

Thus, the other alleged Italian anomaly, the structure of salaries and their links with the system to finance the welfare state is unfounded.

As to the downsizing of the welfare state, in the most liberal meaning allowed by the current laissez-faire climate, this would be a socially painful though inevitable exercise, in order to adapt to the internationalisation of the economy.

It is important to reiterate that these positions, much as they conform to the conventional wisdom that has gained ground over the past ten years, are not supported by time-tested economic theories or by reasonably certain and unobjectionable evidence produced by empirical surveys.

Instead, in the theoretical and empirical economic literature, there is wide acceptance of the idea that the growing globalisation of markets, regardless of its undoubted economic potential, might come back to haunt us if the social imbalances and the different market failures are not addressed by public institutions, particularly those that are active in the social area.

By altering the equilibrium between individual and public choices considered optimal even by laissez-faire standards, the supranational reach of markets makes it necessary to have an equally powerful counteraction in the shape of national and supranational institutions, especially those that operate in the social field.

The so-called "challenges" set by globalisation require not a reduction, but a qualitative adjustment to the economic and social activities carried out by these institutions, and in particular, by the welfare state, which should not be considered as a luxury item but as a fundamental productive input of a structural nature.[4]

Table 2: Tax and social contribution wedge in the manufacturing sector – 1999 (a) (income taxes and social security contributions as a % of cost of labour) (amounts in €)

	Italy	**France**	**Germany**
A. Annual salary, net	14,238	15,028	18,068
B. Income taxes	4,009	2,965	6,591
C. Employee Contributions	1,847	2,786	6,457
D. Gross annual salary (A+B+C)	20,093	20,779	31,115
E. Employer Contributions	6,848	8,151	6,457
F. Per capita cost of labour (D+E)	26,941	28,930	37,572

3 For similar data related to past years, but obtained on the basis of different statistical information, see Onofri (1999).

4 For a more detailed analysis of this aspect by the author, reference should be made to Pizzuti (1999b) and to the bibliography mentioned therein. In particular, see Atkinson (1995a and 1995b), Fitoussi (1995), Garrett and Mitchell (1996), Rodrik (1997a and 1997b), and Wilensky (1993).

% share of gross salary of:	63.2	66.9	62.7
- employee contributions	9.2	13.4	20.8
- employee contributions	34.1	39.2	20.8
- taxes	20.0	14.3	21.2
% share of labour cost of:	47.2	48.1	51.9
- employee contributions	6.9	9.6	17.2
- employee contributions	25.4	28.2	17.2
- taxes	14.9	10.2	17.5
Cost of labour to net salary	1.89	1.93	2.08

Note: This table reflects the conditions of an average worker in the manufacturing sector. Data refer to an individual without children and with a salary equivalent to the average for the manufacturing sector (*Source*: OECD (2001), Taxing wages 1999-2000).

Alarmism and real problems

During the 1990s, Italy was one of the few countries whose social security systems underwent structural reform.[5] The main goals pursued by the different measures that were implemented at different times during the period were: improvement of the financial sustainability of the mandatory public system; a more rational match between benefits and contributions, both in fairness and actuarial terms; the development of a privately founded system.

Despite the obstacles presented by the significant ageing of the population and by a business cycle subjected to the adverse effects of tight policies implemented in the run-up to the Euro, the financial results achieved by the social security reforms were basically in line with the goals of the reform. Nevertheless, it should come as no surprise that the new organisation of the social security system shows increasing social sustainability problems. Concerning the financial sustainability of the mandatory social security system, during the 1990s spending as a percentage of GDP stabilised and reversed its trend, falling from a maximum of 13.9% in 1997 to 13.5% in 2000 (Ministero del Lavoro… 2001).

In 2000, the difference between social security benefits and contributions was a negative 29,672 billion Lit. (ca. €15.3bn]; however, in the same year personal income taxes (*Imposta sul Reddito delle Persone Fisiche*, IRPEF) withheld from social security recipients by social security agencies amounted to approximately 40,000 billion Lit. (ca. €20.4bn.), so that the benefits actually paid by the government were around 10,000 billion Lit. (ca. €5.1bn.) less than the contributions and income taxes collected.

The report of the ministerial Commission set up to verify the effects of the overall reform implemented by virtue of law 335/1995 and subsequent measures – the so-called Brambilla Commission – determined that the actual savings of the reform exceeded all expectations: fiscal balances for the period 1996–2000, which had been set to improve on a net basis by 52,928 bn. Lit. (ca. €27.34 bn.), turned out to have surpassed that target by Lit. 5,600 billion (ca. €2.9 bn.), viz. more than 10%.[6]

Concerning the rationalisation objectives, the actuarial balance and the standardisation of benefits at category and individual levels had been pursued first with the so-called Amato reform in 1992, which no longer linked the calculation of pensions to salaries received during the latter part of the active period but to the entire working life. Eventually, the transition to the contribution scheme (individual benefits are closely related to individual contributions) implemented by the so-called Dini reform in 1995 gave a further impulse to the achievement of actuarial balance between individual benefits and contributions. Typically, before 1992, the rates of return on contributions varied, depending on the retirement age, from 1.90 percent to 4.60 percent, for private sector workers, from 2.30 percent to 4.60 percent, for public sector workers, and from 4.10 percent to 6.30 percent for self-employed workers. Once the contribution system is fully operational, the rates of return will be about 1 percent, for all male workers, around 1.65 percent, for all female workers, approximately 1.17 percent for self-employed men and ca. 1.83 % for self-employed women.

These data indicate that the standardisation of the rates of return went hand in hand with a significant reduction of the amounts paid, namely a decline of the extend of pension coverage provided by the mandatory public system. Comparing some typical situations of pensioners with a contribution period of 35 years, the replacement rate between the first annual pension amount and the last annual pay was 67.3% before 1992 for a private sector worker, 77.1 percent for a ministry employee and 64.1% for a self-employed worker. With the contribution system, still on the basis of a 35-year contribution period, the replacement rate for all employed workers is 51.7%, when they retire at 58, 58.6%, at 62, and 65.2%, at 65; for self-employed workers the corresponding rates fell to 31.3%, 35.5% and 39.5%.

In the years following the Dini reform, a new category of workers began to appear on the scene, "outsourced workers" with "atypical" contract and lower contributions than for regular employees. These workers total ap-

5 See Pizzuti (1996a).
6 Commissione Ministeriale (Ministerial Commission) to assess the effects of law 335/95 and subsequent measures (2001).

proximately two million and their contribution rate, for retirement purposes, is 13.5% and is expected to increase by one percentage point every two years, up to 19% in 2014. Assuming a working life with 25, 30, and 35 years of contributions at the maximum rate, the replacement rate would range from 22% to 29%, 26% to 34%, 30% to 40% at 57 and 65, respectively. Assuming a "mixed" career, the first ten years as outsourced workers and the subsequent 15, 20 or 25 years as regularly employed workers, the replacement rate would range from 31% to 41%, 38% to 50% and 45% to 48%, respectively.[7]

Concerns about the financial sustainability of the current organisation of the Italian pension often are founded on allegedly better situations in other countries. In international comparisons, reference is made to Eurostat data that signal the Italian "anomaly".

Based on data for 1999, the latest available, a comparison with the European average reveals that Italy's social spending as a percentage of GDP is 2.3 points lower (25.3% vs. 27.6%), while social security outlays are 3.5 percent higher (15.6% vs. 12.1%) (European Commission 2001).

These data, however, come with a qualification. First of all, Eurostat computes Italian social security spending by including employee severance payments, which cannot be compared to pension benefits. Such severance payments account for 1.8 percent of GDP, which explains half the "anomaly".

Second, as already mentioned, Italian social security benefits are recorded gross of tax withholdings which, in 1999, amounted to approximately Lit. 40,000 bn. (ca. €20.4 bn.), or 2% of GDP. For other European countries, such as Germany, the corresponding figure is on an after-tax basis; thus, in a comparison, the Italian amount (which is reported gross) is overstated by two percentage points of GDP, as indicated above, which represent withholding taxes. For a typical pensioner, married with an income of €10,000, the withholding tax rate is 15 percent in Italy, 2 percent in France, and 1 percent in Great Britain (Inpdap 2001).

This overstatement (with respect to the pertinent countries) and that arising from the employee severance payments account in full for the Italian "anomaly"; for instance, social security costs as a percentage of GDP in Germany - which according to Eurostat data (for 1999) are three percentage points lower than in Italy – are actually higher. Moreover, Germany does not have a public retirement system for self-employed workers, but the state does provide different tax deductions to encourage those workers to join private schemes; these are tax expenditures that are not recorded by Eurostat and that contribute to understate German figures.

The income support functions, which in other countries are fulfilled by unemployment insurance or public housing schemes, in Italy are performed by early retirement programs or minimum pension top-ups. Still with reference to the different methods for recording social expenditures, it is important to underscore that "the total costs incurred for old-age, survivor, and disability pensions as well as for unemployment insurance basically fill the gap between Italy and the other European countries; these in fact range from 17.8% in of GDP in Italy, to 16.9% in Germany, to 17.3% in France, and to 17.9% in the United Kingdom" (Inpdap 2001, p. 116).

In terms of international comparisons, it should be noted that these costs are normally occurred by public pension systems. However, in terms of macroeconomic importance of current transfers to pensioners, it does not really whether pension benefits originate from a public system or from private schemes. On the other hand, while in Italy the public pension system accounts for virtually all the benefits paid, in all other countries private pensions may account for a significant proportion of the total. Limiting the comparisons to the state systems tends to overstate Italy's social security benefits. For instance, in Great Britain personal pensions paid by private insurance companies to both employed and self-employed workers, accounting for almost 3% of GDP, are not included in the figures recorded by Eurostat (Inpdap 2001).

A comparative study of future pension expenditures by the European Commission (European Commission (1996) after the Dini reform in 1995 (thus before the further downward adjustments carried out in Italy) revealed as early as 1996 that the rate of increase of Italian pension spending was among the lowest in Europe. This was confirmed by subsequent surveys.

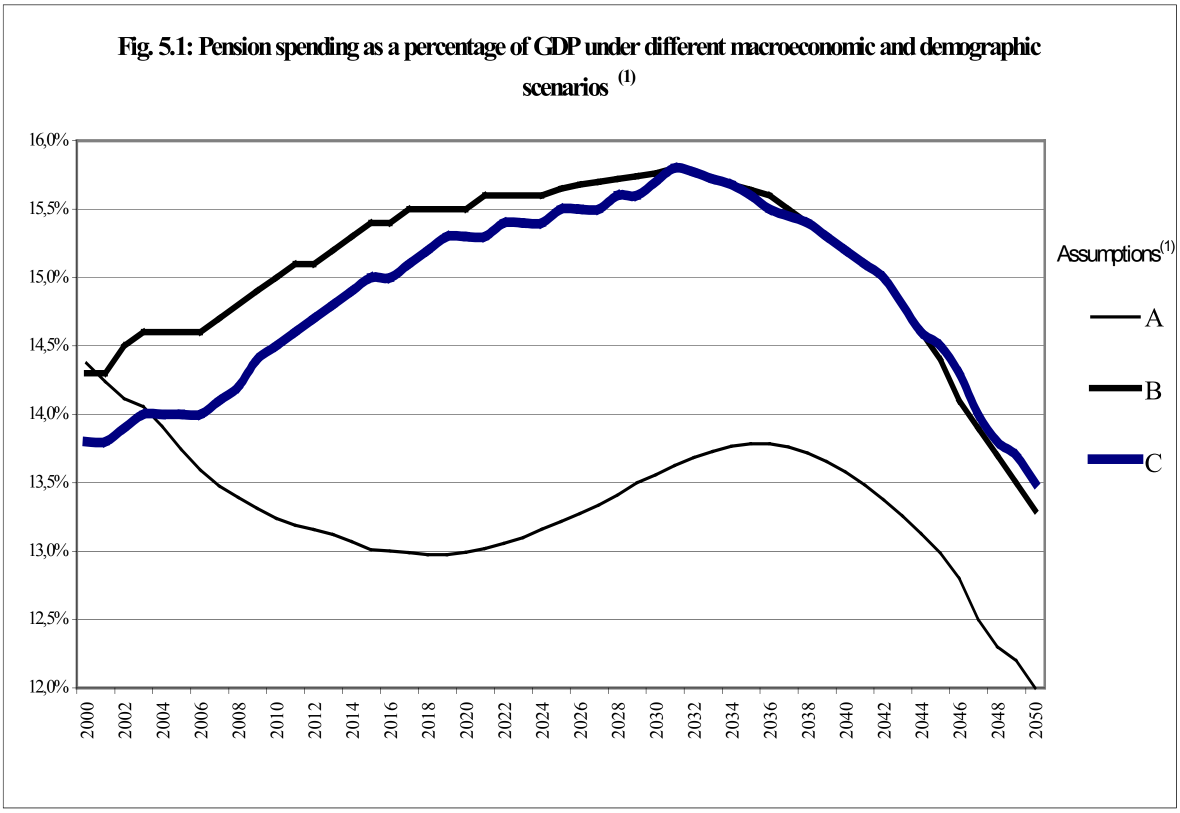
Among the most quoted forecasts, those by the Italian General Accounting Office (Ragioneria Generale dello Stato – RGS)[8], adopted also in official economic policy documents, show that, over the next half century, pen-

7 See Inpdap (2001). For outcomes, before and after the reforms, regarding rates of return on contributions, replacement rates for regular workers, and replacement rates for "outsourced workers", salaries are assumed to increase by 2 percent per annum in real terms; in the defined contribution system a 1.5 percent capitalisation rate is also assumed.

8 The government used the RGS model in January 1998 as the official forecast of the convergence plan for European Monetary Union [see Ministero del Tesoro (Ministry of the Treasury (1998), in particular see figure 19. For the RGS model specifications, see Ministry of the Treasury – General Accounting Office (1996) and (1997)).
In 1999, even though the macroeconomic assumptions were different (as per Table 1, scenario B), new projections worked out with the updated RGS model (Curve B, figure 1) basically confirmed the trend of the pension-spending-to-GDP ratio forecast in 1998 [see Ministero del Tesoro (Ministry of the Treasury, Budget and Economic Planning – general Accounting Office) (1999)]. In 2000, the RGS model was further updated and was utilised for two forecasts included in the 2001-2004 Economic and Financial Plan (DPEF) [see Presidenza del Consiglio dei Ministri (Presidency of the Council of Ministers) (2000)). One of the two 2000 forecasts confirmed those of 1998 and 1999;

sion spending as a share of GDP in Italy should rise progressively to a peak of 15.8% in 2031, only to fall in the remaining period to levels beyond the current ones.[9]

Graph 1: Pension spending as a percentage of GDP under different macroeconomic and demographic scenarios



Assumptions:
A: Our scenario (2.4% average GDP growth rate for the entire period).
B: RGS scenario, 1999 forecast (1.5% average GDP growth rate for the entire period)
C: RGS scenario and forecast updated to 2001 (1.5% average growth rate for the entire period) taking into account the actual and preliminary pension-to-GDP ratio for 2001 and 2001, respectively.

The trend shows a "hump" which, at the peak, marks an increase from the current value of 1.4% or 2% of GDP (see curves B and C, respectively, in Graph 1, supra).

These pension forecasts resulted from the adoption of demographic and macroeconomic scenarios for the next fifty years which, overall, are consistent with an almost-constant growth rate of the real GDP of 1.5% per annum for the entire period (see Table 3, scenarios B and C).

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the other forecast, taking the faster growth rate envisaged in the DPEF for the 2001–2004 period into account, highlighted a lower trend for the pension-spending-to-GDP ratio, which was very similar to that reflected for the first five years in Figure 1, curve A.
In the period between June-September 2001, RGS again updated its forecasts, taking account of the consolidated spending data for 1999, the institutional and policy framework in that period, in which the 2002–2005 DPEF, the review of the actual data for 2000 and the forecast data for 2002 was drawn up, and of the new demographic forecast with 2000 as base year prepared by the Italian Statistical Institute, ISTAT. The latter was based on the "central" assumption whereby, compared to the preceding one for 1997, the increase of life expectancy at birth has revised upward by more than three years for both sexes, reaching 81.4 years for males and 88.1 years for females by 2050, and also on new assumptions, whereby the number of immigrants will more or less double, reaching about 120,000 per annum, and the fertility rate expected for the entire 2000–2050 period will be slightly lower (from 1.26 to 1,42, instead of 1.31 to 1.46). The macroeconomic assumptions are basically unaltered. The new trend of the pension-spending-to-GDP ratio is that reflected in curve C in Figure 1 and the assumptions adopted are summarised in Scenario 3, Table 3.

9 These and the following data, which concern curve C in Figure 1, refer to the latest forecast devised by RGS in 2001, which reflects the updated one described in the previous footnote. Compared to that expressed by curve B, related to the forecast prepared in 1999, the pattern of curve C is similar in the first part of the period considered and virtually the same in the second; the differences in the first part are due to the fact that the starting pension-spending-to-GDP ratio in the more recent projection is 13.8% instead of 14.4%, because during the period between the two forecasts the current (actual) ratio dropped. The actual ratio for 2000 and the preliminary figure for 2001 were lower than those indicated in the projections prepared with the model in the preceding years. The change in the demographic assumptions did not determine any change in the expected trend of the ratio "owing to the substantial offsetting effects of a lower mortality and higher immigration flows" [see Ministero dell' Economia e delle Finanze (Ministry of the Economy and Finances – RGS) (2001, page 7)]. The new curve C is lower vis-à-vis curve B in the initial stretch, but it heads towards the peak value of 15.8%, which is reached in 2031 as well, only to follow a very similar descending slope.

In particular, with reference to scenario C, which was utilised for the most recent RGS projection and included in the 2002-2005 DPEF:

- at the demographic level, the central ISTAT scenario is adopted; for the next fifty years, this calls for a 5.5 million decrease in the Italian population, a 10 million drop in the population group of working age and a 138% rise of the dependency ratio of senior citizens. In the meantime,
- from an economic standpoint, the average economic activity rate is assumed to rise at a progressive but modest pace, from the current 57% to 62% in 2010, to increase by 2050, after two decades of stability, to 69%; the unemployment rate is expected to fall slowly; down to 8 percent in 2020, 7 percent in 2030, 5.5% in 2040 and 4% in 2050. Productivity is projected to increase by 1.1% until 2010, going up to 1.6% in 2020, until it reaches 1.9% in 2030, settling at 2% starting in 2040[10].
- This development scenario, which is consistent with an average GDP growth of 1.5% per year can certainly be included among the plausible ones, though it can hardly be defined as optimistic.

10 As already noted, in the RGS forecast, which was updated in 2001, the macroeconomic assumptions are basically unchanged, compared to those adopted in the 2000 projections; however, attention is called to the expected lower productivity growth trend, which still attains a 2 percent level, though only in 2040 (instead of 2025), and starting from a lower level, 1.1% instead of 1.5%. The built-in growth rate for GDP is set at an average of 1.5% per annum for the entire forecast period.

Table 3: Assumptions adopted by the three forecast scenarios for applying the RGS model in the 2000-2050 period

	Scenario A (our assumption)	***Scenario B*** (RGS forecast – 1999)	***Scenario C*** (RGS forecast – 2001)
Legal framework	Law 449/97	Law 449/97	Law 119/97
Demographic Framework	1997 ISTAT forecast scenario involving an inflow of 150,000 immigrants per annum in 2015	1997 ISTAT forecast scenario involving an inflow of 50/60,000 immigrants per annum	2000 ISTAT forecast scenario involving an inflow of 120,000 immigrants per annum
Macroeconomic framework			
Average activity rate	From initial 56.4% to 68% in 2015 and for the following period	From initial 57.4% to 62% in 2020, to 67% in 2050	Progressive increase from 57% in 2000 to 69% in 2050
Average unemployment rate	From initial 11.4% to 5% in 2015 and for the following period	From initial 12.3% to 10.3% in 2003, from 5% in 2045 and 4% in 2050	Progressive decrease from 10.6% in 2000 to 4.5% in 2050
Productivity growth Rate			
1998–2000	1.5-2.0%	Until 2003 ca. 1.5%	From 1.1% in 2001 to 1.6% in 2020
2001–2005	2.0-2.5%	-	-
2006–2015	2.5%	Between 2004 and 2020 rise from 1.5% to 2%	From 1.6% to 1.9% in the 2020-2030 period
2016–2025	2.5%	-	-
2026–2045	2.5%	Between 2021and 2050 2%	2% in the following period
Average GDP growth rate for the entire period, consistent with the other assumptions adopted	2.4%	1.5%	1.5%

Let us consider a more favourable, though not exceedingly favourable trend of the economic and demographic variables which calls for (see Table 3, scenario A):

- 150,000 immigrants a year (which would only offset three-quarters of the decrease of the local active population);
- an increase not greater, but faster, of the average activity rate which would reach 68% in 2015 (while remaining below the current average for the OECD countries);
- a lower reduction, though over a shorter-term horizon (fifteen years) of the unemployment rate up to 5% (the same level Italy had in the early 1980s);
- a progressively faster productivity rate, up to 2.5% in 2005, only to stabilise at that level (over the past three decades, Italy's productivity rate rose at an average annual rate of 2.4%).

Overall, based on the above assumptions, the average annual GDP growth rate over the next half century should be 2.4%, ranging during the period between 1.7% and 3.3%.

Given this different economic and demographic context, instead of going up, the pension-spending-to-GDP ratio should fall shortly, up to a minimum of 13% in the five-year 2015-2020 period, only to rise again to 13.8% in 2035, and eventually decline again to 13% in 2045. Thus, not only would the "hump" disappear but it would actually be replaced by a "valley".

Of course, by adopting a more pessimistic scenario which, for instance would entail a progressive reduction of GDP growth rates, stopping short of "zero growth", the pension-spending-to-GDP ratio would go up even more; in this case, however, other social and economic problems would overshadow pension issues.

In 2000, in addition to those included in the 2001–2004 DPEF, the RGS came up with other projections based on scenarios consistent both with actual higher growth rates, compared to the projected ones, and with the guidelines set forth at the end of the Council of Lisbon held by the European Union; the projections so obtained do not show the "hump", basically indicating a flat trend of the pension-spending-to-GDP ratio (Ministero del Tesoro, del Bilancio e della Programmazione Economica – Dipartimento della Ragioneria Generale dello Stato – Ispettorato Generale per la Spesa Sociale 2000, p. 17 On this subject, see Aprile and De Persio 1997) . While all of these provisos may, on the one hand, help to shed some light on a debate that has been sidetracked by misunderstandings, on the other, they should not be construed as indicating a lack of problems in this sector.

Population ageing is an issue which pension systems – and socio-economic systems in general – have to grapple with; the fact that a growing number of senior citizens will have to be supported by a shrinking base of younger people, a good deal of whom may not even be employed, cannot be overlooked. This problem is present in all developed countries, particularly in Italy, which is characterised by one of the most remarkable demographic ageing processes. However, besides reducing significantly the pensions that had been paid until then, the three reforms introduced between 1992 and 1997 to some degree took demographic trends into account, encouraging by means of incentives the postponement of the retirement age.

The forecasts prior to the 1995 reform signalled an increase in the pension-spending-to-GDP ratio to 23%, a level much higher than 15.8% forecast by RGS adopting a more pessimistic scenario than that consistent with the “Lisbon objectives”.

The reforms of the 1990s provide for a long transition: this was a price which the advocates of a more rapid transition, among the economic policymakers of the period, agreed to pay, considering it necessary to gain consensus among the social partners.

At any rate, by their nature, pension systems require several decades to fully implement change. Change can only occur gradually, as the hint of a forceful approach might be dangerous. Evidence of this is that the revenues generated by the tight pension measures passed in 1997 were mostly offset by the costs arising from the large number of early retirements prompted by the long debate that preceded such measures.

The process of eliminating seniority pensions outlined by the reforms of the 1990s could have been faster; this comment, which is made only for argument’s sake as the various pre-set targets are approaching, should be considered in light of the continuing early retirement requests submitted by firms and, in any case, of the “obsolescence” of young workers. The latter is brought about by the introduction of new production techniques and the inability of the productive and social system to upgrade workers’ skills (Gallino 2001). The 18-year-old contribution “threshold” that separates workers who qualify for pension benefits under the earnings-related system from those to whom the “pro-rata” system applies, which founded its rationale on the need to help older workers to adapt to the lower benefits determined by the “Dini reform” and to join a funded plan to obtain a supplementary pension, is to this date a gap that could be filled.

A serious problem in financing pension systems, but which is not mentioned too often, is lower growth rates and higher unemployment. In assessing the trend of the pension-spending-to-GDP ratio, the focus is on reducing the numerator, failing to consider that tight economic policies implemented to achieve that purpose may have, and did have in Italy over the past decade, negative effects also for the denominator, i.e. the GDP, which obviously, should increase for many other reasons, in addition to financing pensions.

Additionally, the choice of the different possible scenarios to be adopted in pension forecasts is not without consequences for the actual outcome, as assumptions may easily become self-fulfilling. In fact, if preference is accorded to a worst-case scenario, whereby the pension-spending-to-GDP ratio experiences the largest increase, the resulting policy recommendations would be restrictive, and if the policy is effective, its effects would curb GDP growth or lower its expansion. Thus, economic growth would be restrained and, holding pension costs unchanged, the pension-spending-to GDP ratio would rise. In this case, the adoption of a worst-case scenario would become a self-fulfilling prophecy. The same can be said for the adoption of an optimistic scenario (For a more detailed analysis of these issues by the author, please see Pizzuti 1999c).

Over the last decade, however, the true shortcoming of the Dini Reform has slowly emerged, but the debate has failed to take due notice. The most worrying failure of the pension system as it is outlined in present law, is its inability to ensure adequate coverage to the growing number of workers with irregular working careers, falling within the scope of the contracts (outsourced workers, part-timers, etc.) that govern most new employment arrangements.

The development of funded pension schemes will not be sufficient to ensure a pension to these workers, as we will see in section 5.

To cope with these problems, before they become a social, economic and political emergency, one alternative might be taken within the framework of the current public pension system, by drawing a distinction between the contribution rate and the rate at which pensions are computed (a distinction that has already made it possible to diversify the ratio of contributions to benefits among different worker categories) or by topping up directly the lower contribution rate (compared to those utilised for the computation) with notional contributions. This alternative, however, requires special attention, so as not to enhance the segmentation of the labour market determined by the different contribution costs of the new workers; however, the overall application should be reduced in order not to alter to a significant extent the consistency of pension ratios and the related actuarial fairness among the positions of the individual workers, or the overall financial balance resulting from the benefit outflows and the contribution inflows coming from the production system.

It is clear that, if the cost of filling the gap of the existing contribution rate via the notional contributions of the new categories of “flexible” workers, who are less expensive in terms of contributions, were to be financed with taxpayers' money, pressures would mount – not only for new workers but also for those who are already on the payroll – to replace "regular" contracts with "atypical" contracts; the effect would be devastating both in terms of the socio-economic balances related to the market economy and for the current set-up of the welfare state, as well as for the public budget. Moreover, some of these risks are of the same kind as those related to the proposal summarised in the introduction, and which is being criticised in this essay. The rationale of the action that is being recommended is of a completely different nature and is founded on the conviction that, in essence, since it has to ensure the continuity of income for workers, the pension system needs to be financed by the productive system in which workers operate; income security for workers in their old age, or in case of disability, is part of the employment compact. In the case of the new category of workers, it is argued that their greater flexibility and the lower contribution costs are useful, if necessary, features to keep the Italian productive system competitive. Whether one shares these views or not, or simply acknowledges the fact that this new category is here to stay, the need to guarantee a sufficient income during their old age cannot disregard the idea that it is their special employment arrangement that constitutes an obstacle to the financing of an adequate pension coverage within the framework of the current system; that need cannot be met and financed only in reference to their earnings, but requires a measure of involvement of all parties that take advantage of their contractual peculiarity – including the entire community[11].

Pay-as-you-go vs. funding

Going back to the initial proposal, one of its main benefits would be the transition from a pay-as-you-go to a funded pension system. This, however, is a very questionable benefit, since both economic literature and experience fail to attest to the greater effectiveness and efficiency of funded systems, compared to pay-as-you-go system, in terms of ensuring adequate pension coverage to the majority of workers in a country. In particular, there is no evidence to support the opinion that the problems related to demographic aging are more of a burden for pay-as-you-go pension systems.

In addition, the idea that the transition from a pay-as-you go system to a funded system would be obvious and in the general interest is absolutely groundless.

Thus, to summarise highly complex issues[12], first of all, it should be noted that whatever the financing method – funded or pay-as-you-go, public or private – pension systems always redistribute current output, shifting part of it to pensioners.

If demographic patterns reduce the potential output and increase the number of senior citizens and if, in addition, the economic system is incapable of deploying all the resources available, all things being equal, the burden of pension transfers will always lie on producers' shoulders, regardless of the financing method.

On the other hand, it could be said that a funded system fosters a greater amount of savings and faster growth rates so that, in light of a greater output, the redistribution in favour of pensioners would be less conflictual. However, no time-honoured economic theory can demonstrate beyond any doubt that funded systems encourage more savings in an economic system, nor has it been proved that a larger amount of savings is always the propeller of economic growth. Indeed, Italy's very economic situation, after introducing restrictive policies in order to join the European Union, indicates that one of the main obstacles to a faster growth rate is a lack of demand not of savings.

In any case, there is no empirical evidence that can be extrapolated and projected into the future to substantiate the idea that, in the long run, the financial returns of a funded system are definitely higher than the GDP growth rates that underpin the returns of a pay-as-you-go system.

On the other hand, if such higher returns were constant over the long run, we would experience an increase in financial returns as a share of GDP, a condition that might give rise to social and economic problems. Furthermore, should this happen there would be, ironically, a higher pension-spending-to-GDP ratio, which is exactly what the critics of the public system want to reduce.

Stating that by developing a funded system workers could share, as pensioners, in future equity market returns means that they would acquire a small part of the greater share of the output, produced by active workers, intended for profits and rents, which is thus deducted from current salaries. This is tantamount to saying that even workers can partake in the economic surplus they have created, but to an extent rather different from that of the recipients of other types of income.

11 The notional contribution might be set also in view of other specific objectives. For instance the definition of a time limit for the top-up contribution period by the state "would signal" the length of time deemed acceptable – and worthy of support – for maintaining the atypical contract conditions within a working career; given the wide range if "atypical" contracts, the time limit and the extent of the top-up which vary according to the type of workers, deemed more or less compatible with this type of employment arrangement or deemed in need of support; taking account of the restrictions established by European legislation, the notional contribution might be adjusted on the basis of industry and/or territorial objectives.

12 For the analysis of the characteristics of pay-as-you-go systems vs. funded systems, see Pizzuti (1995 and 1996b).

Referring to the alleged virtues of funded systems, Orszag and Stiglitz (2001) speak about "myths", highlighting their lack of analytical substance. What is certain is that private funded systems have higher management fees and subject pension benefits to the vagaries of financial markets.

Thus, during 2001, the Italian stock exchange registered a fluctuation of the MIB 30 index from a maximum of 45,242 (in January) to a minimum of 23,541 (in September), a 48 percent decline; the NUMTEL index fell from a maximum of 5,388 to a minimum of 1,392 (down 74 %). The large number of failures with which the history of private pension systems is littered, the latest being Enron's bankruptcy, provides different examples of market shortcomings, including the significant risk of entrusting pension funds to private managers[13].

It is not a coincidence that even Modigliani (see Ceprini and Modigliani (1998)), the Nobel-prize winner, in his controversial and radical proposal to replace completely the pay-as-you-go system[14], wants the new funded system to be managed by the state, to reduce management costs and uncertainty of returns. Even Antonio Fazio, the Governor of the Bank of Italy, keeps remarking that financial instability has increased to dangerous levels, especially with respect to prices in equity markets, which are unwarranted in terms of the performance of the real economy[15].

With specific reference to the Italian situation, in evaluating the positive role that the development of a private funded system might have on its financial markets, it should be noted that the absence of breadth and depth of the stock exchange reflects not so much a lack of demand for shares but a reluctance of firms to list. Their reluctance is due mainly to the small size of most Italian firms, as well as to their unwillingness to undergo the controls on their accounts that a listing would require.

Given this specific feature of the Italian financial and productive system, a too rapid development of a funded pension system would inevitably cause a large part of the savings entrusted to it to be channelled abroad, into markets with more opportunities. This would translate into a lower level of financial resources available to medium and small Italian firms, which would make it even more difficult than it is at present for this very important component of the country's productive system to meet its financial requirements.

The development of pension funds and the possible use of TFRs

In recent debates, and lately in the plans of the Berlusconi government which were outlined in the draft enabling law on social security (Disegno di legge Delega sulla Previdenza – DdLDP), the twofold objective of lowering the cost of labour and shrinking the size of the public pension system in favour of a private one crossed paths with the proposal, in itself unrelated to those objectives, to utilise the TFRs to finance the new funded pension schemes.

In this new version, the overall plan can be summarised as followed. With a new pension reform, contributions payable by enterprises would be lower. Benefits might also be unaffected by this contribution decrease, as provided by the government DdLDP, for instance; in this case, however, besides the inevitable reduction of current revenues, a structural imbalance within the pension system would be triggered: once the new regime were fully operational, approximately one-sixth of all pension benefits paid to all employed workers would not be financed via the actuarially correspondent contribution revenues.

The lower contributions, even though they would be followed by the actuarially correspondent decline of pension benefits to future pensioners, would still result in a substantial shortfall of current revenues for the pension system. Applying this decrease only to newly-hired workers (as provided for by the DdLDP), the loss of revenues would be small initially, but would rise progressively up to (in case of a 5 percent reduction of social security contributions, as provided for by the DdLDP) 0.8 percent – 1 percent of GDP, which would accumulate over time. The necessary period for the reduction to be applied to all employed workers might be even shorter than the natural turnover cycle, if one considers the new incentive for firms to replace "older" full-contribution workers with "new" lower-contribution ones.

In order to offset the decline of public pension coverage, that determined with the 1995 reform, in particular with respect to workers with atypical contracts, as well as the additional shrinkage resulting from the resulting from the inevitable downward adjustments to the benefit due to today's contribution reduction, private pension

13 Enron, the US energy giant, which only two years ago was the seventh largest company in the world, with a market capitalisation of 77 billion Dollar, left 11,000 people without pensions, after the money in their plans had been invested in company shares whose prices had fallen from 83 Dollars to 67 cents).

14 Ceprini and Modigliani (1998) conceive a system which, on the one side, takes advantage of the returns generated from investments subject to market risks, on the other calls for the state to guarantee those returns. However, once this aspect has been included, which is indicative of the appropriateness, or lack thereof, of entrusting substantial amounts of pension benefits to market uncertainties, one wonders whether the system devised by Ceprini and Modigliani is in effect a funded system or, instead, a veiled pay-as-you-go system which, however, requires the state to provide a return on pension contributions not on the basis of GDP growth rates but always at a rate that is assumed to be substantially higher.

15 See for instance Banca d'Italia (2001 and 2002) "Final Remarks" for 2000 and 2001.

schemes would be encouraged by increasing tax incentives and by resorting to TFRs as a source of financing for the new pension funds. Joining the new funded pension plans and the use of TFRs to that effect might somehow be made mandatory[16].

Overall, the average pension coverage might not even decline, but would change the mix of public and private pensions, substantially increasing the latter. In keeping with a market-based rationale, pension coverage might even improve for those who might be willing and, of course, able to place more financial resources in private pension plans; however, those who are less provident or just have less financial resources would be worse-off.

In any case, given the same pension coverage, workers would lose their severance payments; in fact, under the financial arrangements of the new pension system (and of the labour market), severance payments would be utilised to make up for the lower contributions paid by companies.

In the past legislature, the above proposal to utilise the TFRs to finance supplementary pension schemes was part of the negotiations between the government and the social partners and was also set down in draft bills. However, those attempts were seriously thwarted by the unwillingness of Confindustria, the main employer association, to lose control of the TFRs (which would have been compensated by reimbursing the excess interest charges paid by companies on replacement funds borrowed in the open market) in the absence of the simultaneous implementation of a far-reaching pension and labour market reform, like the one summarised above, i.e. based on the reduction of contributions and of the cost of labour; this had been covered by the negotiations, but was to be implemented at a later date.

Even though they largely went unnoticed, significant measures intended to initiate a substantial pension reform had already been adopted in the past legislature, with the legislative decree 47/2000, implementing the tax mandate proposed and applied by the Ministry of Finance. By setting forth the tax neutrality principles, legislative decree 47/2000 standardised the incentives to save for retirement purposes without making any distinction in terms of retirement products (both occupational funds closed to specified categories or open and individual plans) or of sources of incomes (salaries, profits, rents). This particular set-up modifies the basic tenet of the Italian pension system which, in keeping with the Constitution (article 38), was designed to provide pension benefits not to recipients of any kind of income but to workers no longer active.

Aside from the Constitution, it is clear that pension needs vary in ways structurally different, depending on the sources of income of the individual involved. Retirement is by definition a period that involves individuals who can no longer work, either because of age limits or health reasons; old-age, disability, and survivor pensions represent a form of income that replaces earnings from working activities. Instead, there is no need for pension insurance for recipients of income other than work, as their earnings do not change as they age. By encouraging recipients of incomes from sources other than work to save, the state incurs, and saddles the community with a cost for which there is no pension-related social need but only the generic need to stimulate savings as such, regardless of its pension purposes. It is equally clear that, also for recipients of the different types of income (employment, self-employment, professional), the problem to ensure income continuity as age progresses arises in different ways and to different degrees.

Thus, following the tax neutrality principle, the state supports in the same way contributors who have different pension needs and those who have no pension needs at all. Actually, the distributive inconsistency introduced by Legislative Decree 47/2000 is enhanced by the fact that the tax incentives for retirement products are provided for and computed in a way that is advantageous mostly for high-income individuals. In fact, payments for any form of insurance are deductible from personal taxable income up to a maximum which rose from approximately €2,550 to €5,100 and from 6 to 12% of total income. It is obvious that only high-income individuals can afford to pay insurance premiums up to €5,100 and obtain a tax benefit on this amount which, moreover, is proportional to their higher marginal tax rate.

Even though they might be able to buy private retirement products with a sum much lower than €5,100, middle-to-low-income individuals would receive a contribution by the state proportionally lower, i.e. in line with their lower marginal tax rate (see the paper by Hughes and Sinfield in this volume). Add to this that workers who will keep all or part of their severance payments without placing them in a pension fund will pay a higher tax amount on this deferred salary, which from a tax point of view is considered as a form of pension, but without the benefits accorded to private pension funds. On the other hand, Legislative Decree 47/2000 relies on the greater revenues generated by the increase in taxes on the TFRs to offset the generous tax benefit to those who are in the best position to take full advantage of private pension plans.

This criticism, however, does not mean that the introduction of a funded system would be inappropriate; instead it is intended to restrain the excessive enthusiasm of some, including no doubt some vested interests, who think that a funded system can play a much larger role, which would be unwarranted or counterproductive in the cur-

16 The government DdLDP calls for new tax incentives to join a pension fund as well as the use of the TFRs as a source of financing. Similar measures had been discussed and proposed also by governments in previous legislatures, but were never implemented.

rent Italian social security and economic context, both in terms of the working of the pension system and in terms of the interaction between the latter and the overall domestic economy.

The goal to develop supplementary social security should be considered in light of a set of general and specific circumstances; in particular, the speed and the magnitude of the intended result cannot be disregarded.

In order to assess the desirable quantity and procedures for a further shift of resources from TFRs to supplementary pensions, it is important to analyse the recent development of pension funds and the effectiveness of the incentives that fostered it.

The analysis of the data on the development of pension funds released by COVIP[17] and the comparison with countries where pension funds have a longer tradition do not justify the dissatisfaction often shown with our recent experience; or at least, the dissatisfaction cannot be attributed entirely to an alleged lack of effectiveness of the incentives in place since 1999, or to the partial use of TFRs as a financing tools.

At the end of 1999, there were 33 so-called "closed pension funds"[18] licensed by COVIP, with about 700,000 enrolled members; in addition to these, there were 88 so-called "open pension funds"[19].

At the end of 2001, the number of closed pension funds had risen to 41, with more than one million members; out of these, only 27 (31 at the end of January 2002) were fully licensed to operate[20].

There were 102 open pension funds, with 285,000 enrolled member; out of these 94 were fully licensed[21]. Overall, the new pension funds went from 121 at the end of 1999 to 143 at the end of 2001, with approximately 1,3 million enrolled members. Taking account of the 577 that existed prior to the new law introduced in 1992, currently there are 720 pension funds with around 2 million enrolled members. By the end of 2000, the assets of the new pension funds, which will be used to pay pension benefits, had reached a total of €3,338 million (€2,270 million for closed pension funds and €1,068 million for open pension funds), in addition to the €28,190 million managed by pre-existing pension funds.

At the end of 2000, the target membership for fully-licensed closed pension funds for employees amounted to 2.354 million workers; the average enrolment rate was 32.6, with a peak of 76.4 for company and group funds; trade-association closed pension funds posted lower enrolment rates. At the end of 2001, the average enrolment rate fell to 15.4%; this was because licenses were issued to funds with large target memberships, which caused the number of potential enrolled members in fully-licensed closed pension funds to increase to 5.827 million (up 130 percent compared to the preceding year).

In European countries where pension funds are many and have been operating for decades, enrolment rates vary between 30 percent and 50 percent.

From these data, it emerges that many funds were established in the few years following the 1995 reform, but only some of them were able to obtain a license from COVIP. However, once this hurdle was cleared, pension funds were able to reach membership levels which in other countries had required decades to build up.

Thus, any problems experienced so far by pension funds seem to be due not so much to a lack of tax incentives or to the partial use of TFRs but to a combination of management shortcomings within the funds, to cumbersome procedures and to lengthy application reviews by supervisory and regulatory bodies. As was highlighted in a MEFOP study, closed pension funds are fully operational after only three years from the date of the memorandum of incorporation.

There is a problem of low enrolment in pension funds by young people; this being a phenomenon attributable mainly to the large presence among recently-hired workers of some employment contracts such as fixed-term contracts or training contracts, which do not turn automatically into long-term employment contracts and which do not provide for TFR payments.

Obviously, the current performance of financial markets does not encourage new enrolments in pension funds. In 2001 closed pension funds showed an aggregate negative return (down 0.5%). For open pension funds the average aggregate return of stock sub-funds was a negative 10 percent, while bond sub-funds posted a positive performance, up 2.4 percent; the average return of all the sub-funds (overall index) was a negative 5.6 percent (Covip 2002).

17 Commissione di Vigilanza sui Fondi Pensione (Covip), the body that supervises pension funds, (2001) and (2002).

18 Occupational plans, set up by employers and employee associations, open only to specified categories of workers by firm, region or occupation.

19 Personal plans, set up by financial services companies, are not available to anyone who is able to join a closed pension fund.

20 At the end of 2001, there were 23 fully-licensed closed pension funds, compared with the 12 that had started collecting contributions in 2000.

21 Società per lo sviluppo del mercato dei fondi pensione. Mefop (2000) – a company for the development of pension funds.

These obstacles cannot be overcome by providing greater tax incentives; on the other hand, it should be noted that, for the small group of newly-hired workers with contracts providing for TFR payments, the law requires that the TFR be fully utilised in case of enrolment in a pension fund.

Another obstacle that stands in the way of enrolment in a pension fund, especially by young people, might be short sightedness or the inability to see the need to provide for old age. Sometimes this argument is used to justify more or less compulsory rules for workers to enrol in pension funds. However, this view fails to take into account that pension insurance is properly guaranteed by the obligation to enrol in the public social security system. Introducing further pension requirements, to be complied with by resorting to private funds, may not be fully understood.

Contributions to existing pension funds by both workers and employers account for approximately 1% of the gross salary; the utilised share of the TFR represents approximately 2 percent, on average. The issue is to define whether it is desirable to increase such percentages, by how much and how, and whether by incentives or mandatory rules.

There are two main alternatives to solving this problem: one calls for the state to continue to play its current role and is centred on the public pension system; the other is more radically consistent with a market-based rationale and its application also to the social area.

Basically, the first alternative involves an incentive to resort in part to the TFR or to other saving sources without changing the current contribution rates paid to the public pension system; the additional payments would be enough to finance such additional benefits by the new pension funds as are sufficient to compensate for the decrease in coverage by the public system brought about by the reforms in the 1990s.

The second alternative would be to channel rapidly all the TFRs or a similar mass of other financial resources into the pension funds, utilising also the flows arising from a substantial decline in the current contribution rates. The rapid development of the pension funds would constitute a tool to compensate for further and substantial cuts in the public pension system determined by the lower contributions. As was already seen, from a macroeconomic standpoint, the other objective that characterises this alternative is the reduction of the cost of labour.

In the first alternative, the problems include the choice of quantities (which is limited anyway), timing and ways to achieve optimal transfer of the TFRs or other financial resources to the pension funds. These choices should take into account also the need not to undermine the current functions of the TFRs, which are of a social security nature for workers, and of a credit nature for firms, and which act also as a countercyclical tool to smooth out sharp socio-economic changes in the entire system.

In the second alternative, the abolition of the TFRs and/or a substantial reduction in the contribution rates paid by firms would give rise to significant redistribution effects and to a strong curb on the welfare state; the loss of the TFR by workers and/or the reduction of the contributions payable by firms would take place, *de facto*, without any *quid pro quo* since the development of a private pension system would not supplement the public one, but would replace it.

However, there would be problems also for the financial and productive system; as noted above, a rapid and sustained development of private pension funds would entail an outflow of savings which would benefit foreign markets to the detriment of small and medium-sized Italian enterprises, the bulk of the Italian productive system, due to the subsequent reduction of already limited financial resources.

To conclude, if a privately-funded system which also utilises TFRs should develop beyond a given threshold, to the detriment of the public pay-as-you-go system, with the objective of reducing contributions payable by firms, there would be a distortion of the current social and economic system. This might have negative consequences not only for the degree and security of pension coverage, but also for the distribution of income, for the ability of effective demand to support economic growth and, more generally, for the structural functioning of the productive and financial system.

Like competitive devaluations before Italy joined the European Monetary Union, the reduction in the cost of labour would boost profits only temporarily. Meanwhile, the lack of domestic effective demand would become more serious and the solution to the structural problems of Italy's productive system would be postponed and the reluctance of Italian firms to carry out innovative investments would be reinforced.

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Stefan Sjöberg

The Swedish Experience: the Decline of the "People's Home"[1]

The Swedish welfare state at the end of the 1970s stood at its highest point. It was considered an admirable example from the perspective of many other countries around the world. Since then the "Swedish Model" has changed in many respects and it has now been put under severe pressure. It seems reasonable to put it like this: the "People's home" is beginning to dissolve.

Building the People's Home: 1930s to 1970s

In Sweden the Social Democratic Party, SAP, held governmental power for more than four decades, from 1932 to 1976. This long-time solid power base made it possible to implement a whole range of social reforms, to build what is often called the "people's home".[2] From a more theoretical point of view, the Swedish welfare system is perhaps the best example of what social theorist Esping-Andersen labels "the social democratic general welfare model".[3] Fundamental in this social democratic welfare regime, according to Esping-Andersen specifically developed in the Nordic countries, was a redistributive tax system able to finance a large public sector with universal welfare programs.[4] Swedish Social Democracy, supported and pushed by the Communist party, implemented a sophisticated social insurance system which included more or less the whole population, in order to gain support for the system by the whole population and bridge over gaps between different classes and segments. The model guaranteed almost full income compensation for child-care, unemployment and sickness. The social democrats built up hospitals and health care, care of the elderly, schools, child-care, new houses etc. In the late 1950s, the labour movement in Sweden also succeeded in implementing a beneficiary pension system, after a long and hard struggle against the united bourgeois forces.[5]

Important elements of the Swedish model were the strategy for full employment as well as the solidarity-based wage policy, both worked out by trade union economists Rudolf Meidner and Gösta Rehn. The overarching goal of full employment meant stronger power of the labour movement vis-à-vis the bourgeoisie. The solidarity-based wage policy meant that workers in industry with high profits would hold back their wage demands, so that workers in others sectors of society could demand larger increases in wages.[6]

Almost every one of these social reforms was implemented against the will of the bourgeois parties and big enterprises. This was made possible because there existed an internationally unique union political cooperation between LO and SAP and the Communist Party was passively supporting it in parliament, although it was never welcomed into the government.

All in all, this Swedish model resulted in decreasing differences of income and wealth in the Swedish society. In comparison with other countries in Western Europe with other forms of welfare capitalism, as Esping-Andersen puts it, this meant Sweden was a very just and equal society.

With one exception: *the conditions of power and property*. The conditions on the labour market were regulated in the Swedish form of "the historic compromise", which was set up in 1938 between LO and the employers federation, SAF. In this compromise, employers get the right to lead and organise the work, while the unions get the right to organise and strike etc. The fundamental question of power and property conditions is out of the compromise, it is a forbidden and silent question and it is implicit that these conditions should not be questioned. To conclude, this meant that Swedish society during the period from early 30s to late 70s showed a remarkable increasing living standard for the working class, at the same time the fundamental power/ownership interests of big

1 The concept was first used in the end of the 1920s by social democratic prime minister, Per Albin Hansson..

2 In Gösta Esping-Andersen's famous study, The Three Worlds of Welfare Capitalism (Polity Press, Cambridge, 1990), he considers this "Nordic" form as one of mainly three existing forms of "welfare capitalism", the others being the selective liberal and the conservative welfare models. Esping-Andersen exemplifies the conservative model with France and Germany (in a tradition going back to Bismarck) and the liberal with USA. The conservative model is characterised by historical links to the church with traditional family values. The state is strong in this welfare syst European Commission (2001).

3 The concept was first used in the end of the 1920s by social democratic prime minister, Per Albin Hansson. In Gösta Esping-Andersen's famous study, The Three Worlds of Welfare Capitalism (Polity Press, Cambridge, 1990), he considers this "Nordic" form as one of mainly three existing forms of welfare systems, but does normally not intervene as long as the family can handle the care needed. In the liberal model, social security is selective and beneficiaries with low incomes receive low compensatory benefits. The state intervenes to a small extent in the market mechanism, and the model has (especially compared to the social democratic universal model) a low degree of redistribution among the population.

4 Rothstein, Bo (1994): Vad bör staten göra? Om välfärdsstatens moraliska och politiska logik, SNS, Stockholm.

5 Olson, Sven E (1990): Social Policy and Welfare State in Sweden, Arkiv, Lund, 1990.

6 Clement, Wallace & Rianne Mahon (1994): Swedish Social Democracy: a Model in Transition, Canadian Scholars´ Press, Toronto.

industry were never really threatened. One can put it like this: political and social democracy were achieved, but not economic democracy.

Cutbacks, privatisation, deregulation: 1990s and further

What now? During the 1990s like other countries in the global capitalist economy Sweden has experienced huge cutbacks on the public sector. Public sector share of BNP has decreased from two thirds to about half for the period of last 20 years.[7] In money terms, this means a loss of about 20 billion Euros per year in public expenditures, which is a lot for a rather small economy as Sweden. This has resulted in a very problematic situation in the public health sector.[8] The newspapers write every week about inhuman conditions in the care of elderly, in hospitals, in child-care, schools etc. Many hospitals have been closed down, and others are full with people lying in the corridors. Maternity hospitals have also been closed and those left are sometimes full, there are examples when women have been told to go to a hospital 200 kms away. The total number of employees in the care sector has been reduced by much, and there are too many examples of old people lying in their beds all day without getting any help. Mental care as well as the care of addicts has also experienced severe cutbacks, and that is no doubt one reason there is more violence on the streets. 20 years ago, beggars did not exist on the streets of Stockholm, today you can see them every day. The cutbacks have been combined with privatisations, so today big stock companies are important actors on the health ”market”. Only 15-20 years ago, private entrepreneurs were not allowed at all in the health care.

There have also been cutbacks in the social security systems. Full income compensation no longer exists, today the level is 80% for unemployment (if you are included in the system), sickness and child care. One very important change is the new pension system, decided in 1994 and implemented thereafter by four bourgeois parties together with the Social Democrats. In the long term, this will mean that the public pension system, with pension funds governed by the state, will melt away. Instead there will be hundreds of pension funds controlled by private banks, insurance companies etc, among which the employees are told to have the freedom to choose. This new system was implemented by the same, or actually a rather different social democracy than the one that fought so hard to implement the public pension system in the 1950s. The fact is also that it was actually the Social Democrats who in the late 1980s first opened up for private alternatives in the public sector, a bourgeois government, 1991-94, then could go on and multiply a development already initiated.[9] The Swedish Social Democracy of today is a social democracy that belongs to those who put pressure on, for instance, the French Socialist party to deregulate and privatise more, the energy sector is one example. Instead of being a model for a radical progressive force, Swedish Social Democracy today is the opposite. The SAP leadership of today belongs to the “New Labour” of Tony Blair and “Die Neue Mitte” of Gerhard Schröder.

The Hegemonic Turning Point: 1970s and 1980s

How can one understand this very drastic and fundamental change? To understand the present conditions, it is important to understand the historic development and building of the Swedish welfare state as has been outlined, but even more important, to analyse the period between past history and present. That leads us to focus on an issue that was the largest societal conflict in post-war Sweden, the so-called wage earner funds, or in a broader sense, the struggle for economic democracy. The wage earner funds struggle marked the Swedish society for more than a decade, from the mid-1970s to the early 1990s.[10]

As an answer to persistent or increasing concentration of power and property in big enterprises, the Social Democratic Trade Union Federation (LO) in 1975 proposed the so-called wage earner funds as a way to democratise enterprise. The original proposals would have meant that the collective funds controlled by the trade unions, in a period of 20–40 years, would have taken over the ownership majority in big companies.[11] It was a democratic socialist strategy aiming at transforming the fundamental power/property-relations of society.[12] This proposal came as a shock. The bourgeois press shouted out “Revolution in Sweden”.[13]

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7 Ankarloo, Daniel.

8 The description below following Sjöberg, Stefan, Löntagarfondsfrågan – en hegemonisk vändpunkt. En marxistisk analys. (The Wage-earner Fund Debate – a Hegemonic Turning-point. A Marxist Analysis.), Uppsala University, Universitetstryckeriet, Uppsala, 2003, p234 ff.

9 Montin, Stig, ”Privatiseringsprocesser i kommunerna, teoretiska utgångspunkter och empiriska exempel”, in Statsvetenskaplig tidskrift, no. 1, 1992.

10 The wage earner fund struggle is analyzed in Sjöberg 2003.

11 Meidner, Rudolf, in collaboration with Anna Hedborg & Gunnar Fond, Löntagarfonder, Tidens, Stockholm, 1975.

12 A profit-sharing model was proposed that would shift the ownership and power structure of companies without influencing their liquidity. A certain share of the yearly profits (the LO-working group talks about 20%) of the big companies should be transferred to wage earner funds, but not as cash but as new-issued stocks in the company. Thereby the profits would not leave the company but remain active capital. By relating the calculated sum to the total stock, it would be possible to establish the amount of new shares. The fund system should comprise only big companies, with more than 100 employees, since power and property is concentrated in these companies. The

Bourgeois parties were at the time not united as a political force, but in the course of a couple of years they, together with the organised enterprise in the employers' federation (SAF), manage to unite as a hegemonic force in a classical Gramscian[14] (rather than a post-Marxist Laclau/Moffe)[15] sense of the concept. The Social Democratic Party was hesitating, and after the loss of the parliamentary elections in 1976 (they lost governmental power for the first time since 1932) became more and more negative towards the LO wage earner funds. In 1983, the SAP presented a governmental bill concerned with wage earner funds, which was then adopted by parliament.[16] However, the implemented wage earner fund proposal was very different from the original LO-proposals. The issue of economic democracy and the aim of transforming the power and property conditions had faded away, and it was now stated that the funds should *not* be aimed at majority ownership of companies. The gap between the LO and SAP was, historically considered, exceptional, and the historically important union-political cooperation no longer worked. Swedish social democracy no longer functioned as a hegemonic block which had been a necessary condition for the long-time progressive development of the Swedish model. At the same time that the inner conflict in the social democratic movement developed, the Communist Party remained on the sidelines, adding criticism from the left and being denied participation by social democracy.

The wage earner fund debate was a struggle over hegemony, covering all levels of Swedish society, the economic, as well as the political and ideological.[17] Different organised class forces and subjects stood against each other. The key protagonists in the fund struggle followed classical Marxist analytical lines; labour movement (the social democratic actors LO and SAP and the communist party VPK) against bourgeois actors (the conservative party (Moderaterna), the liberal party (Folkpartiet), the "agrarian-liberal" party (Centerpartiet) and organized private enterprise as represented through the Swedish Employers' Federation, SAF).

While the labour movement actors failed in forming a hegemonic block, the bourgeois block (in its broad meaning), in time, succeeded in forming a united hegemonic force strong enough to force a divided labour movement into the defensive. A divided labour movement could not stand up against a united bourgeois force, and this is a fundamental aspect in explaining the transformation of the funds and the final bourgeois victory.

The outcome of this organised class struggle is also fundamental in explaining the whole social development in Sweden since then. The wage earner funds struggle meant a hegemonic turning point in Swedish society, and the bourgeoisie has ever since then been the dominant force, on all levels of society economically, politically as well as culturally and ideologically. Until and including the raising of the wage earner fund debate, the Swedish labour movement had for decades gradually moved in the direction of their opponents. This long-time progressive move had been made within the frame-work of the Swedish "historical compromise" between labour and capital. The original wage earner fund proposal meant a step in another direction, focusing and threatening the fundamental "sacred core" of the capitalist mode of production: private ownership of the means of production. With the fund proposal, LO had left the classic social democratic "welfare line", and had again manifested the "ownership line"[18], which had been hidden beneath the historic compromise between labour and capital. The latent class conflict, hidden by the historical compromise, was once again manifest, laid open to the society through the debate. The wage earner fund proposals and the struggle they generated then can be considered as both cause and effect of the dissolution of the Swedish historic compromise.

The bourgeois block won the struggle over the wage-earner funds, and has, since then, step by step forced the labour movement into the defensive. The bourgeois hegemonic force has prevailed to this day. This is important in understanding the changes that have occurred in Swedish society, changes which question the social democratic welfare model and the "People's home". The wage earner fund debate, then, has meant a very important change in the balance of organised class forces in Swedish society, which is of huge importance in understanding the existing power relations of today.

In understanding the changes and the outcome of the wage-earner fund debate and the development afterwards, it is necessary not only to focus on the political-ideological level, but also to take into consideration the changing

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wage-earner funds, it is proposed, should be controlled by the employees through their trade unions and the members of the fund board should be appointed by union representatives. The fund representatives in each company/managing board should be jointly appointed by the fund boards and the local trade unions. This original wage-earner fund model would mean that the collective fund-share of the big companies would gradually increase in relation to private shares. The working group estimated that in 20-40 years large Swedish companies would be majority-owned and controlled by the wage earner funds. The idea was as simple as it was radical.

13 Liberal daily newspaper Dagens Nyheter August 28, 1975. In the LO trade union press, you could read head-lines like "With the funds we take over!", and "This is how we will take power from the owners of capital".

14 Gramsci, Antonio, Selections From the Prison Notebooks, International Publishers, New York, 1975.

15 Laclau, Ernesto & Chantal Mouffe, Hegemony and Socialist Strategy; Towards a Radical Democratic Politics, Verso, London, 1996 (1985).

16 Regeringens proposition 1983/84:50, Löntagarfonder.

17 This means taking into consideration the "totality" of the "relative autonomous" levels of economy, politics and ideology, following a structuralist influenced Marxist analyses. See Althusser, Louis & Etienne Balibar, Reading Capital, New Left Books, London, 1975, and Poulantzas, Nicos, Political Power and Social Classes, New Left Books, London, 1975

18 Lewin, Leif (1992): Ideologi och strategi, svensk politik under 100 år, Norstedts Juridik, Lund, p 356ff.

conditions of the Swedish economy.[19] The export-dependent Swedish economy was struck by the international oil crisis. The profit rate fell, companies were in crisis, there was a need for new investments and risk capital. These economic conditions were used by bourgeois actors as an argument against the viability of wage earner funds and against the equalising welfare policy at large. In the beginning of the 1980s, the conservative-liberal government (in power 1976–82) left the Keynesian economic policy, on which had been a consensus among all parties until then.[20] They began to cut public expenditures in line with the new, or maybe the rather old, liberal economic policy now implemented. The social democratic governments afterwards have never changed that economic/political direction. They have since then, like the bourgeois parties, put low inflation before full employment (which had been one of the corner stones of the Swedish Social Democratic Model, as was mentioned earlier).

Besides the economic factors, another important international factor behind the hegemonic change, in Sweden as in other countries, was of course the political/ideological "right wave", driven by the Reagan/Thatcher regimes, which had a world wide impact and of course also influenced the Swedish political agenda. In these right-wing theories/ideologies/politics the Swedish bourgeoisie found arguments for its own anti-left campaigns, including and focusing on the "fund socialism" but also the whole Swedish welfare system.[21]

Prospects for the Welfare State from a Left Perspective

The consequences of this hegemonic turning point for the Swedish welfare state were outlined earlier. I believe it is correct to consider Swedish Social Democracy today as part of the bourgeois liberal hegemonic force. As has already been mentioned, the SAP governments during the 1980s and 90s have continued this policy, gradually decreasing the public sector's share of GDP. In the late 1980s, they implemented a tax reform to lower, for instance, income taxes, which cost many billions of Euros and which did not benefit those with low incomes. In the 1990s, the SAP as well as the bourgeois governments (1991-94) have been very successful in cutting public expenditures in order to qualify for the Maastricht treaty and demand EU and EMU membership.

The consequences of the economic/political development during the 20 years after the hegemonic turning point are a gradually hardening Swedish society. This means one of Europe's fastest increasing gaps between the classes. The income differentials have been increasing rapidly. There is a marginalisation of parts of the population which did not occur 20 years ago. Of course, many of the processes described have also occurred in the rest of European countries, but I think it is correct to say that the offensive of the bourgeois/(neo)liberal (including social democratic) governments has created an even more drastic changing of the social conditions in Sweden.[22] This is also an important explanation for the negative opinion about EU/EMU. The social development is seen and is in fact related to the adaptation to another system, and this also explains the "anti-federalism" in the Left, even sometimes, when it comes to Left projects.

To summarise, you can say that today, political democracy is restricted by the neo-liberal "market", it is no longer correct to say we have social democracy, and economic democracy seems far away.

So far, the discussion has to a large extent dealt with Social Democracy. This comes naturally since the SAP-LO had been a very strong force for such a long time, at the same time the Left "to the left" of Social Democracy was weak.[23] Some remarks should now be made regarding the Left Party. The former Communist Party (VPK) was, during the wage earner fund struggle, very critical at the beginning, the actually system-transforming proposals were considered as social democratic "reformism" (a position almost everybody today regrets). Today, when the social democrats have become liberals, the Left Party is involved in a very tight cooperation with the SAP government and the Green Party. In the governmental financial plans of today you can read "the long term goal to decrease public sector of BNP continues". The Left Party on both the national and the local level is in some ways critical towards the SAP government "in theory", and tries to move SAP proposals to the left, but in practice supports the government policy by and large. Now even more heavy cutbacks are planned at the local level, which of course are related to the economic policy at the national level. In the county of Stockholm, the social democratic/left/green majority has proposed to cut an equivalent of 200 million Euros on health care etc. In theory and policy documents, the Left Party does everything to defend the strong general welfare model; at the same time, in practice, it supports the SAP governmental policy, which has meant gradually decreasing the

19 Following a structuralist influenced Marxist perspective, the interrelation of economical, political, cultural and ideological factors have to be evaluated in any social analysis.

20 Scharpf, Fritz W, Crisis and Choice in European Social Democracy, Cornell University Press, Ithaca, 1991.

21 In some way related to this is also the structural effects of the break-down of the "Soviet block" 1989-91. The Swedish welfare state existed in between the two giant hegemonic forces: When one of them was swept away, it of course helped the global "market wave" to also sweep the "people's home" with it.

22 I believe the political violence that has occurred in Sweden during this time also has to be seen from this social perspective: the murder of Olof Palme 1986, violent confrontations fascists-antifascists occurring from the early 90s onwards, nazi serial killings beginning of the 90s, nazi car bomb severely hurting journalist and his child – 1996, nazi murder of syndicalist union activist – 1999, nazi robbers murdering policeman – 2000, riots at the Gothenburg EU-summit – 2001 with police shooting of activists, murder of Anna Lindh.

23 The Communist party, VPK, gained about 4-6% of the votes from the 1950s up to 1998, when the "reformed" Left Party (Vänsterpartiet) gained 12%. Birgerson, Bengt Owe mfl, Sverige efter 1900, en modern politisk historia, Bonnier, Stockholm.

public sector as a share of GDP and related to that, for instance, increasing income gaps between classes as well as between men and women.

Since 1989, long-time strategically oriented discussions have to a large extent been non-existant in the Left Party. The parliamentary compromising policy has overshadowed issues like power/property conditions, overarching structural power balance and relations of class forces, the vision of economic democracy, the socialist strategy etc. In the beginning of 2000, the Left Party congress, however, decided to once again put these kind of issues into focus. The party board appointed a working group, the so called "power and ownership" group, which in the beginning of 2002 presented a report.[24] In the document adopted by the party, it is stated that a far-reaching democratisation presupposes a far-reaching change of power and property conditions. In order to reach economic democracy a necessary (but insufficient[25]) condition is to fundamentally change existing ownership conditions. The overarching strategy should then be to gradually expand the common, democratic ownership compared to private ownership, so that the main part of the economy would become democratic and commonly owned. It is said that a modern socialist strategy then needs to include a variety of common ownership forms: social ownership (by national, regional and local governments) as well as co-operative and worker ownership. A crucial question is what kind of left strategy is needed to work this out, and in the document, we have looked back at the fund strategies which shook the Swedish society 20–30 years ago.

This is not the place to give detailed descriptions of the fund strategy outlined, I will just mention that both union-controlled pension funds and what is called societal funds are being discussed. In the huge amount of pension capital accumulated by workers, lies a potential for contributing to the development of a fund-based strategy for economic democracy, based on the principle of one person – one vote. It seems reasonable that the trade unions themselves create pension funds, where its members may choose to invest their pension capital, instead of as today (for example, in the new pension system implemented in Sweden) giving it to privately- controlled institutions, investors and stockjobbers. The union members would then appoint the fund board. The union funds would invest the collective capital in companies and different parts of trade and industry. The fund returns could be used for various purposes, decided democratically instead of by private shareholders. The fund boards and local union units could then appoint deputies to shareholders' meetings and in company boards, in a democratic process. Union funds may use their responsibility as owners and the power and influence that comes with shareholdership, for instance to prevent closing down of profitable companies or the moving out of production to low-income countries. In the longer term, it may be a way of influencing the fundamental ownership relations in the companies. In long term this fund model would allow for companies that are owned and managed by their workers.

A reasonable strategy regarding the pension system could be to work out a two-edged strategy, comprising both a long time strategy for defending/reconstruction of public pension systems, as well as a strategy for such collective union funds which can work within the new already implemented systems.

Societal funds are another strategy for economic democracy outlined in the "power and ownership document". A fundamental issue when building a fund is the capital supply. An ingenious construction was the one presented in the first wage earner fund proposals, whose profit-sharing model shifts the ownership and power structure of companies without influencing their liquidity. A societal fund could get its capital supply in the same way. It should comprise only big companies since the fundamental power and property are concentrated in these, for instance those with at least 100–200 workers and a certain turnover. The societal funds model should aim at a balance between salaried workers and the interests of civil society; between societal power and workers' power/influence and self- management. A possible way here is to combine wage-earner influence with societal ownership, for instance regionally based, with a central leveling fund to counteract regional inequalities. Such regional funds could be managed by a board appointed by regional parliaments. The fund deputies at shareholders' meetings and in company boards could then be appointed by the fund board/the regional parliament and the company workers, respectively. The fundamental principle of the fund should be one citizen–one vote rather than one union member–one vote (as was the case in the wage earner funds).

Ideas about collectively-managed funds (mainly the pension funds described) for influencing the power balance already exist in several countries. (An important contribution to that debate that should be mentioned is Minds, Richard, "The Social Ownership of Capital", in New Left Review, no. 219, 1996.) One can imagine regional and national funds, which are linked together to form an international/European system. This system could be one of many counter powers to global capital, and it would for sure be much more powerful than, for instance, the so called "Tobin tax", which has been discussed these last years. Such an international fund strategy for economic

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24 The strategy document Power and Ownership was adopted by the Left Party's party board in April 2002. The working group had prepared a proposal of this document that was dealt with during a conference held in March 2002. The "power and ownership group" consisted of four activists within the Left Party and The Centre for Marxist Social Studies, I was one of them. An English version of the document can be found on www.econ-pol.unisi.it/econdem/

25 Insufficient, since it is not enough to change property conditions, this has to be combined with organisational democracy at all levels.

democracy has not been elaborated yet and needs of course continuing debate and theoretical development. I believe that ought to be an important task for the European left of today.

One important benefit with the wage earner fund strategy was that it was not only a vague vision, on the contrary, it was a very realistic and concrete way towards economic democracy and a democratic socialism. That was, of course, the reason why the bourgeois actors reacted with full power, mobilising every resources they had to force the labour movement into the defensive. The bourgeois class interests were threatened, and a hegemonic block was mobilised to put counter pressure on labour. We should have a lot to learn out of this experience. One conclusion would be that the basic problem with the wage earner funds was not the funds in itself, but the fact that the labour movement was not united behind this system-transforming strategy and that the hegemonic formation was to weak. When the Left Party adopted the "power and ownership document" in spring 2002, the power/property conditions for a week were the focus of the public discussion. Once again the bourgeois actors, parties, press, TV etc. were almost shocked. The focus of the debate were the so-called societal funds, which were considered as a threat to existing conditions of power and the private ownership of the means of production. This again showed the difference between a vague vision in a party programme and a concrete way of implementation. And, I believe, the necessity for the left to get these kinds of concrete strategies to be discussed, if these important issues should be more than vague and harmless programmes.

One very important lesson to be learned from the Swedish experience, with the struggle for economic democracy and the decline of the "Swedish model/people's home" afterwards, is that building a general welfare system without dealing with persisting unequal power/property conditions is not possible in the long run. That is the reason this paper has focused on these aspects. It is not enough to only focus on social reforms and to at the same time leave the ownership relations of enterprises out of question. Sooner or later these issues will come back and break through, whether initiated from the left or from the right. The Swedish experience was that, when social democracy was achieved, people realised that economic democracy was still far away. Demands for economic democracy were raised among workers, a wave of wild strikes among other things put pressure on organised labour, and the LO wage earner fund proposal has to be seen in this light. When economic democracy was demanded and private ownership of the means of production was questioned, the capitalist owners of big industry and the whole bourgeoisie mobilised, and then the real power balance of society was manifested. A power balance which had prevailed all the time beneath the People's home, grounded on ownership conditions.

Therefore, a European left strategy for defending/reconstructing/creating a general welfare system needs to comprise power/property/ownership issues as a natural part of the strategy. If they are forgotten, it seems it will not be possible to build any long-living general welfare model. In a longer perspective, it is my conviction that social democracy is not possible without economic democracy. It seems necessary to stress this, since these aspects seem much to absent in the left discussion today. In the short term, prospects for the European welfare state do not look too well. The development in Europe today seems to be going more and more in the direction of the liberal/American kind of "welfare capitalism"[26] than the general welfare model that Sweden was a famous example of. In order to change that development, there is a need to form a two-edged European Left strategy; to try to reconstitute the general welfare state and at the same time point at the necessity for changes of the fundamental power/property conditions. This should mean no less but to openly challenge the development driven by global capitalism and its interests. Perhaps a united European Left and labour movement in a longer perspective could constitute a strong enough hegemonic force to mount this challenge. This of course is a huge task, but is there any alternative?

A future hegemonic force aiming at economic democracy, a new socialist subject, needs to be a broad formation including a variety of progressive actors, inside and outside the parliaments as well as the institutionalised labour organisations, "old" movements like trade unions and political parties as well as the new social movements. At the same time, I would say the organised working class and the labour movement need to be central in this Subject, if it is to have any possibility to succeed.[27] For the European Left parties, one part in this work would mean coalition-building with social democratic parties and unions, at a first step building links with the left wing of these forces. This is strategically important, since there is a strong will for defending the general welfare state in these left wings, often in opposition to the social democratic leadership. The second part is perhaps even more difficult; tightening the connections with the new social movements to put pressure on the parliamentary forces to conduct another policy, which would go beyond defending the welfare state. In this context, it is necessary to bring into the debate – at for instance the European Social Forum – not only the analyses of prevailing capitalist power/property conditions, but also to pose the question of the socialist strategy towards economic democracy, which is almost non-existing today. In this work, I believe, the GUE (in cooperation with Transform) has a big responsibility.

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26 In Esping-Andersens sense of the concept.

27 In this lies a critique of Laclau/Moffes famous "post-Marxist" interpretation of the concept of Subject and its possible formation, a subject which in their interpretation is without any kind of centrality.

Lutz Brangsch

European Social Policy: The Demolition of the Social State Historical Roots and Processes. Current developments. Basic social security as a political concept and socio-political problem

Propositions for approaches to a common European socio-political strategy in the light of the German experience

Socio-political debates often focus on the differences between the social security systems within the EU area. This might be one of the reasons for the continued dearth of joint left positions on the future of social security. The following propositions are an attempt to highlight common features in the development of social policy in Germany and other European countries, particularly within the EU, in order to pinpoint the problem shared by all our countries.

1. In practically all European countries "social security reforms" are going beyond any mere tinkering with or phasing out of individual elements of social security. They represent a total break with the existing system. The objective is to bring about a fundamental change in the reproductive conditions of labour as a commodity in conjunction with a fundamental realignment of the balance of social power. What we are dealing with here, therefore, is not an old society with new social security systems but a whole new society.

It is well known that the aggressive campaign to cut back and alter social security systems has not overtaken society without warning. Although the impression is often created in discussions that this is merely the resurgence of a long-standing debate, that is not entirely true. Apart from changes in certain framework conditions, which will be discussed in 2), it needs to be emphasized that these changes mark a fundamental reorientation with regard to the society of the future that is coupled with a new vision of man. This process was particularly apparent in Germany during the first half of the 1990s. Its profound influence on the intellectual life and political conceptualisation of society cannot be overestimated. The Future Commission of the Free States of Bavaria and Saxony, chaired by Meinhard Miegel, gave a clear and specific mould to the image of the self-marketing individual who is the employer of his own labour. The potential social consequences of these developments, such as impoverishment and increasing violence in society, were also highlighted, but they were referred to as being necessary transitional stages on the path to the new era of an enterprising knowledge society that will bring affluence to all. The vision of man construed by Miegel and the Future Commission harbours huge ideological appeal. It envisages active, success-minded, competition-conscious, risk-taking, charitable and comprehensively educated people mastering their own fate and achieving success unencumbered by the "bureaucracy and patronage of the social state". Although most people realise that this image is a figment of the imagination, it appears to incorporate so many personal desires, experience and interests that it has largely elbowed out any other concepts of human existence, society and life.

It is this change of philosophical perspective that has enabled the fundamental political and conceptual shift to take place. All previous attempts at radically altering the structure and substance of social security failed. Admittedly, there has been a reduction in benefits and a strengthening of the repressive elements inherent in welfare state systems in recent years. But now the entire substance of the welfare state – the class compromise that recognizes wage-earners as being a collective, inherently solidarity-oriented subject and part of a socio-political relationship – is being questioned from an ideological standpoint and eliminated by means of legislation. Calling this one subject of the welfare state compromise into question provides a whole new foundation for the long-standing pattern of reproduction of wage-earners and the working class. A complete reconstitution of social relations is likely to ensue, which will exclude any return to previous forms and methods of providing social security. The development of alternatives therefore needs to emulate the radical break introduced and implemented by the opposing faction and, in turn, to present similarly radical ideas.

2. The fundamental break outlined above has been made possible by the convergence of various factors. The most important among them are:

- technological change and corresponding changes in the world of employment;
- changes in global relations including the collapse of the socialist world system;
- changes in the structures of interests within the labour force and on the side of capital;
- a new generation emerging within the elites (awareness and appreciation of the social element).

The individual components listed here are the subject of intense debate in many places. Here too, ideological, cultural and economic factors interweave and it is only by means of their cumulative impact that the shifting balance of power resulting from social changes can be explained. Individually, these factors irrevocably determine the path to change on which society has now embarked. Nevertheless, changes in the working environment – in the co-operation between the economy and society, on the one hand, and in the quality of the necessary labour, on the other – also open up the possibility of alternative routes. In this context, a great deal of emphasis is placed on "individualisation" as the embodiment of everything that tears traditional social cohesion apart. However, there can be no overlooking the contradiction between the focus on unbridled competition as the main driving force in society and the need for co-operative, responsible action in both the economy and society. While this is seen to be an unresolved problem, a solution in connection with the vision of man set out in 1) is not considered to be necessary and, indeed, remains beyond reach within the present social framework.

These views are supported by sociological research. Success in dispensing with the socio-political model of the welfare state as an instrument of compromise, therefore, depends on a strong ideological component. The change of elites now taking place in state, political party, business and union circles should not be underestimated. The departing elites, whilst none too enamoured of the welfare state, were still imbued with Ludwig Erhard's spirit and able to draw on their own experiences in recognizing and appreciating the stabilising role of the welfare state in balancing the interests of capital and labour, a role that originally sprang from the collapse of the Weimar Republic. The up-and-coming generation no longer acknowledges this role, particularly in the wake of the collapse of the socialist world system. Hence technocratic, populist and demagogical views of economic, social, cultural and political interrelations are becoming increasingly important.

3. The problem faced by social security systems is not their financial but their structural link with the capitalist organisation of labour. The welfare state compromise harbours the seeds of its own dissolution.

Within the welfare state compromise, social security systems were characterised by their strict orientation towards the skilling of workers. Optimum conditions for development were to be provided for people as workers and not as individuals. A qualified and co-operative workforce was to be made available to the economy, whilst extended opportunities for consumption and social stability underpinned by a certain cultural standard were to provide the incentives for working. Breaking with this reasoning was not an option. Tough and often not entirely successful fights achieved some degree of freedom from the demands of the capitalist organisation of labour, while some freedom simply developed as a temporary sideline or an added extra, as was the case with temporary periods of active employment policy. Despite its obvious emancipatory aspects, the welfare state compromise has therefore always included repressive elements, which are linked to a definitive lack of democracy in this field. Indeed, the self-governing bodies of social security funds have never actively promoted democracy. Instead, they have developed into authorities that are not under any obligation to their contributors but merely administer them.

The benefit structures of security systems have always been modelled on patriarchal stereotypes of gender relations with family structures and any non-conformist behaviour being punished by reduction or withdrawal of benefits. At the same time, minimum quality standards were not secured for those entitled to benefits; parts of social security (particularly income support) always remained beyond any kind of formal democratic control, and the provision of basic social security became increasingly patchy (e.g. bogus self-employment, other precarious jobs etc.) This is one reason why the "old" welfare state and self-governing bodies were unable to respond to the above changes, processes and new realities with anything but voluntary capitulation.

The recent exclusion of the self-governing bodies from the mapping out of reforms in recent years and the increasing responsibility of technocratic commissions in this process is a clear indication of the total failure of the traditional self-governing bodies. In that sense, the "old" welfare state was always an instrument of exclusion. In the latter phase of its development it has consciously expanded these very traits, whilst any surviving elements of solidarity have degenerated into empty phrases. Today, all that is left to the self-governing bodies is to ensure that cutbacks in benefits are properly executed.

Both these movements – the repressive orientation towards the capitalist organisation of labour and deficits in democracy – provide the all-important seeds for today's disintegration of the welfare state compromise and traditional social security systems. The concurrent discrediting of the theory and practice of socially organised, solidarity-based security systems should not be underestimated. This in turn supports and legitimises the strategy of further privatising fundamental existential risks (e.g. the replacement of public security systems by privately organised structures). In addition, the option of privatisation appears to provide neo-liberalism with a universal social complement that is fully in line with the processes of globalisation. Within specific national systems, solidarity-based elements continue to be dissolved as part of a covert strategy towards achieving greater systematic compatibility.

Cutting the structural ties with the capitalist organisation of labour and democratising social security can serve as a strategic starting point for the development of alternatives to the “old” welfare states and the current processes of cutback and change.

4. Alternative proposals to current tendencies need to be scaled to the level of action of the political opponents. Attempts at unconditionally incorporating all areas of life into the capitalist system need to be countered by attempts to actively resist such universal incorporation into all areas of life. Basic social security as a socio-political concept could form an element of such a strategy.
If we agree that the current social reforms find society at a crossroads, complex alternative approaches are called for in response. Developing a socio-political strategy forms a central element of such approaches, since this would shape the relationship between capital and labour and the reproduction of the labour force as a commodity. Together, these represent the most important conditions for the reproduction of the central social relationship.

Developing a concept of basic social security is not primarily about the development of a new model of social security. In essence it is about a comprehensive concept of social security, making proposals for both the institutions and benefits of social security, but above all setting out the demands placed on political concepts and institutions in all areas of society.

Under the present circumstances, the concept of basic social security needs to be understood as a practical concept and strategic objective. It needs to take the existing systems as a starting point, follow up on their emancipatory potential and thus develop approaches to their fundamental change.

The core concept of fundamental social security can be described by reference to the following principles.

Existing security systems will be supplemented in such a way that:

- benefits incorporate a basic amount, thus ensuring that benefits received by all eligible persons place them above the poverty level (creation of a poverty-proof society)
- general obligatory insurance is introduced, coupled with an unconditional entitlement to benefits depending on circumstances (removal of repressive and exclusionary tendencies),
- democratic self-administration of security systems is introduced, thus giving contributors and those entitled to benefits wide-ranging rights in respect of the form of benefits, quality assurance and service provision.

These core demands for basic social security will be supplemented by further elements that are essential for their implementation. These include

- a vigorous discussion of a separate vision of the future and vision of man. The question of “How do we want to live?“ must once again be made a political question posed openly and with confidence. In this context, solidarity needs to be presented as a possible and achievable option of personal and social lifestyle.
- reiteration of the question of the distribution of social wealth, again a question to be posed with equal confidence;
- enforcement of a minimum wage;
- use and activation of existing forms and approaches to solidarity-based, self-determined social policy (movements of patients, activities surrounding the Healthy Cities network, movements of people with disabilities or Local Agenda 21 etc.);
- taking account of the principle of gender equality throughout the security systems;
- development of active employment and structural policies that provide space for public employment assistance, employment in the public sector and alternative forms of economic activity.

As noted in the introduction, the propositions developed here refer primarily to the situation in Germany. In the author’s opinion however, many parallels can be drawn with developments in other EU countries and beyond. The dominant tendencies, in particular, such as the promotion of exclusion and repression through social security systems, the privatisation of social security, deficits in democracy, etc. constitute common qualities and problems of social security systems irrespective of their organisational structure. With advances in EU integration and globalisation it is precisely these qualities that emerge ever more clearly as common problems.

Asbjørn Wahl

The Ideological Legacy of the Social Pact

The trade union movement in Europe is on the defensive. Not only that, it is also in a deep political and ideological crisis. The general picture is that the trade unions, for the time being, are not able to fill their role of defending the immediate economic and social interests of their members. They have lost ground in all sectors and industries. The strongest and most influential trade union movement in the capitalist world in the post WW II period is thus today openly confused, lacks a clear vision and hesitates in its new social and political orientation. The strange thing is that it is the same theories, analyses and policies which gave it its strength in the post War period that has now become its heavy burden. The ideological legacy of the social pact policies is now leading the trade union movement astray.

The neo-liberal offensive

Behind this development lays the ongoing neo-liberal transformation of our societies. As this process is not the theme of this article, let me just mention some few, important points. Over the last 20 years, we have been confronted with an immense offensive from neo-liberal forces. Capitalist interests have gone on the offensive, and we have seen an enormous shift in the balance of power between labour and capital. Multinational companies have, of course, been at the forefront of this development. The post-war social pact between labour and capital[1] has broken down. The capital side has withdrawn from the social contract and is increasingly pursuing a confrontational policy towards organised labour.

An important part of this development is the attempts by multinational companies and their political servants to institutionalise their newly achieved power positions and to bring them further ahead. This is being done in particular through international institutions and agreements, as for example the World Trade Organisation, and through regional power structures like the European Union. Since these bodies are less democratic than local and state governments, they have obviously proved to be the most useful and effective instruments for the institutionalisation of corporate power.

The following analysis is thus based on the concept that the European Union of today is the way in which the predominant neo-liberal social and economic model is being institutionalised in Europe. The European Union and other regional and supranational institutions are being constructed on the basis of the new balance of power and cannot be considerably changed, democratised or defeated before we are able to shift the current balance of power in our direction. That means the mobilisation of popular and class power. This should, therefore, be the main long-term task of the trade union movement.

New conditions – same policy

However, this is neither the analysis, nor the project of the trade union movement in Europe today. The paradox we face is that while the economic and political preconditions for trade unions have changed enormously, most of them seem to continue to pursue their policy of the social pact. They consider the so-called globalisation not to be the result of conscious strategies, new power and class relations, but rather necessary consequences of technological and organisational changes[2]. In this framework, the change which is needed, they say, is to transfer the policy of the social pact from the national to the regional and global level. The methods are so-called social dialogue with employer organisations and state and supra state institutions, campaigns for the formal introduction of labour standards[3] in international treaties (for example in the World Trade Organisation) as well as the pursuing of corporate social responsibility (CSR)[4], codes of conduct and framework agreements with multinational companies.

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1 Social pact, social partnership, social contract, class compromise, concensus policy – the relatively stable power relations and peaceful cohabitation between labour and capital, which was dominant in the post War period in particular in most of Western Europe, has many names. Here, they are used about the same social phenomenon, which is elaborated in more detail later in this article.

2 This understanding does not differ much from the TINA notion, which was introduced and made immortal (?) by Margaret Thatcher during her time as the Prime Minister of Great Britain (TINA=There Is No Alternative).

3 International Labour Standards are defined as seven of the most basic conventions of the International Labour Organisation (ILO).

4 CSR is the term for voluntary codes of conduct developed by multinational companies. They are unbinding, not enforceable ethical standards which the companies have picked themselves. Their main aim seems to be the counter-acting of the negative public image which trans-national corporations have witnessed over the last years. The UN Global Conduct and the OECD Guidelines for Multinational Com-

The problem is that this policy is being pursued independently of a concrete analysis of power relations and without a realisation of the necessity of mobilising class and popular power in order to achieve social change. This leads me to a more comprehensive analysis of the current state of play in the European, or mainly Western European, trade union movement. To understand the current problems, we have to look closer at the history of the European labour movement – in particular the policy of the social pact, which can hardly be overestimated if we really want to come to grips with the current political and ideological crisis.

The historic compromise between labour and capital

In this analysis I will only focus on some key elements which are decisive for the development of the policy of the social pact. During the 20th century, the trade union movement gradually developed a sort of peaceful cohabitation with capitalist interests. During the 1930s this cohabitation started to become institutionalised in some parts of Europe when the trade union movement stroke accords with employers' organisations, particularly in the North, and after WW II in most of Western Europe.

This social pact between labour and capital formed the basis on which the welfare state was developed and wages and working conditions were gradually improved. From a period characterised by confrontations between labour and capital, societies entered a phase of social peace, bi- and tripartite negotiations and consensus policies. Due to important achievements in terms of welfare, wages and working conditions, this policy gained massive support from the working class, and the more radical and anti-capitalist parts of the labour movement were gradually marginalised. Thus, this development led to the de-politisation and de-radicalisation of the labour movement and the bureaucratisation of the trade union movement. It became the historical role of the social democratic parties to administer this policy of class compromise[5].

It is important to realise that this social partnership between labour and capital was a result of the actual strength of the trade union and the labour movement. The employers and their organisations realised that they were not able to defeat the trade unions. They had to recognise them as representatives of the workers and to negotiate with them. The peaceful cohabitation between labour and capital rested in other words on a strong labour movement. Another important factor in the post WW II period was that capitalism experienced more than 20 years of stable and strong economic growth. This made it possible to share the dividend between labour, capital and public welfare.

A decisive part of the social pact was the existence of national regulation of capital and markets. Capital control was the order of the day in all countries. Settlements between labour and capital were made in rather orderly and peaceful ways within national borders. As an important result of that, the trade union movement became very nationally oriented. Internationalism in the trade union movement had for a long time already had tendencies of developing into a sort of diplomacy in international bodies (like the ILO) and even into different forms of trade union tourism, with little or no connection with the immediate needs and interests of the members, even though some of the internationalist political rhetoric remained in place.

For the trade union movement the social pact in reality represented the acceptance of the capitalist organisation of production, the private ownership of the means of production and the employers' right to lead the labour process[6]. In exchange for the gains in terms of welfare and working conditions the trade union confederations guaranteed industrial peace and restraint in wage negotiations. Simplistically, the welfare state and the gradually improved living conditions were what the rather peaceful labour movement achieved in exchange for giving up its socialist project. Today we can conclude that it was a short-term achievement in a very specific historical context.

An important feature of this context was the existence of a competing economic system in the Soviet Union and Eastern Europe. As the British historian Eric Hobsbawm[7] has pointed out, this was instrumental in making the capitalists in the West accept a compromise. It was on the basis of this compromise that the most important welfare reforms and institutions were developed during three decades after WW II. The radicalised labour movement which came out of the economic and social crisis of the 1930s and the WW II was, in other words, met by a conscious strategy by its capitalist counterparts. They voluntarily entered into social pacts and gave in to many

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panies are both parts of this growing industry of guiding standards which do not interfere with power relations in the companies, and which so far have had very little or no identified effects in terms of improved corporate behaviour.

5 This explains the current ideological and political crisis in the social democratic parties. Since these parties developed into becoming the bearers of the policy of the social pact, and thus became mediators between labour and capital, they obviously face problems when the class compromise is breaking down and class contradictions once again are coming more openly to the fore.

6 This was, of cause, only seldom, half way and indirectly expressed by leaders of the labour movement. Socialist rhetoric was regularly used, especially during the first years of class co-operation, although more in the trade unions than in the Labour Party, since socialist sentiments were still strong at the grassroots. The main lasting consequence of the policy of the class compromise, however, was the de-politisation and the de-radicalisation of the working class.

7 See Eric Hobsbawm (1994): Age of Extremes, The Short Twentieth Century 1914 – 1991, London.

of labour's social and economic demands in order to win time and dampen socialist sentiments in the labour movement. Seen from a position more than 50 years later, we can say that this corporate strategy proved to be quite successful.

A stronger division of work within the labour movement was a noticeable side-effect of the class compromise. The conditions for buying and selling labour would be regulated by the trade union movement through negotiations, while social security when out of work would be dealt with by the party in parliament. This laid the foundation for a more narrowly economistic development in the trade union movement, something which weakens trade unions today, as social democratic parties more or less have deviated from even their former reformist politics.

The ideology of the social partnership

During the era of the social pact, this corporate strategy was not uncovered by the labour movement. On the contrary, based on real experience, i.e. 20 years of continuous improvements in living and working conditions, the common understanding was that a way had been found to a society which brought social progress and a relatively fair distribution of wealth to ordinary people – without having to make all the sacrifices connected to class struggle and social confrontations. The dominant apprehension was that society had reached a higher level of civilisation. Through gradual reforms the labour movement had increased democratic control of the economy. The crisis-free capitalism had become a reality. No more economic crises like that of the 1930s, no more mass unemployment, no more social distress, no more misery among people. All social trends pointed upwards. For a great many in the labour movement this was the reformist road to socialism – and it was for everybody to see that it worked!

These real existing social achievements formed the material basis for a social partnership ideology which became, and still is, deeply rooted in the national and European trade union bureaucracy. Personally, I met this social partnership ideology openly expressed for the first time when I took part in basic trade union education at the educational centre of the Norwegian Confederation of Trade Unions at the beginning of the 1980s.

There I learnt that the first third part of the 20th century was characterised by strong confrontations between labour and capital – including general strikes, lockouts and the use of police and military forces against organised workers on strike. This was a destructive period which in the end (in the 1930s) brought the working class nowhere. It was only when this confrontational policy was abandoned, when the trade union movement started to take full social responsibility, that real progress was achieved – in the form of better working conditions, better wages and a number of welfare reforms. In other words, confrontations with the employers are destructive, peaceful social dialogue is the way forward. This was the lesson which was taught at the trade union educational centre as late as the beginning of the 1980s.

The above analysis was wrong at that time and is wrong today, but the consequences of this policy are becoming more dangerous for the trade union movement today as the social pact is breaking down. What this analysis fails to see, is that the great achievements in terms of welfare and better working conditions during the class compromise policy after W.W.II represented a harvesting period. This was made possible only because great parts of the working class had been able to shift the balance of power between labour and capital through a number of confrontations and hard class struggle during the first part of the 20th century (including the Russian revolution). It was in other words the confrontational struggles of the previous period which made it possible for the trade unionists of the social partnership era to achieve what they did through peaceful negotiations.

The breakdown of the social pact

The class compromise, however, was a fragile construction. As part of its fundament was a stable capitalist economy with high growth, the compromise became gradually undermined as soon as deep economic crises again started to ride western capitalism as from the early 1970s. The crises resulted in increased market competition, neoliberalism gained ground at the political level and capitalist forces went on the offensive, among other things in order to reduce costs – by attacking trade union rights, keeping wages down and reducing public expenditure, i.e. the economy of the welfare state.

The de-radicalised and de-politicised trade union and labour movement was taken by surprise by this development. The employers suddenly became much more hostile at the negotiating table. Negotiations which had previously mainly been about improvements of wages and working conditions, now also started to involve attacks on previous achievements and existing regulations. As most of the trade union leadership had had all its education and experience in the environment of class compromise and social peace, it was not at all prepared for these hostile attacks. Within the framework of the ideology of the social pact, this neo-liberal offensive was simply incomprehensible. The trade union bureaucracy became pacified, the trade union movement was forced on the defensive, in many countries a lot of workers left their trade unions altogether – as they proved unable to protect their interests.

Thus, the 1980s represented an enormous backlash for the trade union movement, something which can be seen from the development of the level of unionisation in some important West European countries[8]:

Level of unionisation (%)	**1985**	**1995**
France	15	9
Italy	48	44 (1994)
Great Britain	59 (1979)	31
Spain	27 (1980)	19 (1994)
Germany (West)	35	29 (1993)

Most of the few trade unions which tried to take action against the neo-liberal attacks, like for example the British mineworkers, were defeated, not least because the bureaucracy of the trade union confederation (TUC) obviously considered the militant industrial action to be a bigger threat to the consensus policy of the social pact, than the furious attacks from the mining companies and the thatcherite regime[9].

With the breakdown of the command economies of the Eastern Europe around 1990, the only alternative to western capitalism disappeared. Capitalism had triumphed on all fronts, and the compromise with labour was no longer necessary. Capitalist forces could pursue their narrow economic and political interests in a more uninhibited way than they had been able to for decades. That is why the class compromise (or the consensus model) has broken or is breaking down all over Western Europe. The historical and economic preconditions for such a compromise are no longer there, and the most important product of this compromise, the welfare state, is being put under increasing pressure.

This analyses of power relations are not realised by the dominant trend in today’s trade union leadership. When the neo-liberal offensive took off some twenty years ago, and the employers gradually broke with the policy of social partnership, the only answer most of the trade union bureaucracy was therefore able to come up with, was to continue its consensus policy. Some trade unions have almost been begging rather hostile employers for a continuation of the social pact. This policy has been fuelled by the strong national orientation of the trade union movement. Rather than reorienting themselves towards confronting the gradually more aggressive capital interests, their narrow national orientation and strong social partnership ideology have led great parts of the trade union movement into an alliance with, and consequently a subordination under, “national” capital in a struggle for better conditions of competition[10].

In this way, great parts of the trade union movement have been drawn deeper into business unionism and legal formalism rather than shifting towards a strategy based on class relationship and an assessment of the balance of power. The struggle of the German trade union movement for a “unity for work”[11] during the middle of the 1990s is one good example of this policy of national alliance with the employers. In the same way the relatively narrowly focused struggle for minimum labour standards in the WTO, which dominant parts of the international trade union movement has been pursuing over the last ten years, is an excellent example of the legal formalism which is developed completely independent of an analysis of the balance of power between labour and capital.

The trade union bureaucracy both at the national and at the international level continues to consider itself mediators – between labour and capital. Even in todays’ world, when capitalist forces are on the offensive and have provoked the development of an international popular justice and solidarity movement which oppose the current corporate globalisation, the international trade union movement is eager to define itself as mediators also between this movement and the corporate interests.

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8 Taken from A Wahl et al.(1998): “På tide å lære fransk” Strategi for motstand, in F Gustavsen and M Thorkildsen (ed.), *Markedets vidunderlige verden*, Oslo.

9 In the 1990s, after having been further weakened and legally handcuffed by the thatcherits, the TUC officially admitted that it had been wrong in not supporting the miners’ strike. This has not, however, resulted in any fundamental change of trade union strategy, at least not in breach of the ideology of the social pact.

10 The Germans use the meaningful notion “Standort Wettbewerb” on this phenomenon, refering not only to competition between companies but between entire societies, including taxation, social standards, size of public sector etc., which now increasingly seems to be the form of competition in the open, unregulated global economy.

11 “Unity for work” (Bündnis für Arbeit) was proposed by the German Confederation of Trade Unions as a pact between itself and the employers’ association. It failed bacause the employers felt strong enough to turn away the “offer” of a new, formalised, social pact – even if it included downgrading of working conditons. What the confederation demanded in exchange was a guarantee of job security.

This was openly expressed when the 3rd World Social Forum (WSF) was held in Porto Alegre in Brazil last January – in parallel with the World Economic Forum (WEF) of the political and economic elites in Davos in Switzerland. The international trade union movement then issued a statement, "Democratising Globalisation: Trade Union Statement to 2003 WSF and WEF," which was signed by all the important international trade union bodies[12]. Among other things it stated that: *"The international trade union movement has a common message to Porto Alegre and to Davos. Vision, political will and the necessary capacities must be brought together at the global level to attain development and guarantee decent work for the millions of workers who today live in precariousness and poverty without prospects of a better future. That will require resource commitments as well as commitments on paper. It will require governance systems to promote our common good, our rights and democracy. It requires effective democratic processes, and it requires dialogue to make it happen. We will press the WEF to address the need to globalise social justice. At the same time, we will contribute in the WSF to finding constructive approaches to democratising globalisation in the interests of all working people."*[13]

Most of the international trade union organisations do not, in other words, consider themselves to belong to the new social forum movement against corporate globalisation[14]. They consider this new movement to be too politically radical – and themselves to be go-betweeners. The ICFTU or the Global Unions therefore do no join forces with the rest of the movements when they go to the World Social Forum – they held their own conferences and meetings on the fringe of the forums. At the same time, they send equally high-ranking delegations to the World Economic Forum. "We have always achieved most through dialogue," is the constantly recurring refrain.

Policies independent from power relations

The complete lack of analysis of power relations and preconditions for trade union strategies can also be witnessed in trade union educational work which takes place internationally. A number of West European trade unions and confederations are running training programmes in the form of solidarity projects with sister unions in Eastern Europe as well as in developing countries. In these educational projects, Western unions are disseminating what they consider being their own great success – the social pact. They are strongly trying to convince the trade union movement in the rest of the world of the advantages of pursuing a social partnership model. Under current power relations this kind of education can of course be directly counter-productive – and to very little help for trade unions in Eastern Europe and the developing world which are under attack from aggressive, confrontative employers.

In the developed world, it is important to notice that the very defensive and deteriorating development effected more strongly trade unions in the manufacturing industry than in the public sector and in important parts of the transport industry, among other things because the manufacturing industry is more strongly and directly exposed to international competition. Thus the setbacks of the trade unions and the political and ideological shift to the right have been more prevalent in the manufacturing industry than in any other part of the movement.

The disastrous continuation of a policy of social partnership, in a situation in which the economic and social basis for this partnership is fading away, is today being pursued by most of the European trade union bureaucracy – in particular the European Trade Union Confederation (ETUC). Thus, over the last years, we have seen growing activities in the form of consultations, negotiations, lobbying and so-called social dialogue between the *social partners* on the labour market. The result so far is a strengthened bureaucratic development in the European trade union movement. The social dialogue, or negotiations at the EU level, which it is wrongly being characterised by some, is an exercise which does not include the right to take industrial action. Easy to understand, then, that results so far have been meagre.

At the international level, the ICFTU is the strongest advocate for the policy of social partnership, very clearly expressed in a statement in which it commented on the UN Global Compact. Among other things, it boasts of having issued a joint statement with the UN using some of the same key language as in a corresponding joint statement between the UN and the International Chamber of Commerce, namely:

"It was agreed that global markets required global rules. The aim should be to enable the benefits of globalisation increasingly to spread to all people by building an effective framework of multilateral rules for a world

12 The statement was endorsed by the so-called Global Unions Group – including the International Confederation of Free Trade Unions (ICFTU), the Global Union Federations (GUFs) and the Trade Union Advisory Committee (TUAC) to the OECD; - the World Confederation of Labour (WCL); and the European Trade Union Confederation (ETUC).

13 Quoted from: www.icftu.org/displaydocument.asp?Index=991216994&Language=EN

14 There are exceptions. In particular, the Public Services International (PSI – www.world-psi.org), the international umbrella organisation of national public sector trade unions, has played an important role in the World Social Forum movement, in particular through the WTO/world trade focused Our World Is Not For Sale network (www.ourworldisnotforsale.org). An increasing number of national trade unions and local branches are also gradually involving themselves more strongly with the new, global justice and solidarity movement.

economy that is being transformed by the globalisation of markets. (…) The meeting agreed that the Global Compact should contribute to this process by helping to build social partnerships of business and labour."[15]

At company level, European Works Councils have become the bureaucratic answer. These councils of workers' representatives in transnational companies give the workers practically no real influence, although the bodies can be useful for information and trade union contacts. The councils give much less influence than the similar institutions which in the post WW II period were developed in the Nordic countries and in Germany, but the workers' representatives have lost real influence in the companies also in these countries as market forces have gained ground.

In Europe, this policy of powerless social dialogue is bringing the trade union movement into a deadlock. A trade union policy based on the mobilisation of their members to confront and fight the attacks from the employers is almost non-existing at the EU level, even though we have seen tendencies in this direction at the national level (France 1995, Italy 2002).

The depressive results of these policies have been that the dominant part of the trade union movement has accepted a step by step reduction in welfare and working conditions[16]. Through negotiations trade unions have gradually accepted an increasing flexibilisation of work. One important effect of this development has been the demoralisation of workers and a reduction in trade union membership, as the trade unions have not been able to protect the interests of their members. A fuelling of the growth of right wing populist parties is probably the most dangerous result of this trade union policy of indulgence.

Strategic considerations

So what can the trade union movement do in order to confront the global corporate offensive of today? One thing is clear, radical rhetoric is not sufficient, even if that is a common phenomenon at international meetings. Experiences from the first European Social Forum in Florence in Italy in November 2002 can stand as an example. There we heard at least two types of trade union contributions. Some were very militant ones from small, but non-representative groups. Another type of presentation was made by representatives from mainstream European trade unions. An example was a representative of the German IG Metall, who wanted to open the struggle for the 30 hours' week. He did not mention, however, that the same union negotiated an agreement with Volkswagen only a year before, which undermined existing wages and working conditions in order to make the company set up its new factory in Germany rather than in a low-cost Eastern European country. None of these trade union representatives addressed the real problems of the trade union movement in Europe today. It is necessary to do that as a basis for developing a viable trade union strategy.

The first thing is to realise that multinational companies and other capital interests have to be confronted, or more correctly that the confrontative policies of the employers have to be met by the trade unions. There are disagreements and contradictions on this position in the trade union movement today – at the national and local as well as at the international level. Those in the trade unions who want to revitalise their organisations, will therefore have to build new alliances based on the best parts of the movement. Even if there are many exceptions, these labour organisations are mainly to be found in the public sector, in transport, in some of the private service sectors, and in a number of local branches across the trade union movement.

To confront transnational corporations it is necessary to build networks and encourage co-operation between workers in the same companies across national borders, but also across company borders. The development of international, class-based solidarity will have to break with the tendency of business unionism which favour "our" company over "other's." This is a tendency which has stronger traditions in the US trade union movement than in Europe, but it has been strengthened also in Europe over the last twenty years, as depoliticised and deradicalised trade unions have joined forces with "their own" employers to protect jobs at the national level – in competition with companies in other countries. This narrow misguided strategy must be replaced by a joint class-based struggle in which democratic control of economy and production is taken to the fore.

Another main struggle around which a new internationalist, solidary trade union alliance will have to be built, is the struggle against the ongoing corporate take-over of our public services. This means fighting privatisation and competitive tendering, and to defend the achievements which were won through the welfare state. The corporate take-over of these parts of society represents exactly some of the most important means which today contribute to the shift of the balance of power between labour and capital in our societies.

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15 "ICFTU statement on the Global Compact", www.icftu.org.

16 In different European countries we have experienced retrenchments in welfare provisions like reduced sick pay and pensions, cut in unemployment benefits, higher user fees in public education, nursery schools, health and social services, the abolition of non-profit housing policies, etc. Working conditions have been adversely affected both through the weakening of labour laws and agreements, including the weakening of working hours regulations, reduction in overtime pay, reintroduction of shift work in many industries, reduced job security, more temporary short contract jobs, more use of contract and leased workers, more decentralised bargaining, etc.

A further important part of a progressive trade union strategy is to challenge the dominant thinking (ideology) of the trade union bureaucracy – the ideology of social partnership, or the peaceful cohabitation between labour and capital. We will have to have hard, but friendly internal discussions on this particular subject within our movement. These discussions should be based on the understanding that the policy of social partnership is not the result of conspiracies or treachery, but the result of a specific historical development. We need new analyses, analyses which can explain to people how the historical compromise between labour and capital was realised and why it has broken down. People's discontent with current developments has to be taken seriously, their anxiety and dissatisfaction should be politicised and channelled into trade union and political interest-based struggles for their working and living conditions. That is the only way to break away from the current trend where many of these people are being mobilised by right wing, populist parties.

We should focus on welfare and working conditions, on the brutalisation of work which is taking place as a growing part of the economy is exposed to market competition and workers' influence over their working day and control of the work process are being reduced.

It is important to realise that this also has a lot to do with people's self-confidence. Workers' dignity is systematically being attacked – in the work places, in the media, in the general public debate and in the social and cultural climate of a society dominated by middle-class thinking and values and neo-liberal policies. This can be changed only by reclaiming the notions of productive labour, class relationship and class identity. It cannot, however, be imposed upon the working class from outside, it has to be developed as a part of, and during, the social struggle.

Finally, we do have to build alliances with the new, global movement against neo-liberalism – for democracy, global justice and solidarity. This global movement of movements is currently more politically radical and system-critical than the trade union and the labour movements, even though its knowledge of class relations is rather poor. The trade union movement needs the radicalism and the militancy of this popular movement in order to break with a reality which is no longer there. If this alliance is developed constructively and correctly, the two movements could reinforce each other and bring the struggle to a higher level.

The social pact never was a defined aim of the labour movement; it was the result of a specific historical development. It was made possible only as a result of an enormous shift in the balance of power between labour and capital. The combination of the Russian revolution, a strong labour and trade union movement in the West, strong liberation movements in the third world and a long period of stable economic growth in the capitalist economy after WW II were the very specific preconditions which made it possible with a relatively stable period of class compromise until the 1970s. To aim at a new class compromise, or a social pact, under the current much less favourable power conditions, is, in other words, rather illusionary.

Our aim, therefore, must be to go beyond the social pact and the welfare state. Only a transformation of society which is deep enough to remove the material preconditions for a restoration of neo-liberal policies, say capitalism, can safeguard the interest of working people. Nothing less than socialism can provide that.

Asbjørn Wahl

Broad Alliance for the Welfare State[1]

Introduction

In September 1999 in Norway, a broad alliance of trade unions was established in order to strengthen the struggle against privatisation, deregulation and market liberalism - for a strong public sector. It was named «For the Welfare State»[2], and the six unions[3] involved represented all together near half a million members (there are 4,5 million inhabitants in Norway). A year later, another 20 national organisations have joined the alliance, almost doubling the number of members.

The alliance is no longer limited to the trade union movement. Among the new affiliates we find user organisations, student organisations, retired people's association, farmers' and small-holders union etc. In other words, a broad popular movement is about to be born. While the initiating unions all represented the public sector, a number of private sector trade unions have joined force during the first year of the campaign.

In Norway there are three national trade union confederations. The Norwegian Confederation of Trade Unions (LO) is biggest and has traditionally worked closely with the Labour party. The Confederation of Vocational Unions (YS) is its main competitor and has proclaimed itself independent of political parties, so-called neutral, but in reality to the right of LO, even if it has been politicised over the last years and has moved closer to the LO. The third one is The Confederation of Academic and Professional Unions in Norway (AF), which has an agreement of co-operation with the LO on areas other than wage policy[4].

The three confederations, in particular the LO and the YS, have at times been in harsh competition with each other, even if they have become less hostile over the last 20 years. The alliance For the Welfare State involves unions from all the three confederations, something which makes it historic in the Norwegian context.

The alliance has developed a joint political platform which is the basic fundament that all organisations which want to join the alliance have to endorse. The steering committee consists of the presidents of the six founding unions, which also finance a co-ordinating office that has been set up with a Secretary responsible for the day to day running of the organisation (actually the author of this article). An advisory Council has been created in which all affiliates can have a seat. Due to the higher than expected number of affiliates, the structure of the organisation and the composition of the steering committee are already being reassessed.

Background

The welfare state is, like the labour movement, in historical terms a relatively young phenomenon. They both evolved with the capitalist mode of production – when wage labour became the dominant form of productive activity. The capitalist mode of production separated the workers from their means of production, so the only thing they had to sell in order to make a living was their labour force. This means that the income was lost for those who, for different reasons and in different periods of life, were unable to take part in wage labour.

In response to that, workers started to organise among other things in order to set up collective funds from which they were given support when involuntarily out of work. These funds were the first germs of a welfare system. Welfare arrangements were, in other words, a response to the social insecurity which followed the development of wage labour in a labour market. Thus, welfare arrangements developed in the entire western industrialised world, although in different forms. Gradually the states involved themselves, and public welfare schemes were introduced, jointly financed through taxation. These were mostly in the form of means tested, minimum benefits and grew side by side with private charity – both very much influenced by paternalistic ideas.

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1 Published in Abramsky, Kolya (ed.) (2001): Diverse Voices of Resistance, London. .Also published in German in the Magazin Sozialismus, 11/2001. Campaign for the Welfare State (For velferdsstaten).asbjorn.wahl@velferdsstaten.no

2 «For velferdsstaten» in Norwegian.

3 The unions were, in order of size: Norwegian Union of Municipal Employees, Norwegian Union of Teachers, Norwegian Nurses Association, Norwegian Association of Health and Social Care Personnel, Norwegian Civil Service Union and Norwegian Union of Social Educators and Social Workers.

4 The Confederation of Academic and Professional Unions (AF) has recently split. The most high-ranking professional academics broke out to set up the Federation of Norwegian Professional Associations and the remaining unions (of which the great majority consisted of nurces and teachers) have decided to abolish the AF all together.

This started before the labour movement was strong enough to influence state politics. The first reforms most often were initiated by social liberal politicians towards the end of the 19th century – for two reasons. Firstly, because the exploitation of labour was so harsh, that the introduction of health and safety regulations and social benefits were necessary purely for the reproduction of sufficient labour to the rapidly growing industry. Secondly, the incipient organisation of workers in trade unions and political organisations caused fear of opposition and revolt, which the ruling classes wanted to dampen through welfare initiatives.

The real growth of the welfare state, however, started at the time when the labour movement gained political influence and social democratic parties came to political power in a number of countries – in Norway in 1935, but mainly after World War 2. Then solidarity and human right-based ideas gradually took over from paternalism and charity – in particular in the most advanced welfare societies. At the very most, public share of Gross National Product (GNP) in many Western European countries was well above 50 percent[5].

The level to which public services and welfare systems have developed, as well as welfare models, differ considerably between countries. Roughly, we can differentiate between three welfare models:

1. The market or the Anglo-Saxon model (USA).

2. The work-related or the Continental European model (Germany).

3. The universal or the Nordic model (Scandinavia).

In many ways we can say that the level of the welfare state is a product of the strength which the labour movement is able to achieve in a capitalist society. The Nordic model is seen by many as the most advanced form of such a welfare state.

Class compromise

In Norway, as in many other countries, the labour movement struck an accord with capital forces – a sort of peaceful cohabitation between labour and capital. The compromise rested on a strong labour movement on the one hand and a capitalism in stable and strong economic growth on the other hand. As the British historian Eric Hobsbawm[6] has pointed out, the existence of a competing economic system in Eastern Europe, also was instrumental in making the capitalists accept a compromise. It was on the basis of this compromise that the most important welfare reforms and institutions were developed during three decades after WW2.

The participation of the trade union movement in the compromise was in reality to accept the capitalist organisation of production, the private ownership of the means of production and the employers' right to lead the labour process[7]. At the same time, the trade union confederation guaranteed industrial peace and restraint in wage negotiations. Simplistically, the welfare state and the gradually improved living conditions were what the rather peaceful trade union movement achieved in exchange for giving up its socialist project. Today we can conclude that it was a short-term achievement in a very specific historical context.

One important part of the class compromise was a stronger division of work within the labour movement. The conditions for buying and selling of labour would be regulated by the trade union movement through negotiations, while social security when out of work would be dealt with by the party in parliament. This laid the foundation for a more narrowly economistic development in the trade union movement, something which weakens trade unions today, as social democratic parties more or less have deviated from even their former reformist politics.

The class compromise, however, was a fragile construction. As part of its fundament was a stable capitalist economy with high growth, the compromise became gradually undermined as soon as deep economic crises again started to ride western capitalism as from the early 1970s. The crises resulted in increased market competition, neoliberalism gained ground at the political level and capitalist forces went on the offensive, among other things in order to reduce costs – by attacking trade union rights, keeping wages down and reducing public expenditure, i.e. the economy of the welfare state.

With the breakdown of the command economies of the eastern Europe around 1990, the only alternative to western capitalism disappeared. Capitalism had triumphed on all fronts, and the compromise with labour was no longer necessary. Capitalist forces could pursue their narrow economic and political interests in a more uninhibited way than they had been able to for decades. That is why the class compromise (or the consensus model) has

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5 Sweden even passed 70 % during a period in the 1980s.

6 See Eric Hobsbawm,(1994): Age of Extremes, The Short Twentieth Century 1914 - 1991, London.

7 This was, of cause, only seldom, half way and indirectly expressed by leaders of the labour movement. Socialist rhetoric was regularly used, especially during the first years of class co-operation, although more in the trade unions than in the Labour Party, since socialist sentiments were still strong at the grassroots. The main lasting consequence of the policy of the class compromise, however, was the de-politisation and the de-radicalisation of the working class.

already broken or is on the verge of breaking down all over Western Europe. The historic and economic preconditions for such a compromise are no longer there, and the most important product of this compromise, the welfare state, is being put under increasing pressure, although Norway's relatively high oil revenue has contributed to dampening or delaying the pressure on the welfare state as well as on the trade unions and the workers directly – compared to the situation in many neighbouring countries.

Shaky foundations

Under the pressure of the current globalising economy, in particular the multinational companies, the financial institutions and the free movement of capital, public sector and welfare services are being attacked all over the world. Even though Norway today is richer than ever before in history, and is lucky enough to have an unemployment rate lower than most countries, social and economic inequalities are increasing in society. Public as well as private poverty is growing side by side with an ever more visible private abundance of wealth among the élite.

Recent research has found that 70,000 children are living under the poverty line in Norway – and the number is increasing. At the same time 20 new millionaires are produced every day. While average wages increase by 15 percent from 1995 to 1998, the corporate fat cats increased their income by about 35 percent. While public consumption increased by 2 percent per year in the period from 1993 to 1999, private consumption increased by an annual 3.6 percent. The public share of GNP was reduced from 52 to 43 percent between 1992 and 1999.

This considerable redistribution of wealth causes, of course, financial problems in the public sector. All such problems, however, are referred to the public sector itself by the neo liberalists; to its lack of productivity and efficiency, including trade union opposition – and with privatisation as the one and only solution.

This impoverishment of the public sector creates dissatisfaction among people and consequently weakens the basis for and possibilities to maintain universal public services. In a society with increasing inequalities the rich gradually will establish private services to avoid public queues and deficiencies. In the long run this will threaten the legitimacy and the existence of the universal welfare state. That is one of the reasons why the Norwegian unions, and other popular organisations, have joined forces in order to defend the principles of the welfare state and improve its services.

In short, we can summarise that the development of the welfare state has rested on three main pillars: the social state thinking of the social liberal politicians, the struggle of the labour movement (at the particular time expressed through its strength in the class compromise) and the existence of a competing system in eastern Europe. The latter has broken down. The relatively stable class compromise is breaking down. This means that if the working class is going to maintain what it has achieved, and not fall back to minimum, paternalistic and means tested benefits of the social liberal type, it will increasingly depend on the strength it still represents and is able to mobilise in today's society - in confrontation with offensive capitalist forces.

The platform

In this context, six of the biggest trade unions in the public sector joined forces towards the end of 1999. A political platform was developed, in which the struggle for the welfare state is seen in a wide and global perspective. It states that, over the last years, we have experienced that neoliberal politics have gained ground nationally as well as internationally. Through deregulation, privatisation and competitive tendering, public services, democratic governance and control are being weakened. Internationally, financial speculation has made national economies tremble. Market forces have gained ground at the expense of public governance. This has caused the development of increased inequalities in society, attacks on welfare and public services and ruthless exploitation of resources and the environment.

The alliance underlines that it is not defending every aspect of the current welfare state, particularly as it does not serve its inhabitants in the way it should. There are many deficiencies, "difficult accessible public services, imperfect care and welfare services which do not reach everybody. It is therefore necessary to strengthen and further develop the welfare state."[8] This is the reason why the alliance emphasises the need to ally with the users of public services. This also represents the answer to right wing political forces which are continuously trying to divide and rule between producers and users of public services, describing every trade union struggle in defence of public services as "a fight for their own narrow interests at the expense of the users".

The platform further states that "we (…) face a decisive struggle for public services and the democratic governance of our society. The struggle is all about protecting a strong public sector and creating a society which take the environmental challenges seriously. We experience a redistribution of wealth from public to private, and

8 Quoted from the political platform of the campaign.

public budgets are being put under increased pressure. The fight is about what kind of society we are going to build in the future. The struggle against privatisation and competitive tendering is a defense for the welfare state, for a just and equal distribution."

The platform summarises its political position in the following eight points:

- We support the restructuring of the public sector, based on security for and motivation of the employees, while making use of their experience, their creativity and their knowledge of the needs of the users.
- We stand up for the principles of the welfare state, while rejecting a return to means testing and the undermining of acquired rights. We will therefore fight against the development of inequality and rising poverty in society.
- We support the democratically elected management of public resources, while fighting decisions transferring important public assignments to the market forces.
- We reject the current globalisation of the economy which is based on liberalisation, deregulation and free flow of capital. We demand action against financial speculation and limitation of the enormous power of multinational corporations.
- We support the struggle for a just distribution of the resources of the world.
- We oppose the trend of turning public sector monopolies into private sector monopolies with the assistance of multinational corporations.
- We reject tendering of public services, which is also used as a means to undermine wages and working conditions of the employees.
- We fight for adequate funding for public services. It is unacceptable that private riches and public poverty develop side by side in a society which is richer than ever before.

Based on this platform, the campaign aims at building an alliance sufficiently strong to be able to carry forward an alternative policy. It realises that only a broad popular alliance will be able to confront the current offensive of market forces. The perspective has to be internationalist, but the main task of the Norwegian unions is to organise the struggle at the national level.

Future plans

The first year of the welfare campaign has mainly been used to build and consolidate the alliance. The response has been overwhelming, far above even the most optimistic expectations of the founders. The alliance has, however, also been met with opposition and criticism within the Norwegian Confederation of Trade Unions (LO), both for building alliances with non-LO trade unions and for "not having sufficient understanding of the important role of the private sector" as some private sector trade union bosses have put it. This criticism, however, has calmed down as a number of private sector trade unions have joined the alliance[9]. They have realised that the fight for the welfare state is not a case for public sector workers only, but in the interest of all workers.

The alliance was initiated and has first and foremost been established at the top national level. This is at the same time the strength and the weakness of the alliance. It is strong because it reflects a strong and wide-reaching dissatisfaction with the current economic and political development in Norway (and internationally) and legitimates local and co-ordinated resistance. It is weak because it has not arisen from real movement at the grassroots, and a great part of the members is still not mobilised. It can, in other words, be in danger of developing into a top-down bureaucratic creature.

In order to make it a real nation-wide movement, the setting up of regional and local branches of the campaign therefore has been a priority. In most of the counties and in a number of municipalities such branches have already been established – in a flexible way, where people are urged to focus more on activities than on formal meetings and minutes. Apart from supporting the political platform of the campaign, there are no formal requirements. Local branches for example are free to organise the way they like.

An electronic newsletter is being distributed to everybody who likes to receive it, and a web site is being planned. A document called "We demand a redistribution of wealth in favour of the welfare state" has been developed and distributed to the members of government as well as to the political parties in the parliament. The "brutalisation of work" has become an area of priority in which the campaign tries to politicise the fact that sick

9 These are: Norwegian Transport Workers' Union, Hotel and Restaurant Workers' Union in Norway, Norwegian Oil and Petrochemical Workers' Union, Electricians' and IT Workers' Union in Norway, Norwegian Commercial and Office Employees' Union and Association of Oil Workers in Norway.

leave and early retirement have been growing considerably over the last years due to the increased exploitation of labour and the rapid and unsocial restructuring of private companies as well as public undertakings.

The alliance was established under a minority centre coalition government. Some months later, however, a minority social democratic government came to power. This could create problems as quite a few of the leaders of the trade unions as well as of other organisations involved in the alliance are members – even high-ranking representatives – of the Labour party. They are now being put under pressure from both sides. The Labour party, however, is in the process of being polarised between a new generation of so-called "modernisers", who have few principles against privatisation, and people with a more critical view of the privatised, free-market economy. As the trade union movement has not yet been defeated in Norway as was the case of the British unions under Thatcher, the Norwegian modernisers will have a lot more problems in moving the party to the right than Tony Blair had in Britain. The new alliance For the Welfare State could actually make a difference.

Norway is presently experiencing exciting times. There are problems ahead, but there is also a lot of enthusiasm, people calling to offer their services, local branches being set up, signatures being collected in support of the campaign in academia, initiatives of Youth For the Welfare State being prepared and so on. If successful, it could develop into a real and influential popular front. Time is ripe for resistance!