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The European Welfare State.
Golden achievements, silver prospects

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1. Introduction*

The year 2008 marks the 30th anniversary of the second oil shook. In December of 1978 the OPEC countries announced a new substantial price increase for crude oil, to be effective from 1979. This decision put a seal on the new terms of trade within the global economy and altered in irreversible ways the external economic foundations on which the so-called *Trentes Glorieuses* had rested. A new phase was starting for the European economies and for the generous welfare states that had been laboriously built since World War Two.

This historical watershed had implications not only for real-world social policy but also for its academic study. During the first half of the 1970s an articulated debate on the "expansion" had gained momentum: why the *Trentes Glorieuses*? In the wake of the two oil shocks a second and new debate took off: what is the nature of the "crisis"? In the last thirty years these two debates have occupied a prominent position within the wider field of political economy. The 1980 and the first half of the 1990 were the heyday of comparative analyses of welfare state origins and expansion, while also witnessing the elaboration and refinement of "crisis" arguments and diagnoses. Unsurprisingly, the latter have gained the centre stage during the last decade. In this latter period, however, both the expansion and the crisis discussions have tended to merge into a new grand debate on welfare state modernization: what reforms are possible and effective? The metaphor of a "silver age of permanent austerity" coined by Pierson (1996 and 2001a) and Taylor Gooby (2002) takes it for granted that a new historical phase has begun, in which social policy is systematically confronted with a novel set of constraints and problems and must find new ways for achieving its objectives.

Both the welfare state and the way of studying it have changed during the last thirty years: this article will try to give an idea of both dimensions of change. Since it is impossible to provide either a systematic analysis of factual developments or a comprehensive review of a huge literature, we will follow a middle course, moving back and forth between the two dimensions. In substantive terms, we will focus on three main topics:

- challenges: what have been the main pressures and dynamics that have led from the golden age of expansion to the silver age of permanent austerity?
- responses: what have been the main lines of institutional readaptation within European welfare states?[1]
- political correlates/implications of change: what has been the role of political dynamics in shaping welfare state developments? Has there been a shift in this role with the transition from the *Trentes Glorieuses* to permanent austerity?

Before addressing these topics, a brief *tour d'horizon* is in order, i.e. a survey of the state of the art at the point of departure, the 1970s.

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[1] Our focus in this article will be almost exclusively on the "old" Europe: a discussion of the problems and challenges of welfare state restructuring in the "new" member states which joined the EU between 2004 and 2007 would deserve a separate article. The article will not deal with either the sub-national or the supra-national dimensions of social policy (i.e. EU social programs), and will focus essentially on the national welfare states.

2. The way we were

The term *Trentes Glorieuses* was coined by Jean Fourastié in 1979 in order to celebrate the rapid economic growth which quadrupled France's GDP between 1945 and 1975 (Fourastié, 1979)[2]. This expression was soon adopted by the international debate and in particular by scholars of the welfare state. There had been prolonged periods of economic boom earlier in history. But the true novelty of the *Trentes Glorieuses* was indeed the spectacular expansion of this new institution.

At the beginning of the 1950s social security expenditure was still below 10 per cent of GDP in most European countries. By the early 1970s many countries (such as Belgium, Denmark, France, Germany, Italy, the Netherlands, and Sweden) had come to pass the 20 per cent mark and most of the remaining ones had already surpassed 15 per cent (Flora et al. 1983–1987). The vast majority, if not the totality, of the population had come to be included in social protection schemes for all the 'standard risks': old age, disability, and bereavement; sickness, maternity, and work injuries; unemployment and family dependants. At least in terms of eligibility, European welfare states had 'grown to limits' (Flora 1986–1987): they had reached or were about to reach their widest possible domestic boundaries, coinciding with the whole citizenry. During the "golden age" (another well-known metaphor to denote the 1945-1975 period) the more localized systems of protection were progressively marginalized in their financial size and functional scope. Sophisticated techniques (such as PAYGO financing for pensions) were invented and deployed in order to improve and rationalize the extraction of taxes and contributions, govern redistributive flows from the centre, and deliver benefits and services to the various clienteles. Finally, alongside the various insurance schemes for the standard risks, new non-contributory programmes of general social assistance were created, as well as increasingly complex health-care systems providing a wide array of medical services.

The *Trentes Glorieuses* brought the social rights of citizenship (Marshall 1992) to full bloom, matching the saliency of the other two types of rights (civil and political) in shaping people's expectations and life chances. In this period social citizenship also reached its greatest degree of both external and internal *closure* (a point which tends to be neglected by historical accounts). The "glory" of economic growth and social progress remained essentially linked to state-national institutions and circumscribed within their boundaries. For non-nationals, it was rather difficult to enter the solidarity spaces of other states, especially when it came to deriving benefits from them. During the first three post-war decades the 'principle of territoriality' retained control over the most relevant aspects of social security strictly in the hands of national governments, putting non-nationals in conditions of systematic disadvantage (Cornelissen, 1996; Ferrera, 2005b; Holloway, 1981). Nationals, on the other hand, were virtually 'locked in', that is obliged to be members of public schemes.

The 1970s marked the apex of the growth parabola of the welfare state as a real-world institution. This decade also witnessed the take off of another parabola: that of systematic comparative analyses of the welfare state as an object of study. During the 1950s and 1960s there had been a rising academic interest in welfare programmes, especially in the UK. But the academic field of "social policy" had remained primarily narrative and

[2] The late economic historian re-adapted the well-known French expression *les trois glorieuses*, used to indicate the Paris insurrection of 27, 28 and 29 June 1830, which caused the abdication of Charles X and paved the way for the rise to power of the "liberal king" Louis d'Orleans.

Anglo-centred, often displaying manifest normative preferences or biases. Starting from the 1970s welfare state research underwent a quantum leap, moving from the tranquil waters of history and idiography to the open seas of comparative social science.

The seminal works of this new phase appeared in the first half of the decade (e.g. Rimlinger, 1971; Heclo, 1974; Wilensky, 1975). Their main explanatory focuses were the historical origins and subsequent expansion of welfare programmes. Broad research questions were posed (why were these program introduced? what were the main drivers of growth?) and the answers were sought through systematic comparisons. The comparative turn was indeed the most salient and fruitful characteristic of the new phase. Different authors resorted however to different methods for their comparisons (the big divide being that between qualitative historical studies and quantitative statistical analyses) and adopted different approaches. As shown by Jens Alber, in the burgeoning literature of the 1970s two main theoretical juxtapositions were clearly recognizable: 1) conflictualist vs. functionalist approaches and 2) pluralist vs. Marxist approaches (Alber, 1982). These two juxtapositions intersected with each other, giving rise to four basic "clusters" of debates and interpretations, each characterised by distinct theoretical assumptions about the overall logic of social change and the hierarchy of its driving forces and actors. The confrontation (which at certain points became a true tug of war) between the various methodological strategies and theoretical approaches continued throughout the 1980s and part of the 1990s. In many respects the appearance of Esping Andersen's *Three Worlds of Welfare Capitalism* marked the apex of the academic discussion on the *Trentes Glorieuses* (Esping Andersen, 1990). This landmark book gave original contributions to the expansion debate on at least three fronts: it suggested to look not only at state policies, but at the overall welfare "regime", consisting of the interaction between the state, the labour market and the family; it contrasted three distinct types of regimes (liberal, corporatist-conservative and social democratic), tracing their historical origins and developmental trajectories during the golden age; it suggested to extend the comparative analysis of regimes from outputs to outcomes in terms of stratification and de-commodification. Esping Andersen's work sparked off a debate of its own, which would certainly deserve a dedicated survey[3].

In the mid-1970 the developmental trajectory of the welfare state as a *thing* started to invert its direction. As mentioned, the EU countries entered the turbulent 1970s while still enjoying a high degree of closure and domestic autonomy, which had hitherto peacefully coexisted with an international economic order resting on 'embedded liberalism' at the global level (Ruggie, 1982) and with a deepening market integration, steered by benevolent supranational authorities, at the European level. The oil price crises of the 1970s and the collapse of the Bretton Woods regime suddenly altered the nature of the international economic order, giving rise to an unprecedented "stagflation" and to escalating monetary instability. Under such new conditions, the traditional strategies of fiscal and monetary demand management (which served as preconditions for autonomous domestic choices in the social policy sphere) became increasingly ineffective, if not altogether unviable (Scharpf, 2000).

By the end of the decade it became clear, however, that "the crisis" had not only exogenous origins and dynamics. As a matter of fact, the European welfare states had started to be afflicted by a number of endogenous, increasingly troublesome challenges and dynamics (such as demographic ageing or the post-industrial transition). The seminal diagnoses of this endogenous side of the crisis appeared in the second half of the

[3] A review of the voluminous literature on the various welfare regimes is contained in Arts and Gelissen (2002).

1970s, within both the conflictualist-pluralist camp (e.g. Flora, 1981) and the functionalist-marxist one (e.g. Gough, 1979, echoing O'Connor, 1973). During the 1980 and 1990, the "crisis" debate became a growth industry. We cannot offer here a systematic reconstruction of the expansion and crisis debates[4]. They will serve however as general backgrounds for the discussions that will be presented in the next three sessions.

3. From the *Trentes Glorieuses* to permanent austerity: the external challenges

The shift to permanent austerity has been mainly the result of exogenous pressures coming from the environment of the welfare state: the environment external to the nation-state (essentially: globalization and European integration) and the internal environment, i.e changes in domestic economies and social structures. Let us briefly review the nature and impact of all these pressures, starting with the external ones.

3.1. Globalization

Globalization is generally understood as the international integration of markets as well as the internationalization of production (cf. Huber and Stephens, 2005: 609-12; Genschel, 2004: 616). Both dynamics have undergone a rather dramatic acceleration in the last three decades, in the wake of technological advances and policy liberalisation. Economic activities have become more and more specialised and dispersed across different areas and regions of the world, making it easier for goods and services to be subdivided and traded across countries. World trade has grown at an annual average rate of around 8.5% over the period 1992-2005.

How exactly has globalization affected the welfare state? Essentially by posing new constraints, by restricting the margins of manoeuvre that national governments enjoyed during the golden age in designing, managing and funding their social protection systems. The globalization of finance (and in particular the emergence of offshore capital markets beyond the reach of central banks) has seriously weakened governments' control over national tax bases. The costs of deficit spending (a tenet of Keynesian demand management) have significantly increased due to the international rise of interest rates and the high risk premiums that need to be paid in case of lax spending. Economic opening has made firms in the exposed sectors more sensitive to the costs associated with social regulations. These firms have become "price takers" and can no longer shift above-average costs to captive consumers or cross-subsidize the sheltered sectors of the economy. More generally investors compare post-tax rates of returns on an international scale and tend to demand higher returns on their investments, often resorting to strategies of production outsourcing and offshoring. These new "exit options" for capitals, investors and firms have made it much more difficult for the state to steer the economy and the labour market and to reconcile the twin goals of economic competitiveness and social consensus. On the one hand, too much (or the wrong kind) of intervention on the side of the state risks to jeopardize competitiveness and/or generate employment losses. On the other hand, if the losers of economic internationalization are

[4] Good reviews can be found in Amenta (2002), Hicks and Esping Andersen, (2005), Manow and Van Kersbergen (2008).

not supported ("compensated") by adequate state policies, the social and political legitimacy of "opening" as such risks to be undermined (Iversen and Cusack, 2000).
A less reliable and controllable tax base has meant greater risks of financial disequilibria for those welfare state programs that rest on entitlements (typically pensions). Governments have tried to counter the pressure of international tax competition by shifting welfare state funding onto consumption, income from labour or social security contributions. But such strategies have tended to cause negative effects on other macroeconomic variables (such as inflation or growth as a whole) and to worsen the prospects of the employment base. Consumption taxes and social security contributions in particular tend to fall heavily on low-productivity service employment, crowding it out of the labour market and thus generating higher demand for social benefits: a vicious circle that has been identified as a prime cause of the rising unemployment and the financial crisis of the welfare state, especially in the big Continental countries (Manow and Seils, 2000; Palier, 2000).
In the political debates of the 1980s and early 1990s globalization was often portrayed as a subversive force, inevitably conducive to a "race to the bottom" through regulatory competition[5]. During the last decade a number of serious systematic comparative analyses have however challenged these negative and pessimistic views. Far from being an irresistible destroyer of social protection institutions and a "flattener" of country-specific preferences and diversities, globalization is now seen as challenge that 1) is filtered through various elements of domestic political economy configurations and 2) can be more or less effectively contravened through politico-economic responses and institutional adaptations. The main factors that may determine the kind and size of globalization's impact are political institutions (Swank, 2002; Huber and Stephens 2001), the structure of industrial relations (Scharpf, 2000, Garrett, 1998), left-wing governments (Garrett, 1998; Castles, 2004) and the programmatic structure of specific social policies (Burgoon, 2001). Several authors have noted that, if appropriately (re)configured, social policies can play a precious role in upholding the performance of domestic political economies in the new globalized environment: they can provide not only side-payments to the losers – thus avoiding potential anti-opening backlashes- but also spurs and resources for enhancing skills and productivity, thus boosting economic competitiveness more generally[6].

3.2. European Integration

When it was launched in the 1950s, the project of European integration did not intend to challenge the institutional foundations of the nation-based welfare state. Quite to the contrary, the Founding Fathers conceived of European integration as a project capable of creating and sustaining a virtuous circle between *open* economies and outward-looking economic policies on the one hand and *closed* welfare states and inward looking social policy on the other (Milward, 2000). The limited competences assigned by the Rome Treaty to the supranational level in the social policy sphere reflected the explicit objective

[5] For a discussion of such early debates and a critical analysis see Pfaller, Gough and Therborn (1991).
[6] The "virtuous" link between economic opening and high quality social provisions was originally noted by observing the experience of the smaller European states (e.g. Cameron, 1978 and Katzenstein, 1982; for a restatement, see Rodrik, 1998). This link has been the object of extensive analytical elaboration and empirical investigation within the literatures on "neo-corporatism" and on the "varieties of capitalism" (cf. Schmidt, 2008).

of a division of labour between national and EC rulers that was seen as virtuous for both the market and the welfare state; it also rested on an implicit *favor*, a positive orientation vis-à-vis social protection, high labour standards and full employment objectives, whose national scope and closure pre-conditions were taken for granted and thus assumed as inherently non- problematic for a project essentially aimed at creating a customs union. European integration and the welfare state were to remain only "loosely coupled".

The sudden change of the international economic order during the 1970s had a particularly marked effect on the European economies: the old institutional compromise of the 1950s ('Smith abroad, Keynes at home'; market making to the EC, market correcting to the member states) could not 'rescue' the nation state this time around. The rapid and utter failure of Keynesian reflation and welfare state upgrading attempted by the French socialist government in 1982–3 only served to confirm this (Levy, 2000).

As is well known, in the early 1980s this problematic background prompted an ambitious project for the 're-launching of Europe', based on two steps: completing the internal market and then move towards a fully fledged economic and monetary union (EMU). The Single European Act of 1986 unleashed a dynamic of 'market making' primarily through measures of negative integration (that is, the removal of national barriers to economic transactions), accompanied by some measures of positive integration (supranational harmonization) aimed at safeguarding minimal standards and a level playing field. '1992' was indeed a huge market-building initiative in a double sense: cross-system boundaries were virtually erased, thus transforming the European market into a single, unified space of transactions; and the institutional buttresses of the market *as such* (that is, as an arena of transactions competing with other institutional arenas) were significantly strengthened by conferring on free movement provisions (in particular the free movement of goods) and competition law a 'supreme' status in the EC legal order (Poaires Maduro, 1998). By setting fixed macroeconomic requirements and deadlines for admission, the Maastricht process imposed further constraints on the autonomy of national governments in the welfare state sphere.

Like globalization, the EMU project largely considered in the early debate of the 1990s as a subversive factor for national social contracts, in the wake of increasingly stringent market compatibility requirements, the new power of business, the hardening of budgetary constraints, and the impossibility of creating some sort of Social Europe due to the institutional obstacles to positive integration[7]. Rescued in the 1950s, the national welfare state was now in serious danger of being slowly eroded if not entirely taken apart by the new phase of European integration.

Recent discussions have adopted a much more nuanced view. European integration has indeed forced several domestic adjustments, but not necessarily for the worse: the economic, fiscal, and monetary discipline enforced by supranational authorities has prompted or accelerated a dynamic of welfare state recalibration which was anyway appropriate and desirable for coping with a host of endogenous problems (Ferrera and Rhodes, 2000; Ferrera and Hemerick, 2003; Martin and Ross, 2004; Zeitlin and Trubeck, 2003). Liberalizations have made several goods and services more affordable to consumers, enhancing the range of options available to them; in certain areas (e.g. health and safety) market integration has also brought about more consumer protection and higher labour standards. Some regulatory competition has indeed taken place, but not necessarily towards the bottom (Scharpf, 1999; Guillen and Matsaganis, 2000). As in the

[7] For a discussion and review of this debate see especially Rhodes (1998) and -from a labour law perspective- Bercusson (1999).

case of globalization, the literature has moreover highlighted a multitude of factors that mediate the impact of European integration on domestic redistributive arrangements, as well as the scope and intensity of their "Europeanization"[8].

It must be noted, however, that European integration affects the welfare state not only in an *indirect* way, i.e. by posing constraints and altering the payoff matrix of the main social and political actors. The EU has also a *direct* impact on the boundaries of social citizenship and thus operates as a potentially more disruptive factor than globalization.

We mentioned above that during the *Trentes Glorieuses* social protection schemes reached their maximum level of closure. Since the mid-70s the EU legal order has increasingly worked as an opening wedge for closure rules and practices (Bartolini, 2005). The traditional link between rights and territory has become much looser: for most civic and social rights, the filtering role of nationality has been neutralized. In the field of social insurance proper, a detailed set of regulations has been introduced for coordinating social security regimes in case of cross-border movements, while EU competition rules have started to affect certain aspects of these regimes at the national level (Leibfried and Pierson, 2000; Sindbjerg Martinsen, 2005). The exclusionary or discriminatory prerogatives of national governments vis-à-vis outsiders have been severely restricted and the very "sovereignty to bound" of the nation state in the social sphere has been put in question. Social insurance contributions and benefits have become portable across the Union; patients can seek medical treatment in any EU hospital; pension funds have been allowed not only to invest, but also to shop for clients and "sponsors" in all member states; the treatment of legal immigrants (including third country nationals) has been harmonized across the Union, envisaging access not only to social insurance, but to means-tested social assistance as well; and private (third pillar) insurance has been almost fully liberalized. The principles of compulsory membership and of public monopoly over social insurance schemes are still shielded from the EU competition regime, but only to the extent that certain conditions apply (e.g. the adoption of PAYGO financing).

With respect the *Trente Glorieuses*, the institutional framework which has emerged in Europe during the last thirty years represents a true quantum leap in terms of "opening" for at least three reasons: 1) the extremely wide scope of coordination rules: both the material scope (i.e. the range of benefits and schemes covered by coordination rules) and its personal scope (i.e. the range of eligible groups and persons); 2) the "tighter coupling" between social protection and the internal market, which have become increasingly intertwined with each other; 3) the high degree of "juridification" of both the coordination and the competition regimes of the EU , a juridification emblematically represented by the powers of a supranational Court enjoying supremacy over domestic Courts.

The "opening" of domestic social sharing arrangements on the side of the EU was well-meant and has brought significant advantages, especially to migrant workers. But it has caused strains and problems too, originating a novel "spatial politics" (cf. *infra)*. Traditional social and political equilibriums that had formed around national redistributive arrangements have been de-stabilized. Sizeable segments of the electorate have matured growing feelings of insecurity: about jobs, social benefits, rising immigration flows and generally intrusions from outside. According to recent Eurobarometer surveys, 20% of respondents (EU15) consider their national economy as "too open" and 26% consider the European Union as "too liberal" – with peaks of 34% in

[8] For a discussion and review of the "Europeanization" debate, cf. Graziano and Vinck (2006).

France and Germany (European Commission, 2004). Behind these numbers there is a heterogeneous mix of socio-economic profiles and ideological orientations. But such numbers cannot be ignored: however desirable from an economic point of view, a policy platform predominantly centred on "opening" risks to generate various forms of "political backlash", i.e. dynamics of defensive mobilizations around the status quo, increasingly framed in euro-sceptic terms and accompanied by anti-EU orientations (Ferrera, 2006).

4. Internal challenges: the transformation of domestic economies and social structures

In addition to external pressures and constraints, welfare state programs have also been facing growing challenges posed by the transformations of their domestic economic and social environments. The foundation and the expansion of such programs states had taken place in the context of "industrialism" –understood as a general mode of organizing the spheres of economic production and social reproduction. The last three decades have witnessed a rapid transition towards a new "post-industrial" order, in the wake of the rising importance of services, changes in household patterns and behaviours and population ageing.

The weakening of industrialism in OECD countries is a long term process which set in roughly at the beginning of the 1960s due to a saturation of markets and a declining price elasticity of demand for industrial goods (Iversen and Wren, 1998). Since then the service sector has been the main driver of economic and occupational expansion, while employment in manufacturing has generally stagnated or declined. The emerging service economy is governed by a logic which is different from that of the industrial economy. The main contrast is that in services it is much harder to increase productivity –a problem that has huge consequences for the labour market. Rising productivity in the age of industrial expansion made it possible to combine wage increases with lower prices: the resulting rise in demand could be translated into new jobs. As in the service economy such virtuous circle is impossible, employment creation in private services is highly sensitive to wage levels and dynamics (Iversen and Wren, 1998; Baumol, 1967; Esping Andersen, 1999). In some countries (most notably in the Nordic area) this problem has been circumvented by creating public service employment on a large scale already during the golden age. But the financial costs of this strategy are difficult to sustain if that historical window of opportunity was missed. As argued by Iversen and Wren (1998), post industrial economies are thus faced with a challenging trilemma: only two out of the three traditional goals of "welfare capitalism" (i.e. high levels of equality, employment and fiscal discipline) can be reconciled at any given time. And with the fiscal constraints posed by globalization and European integration, during the last decade the trilemma has de facto reduced itself to the dilemma: maintaining equality vs. employment creation. Needless to say, slower productivity advancements have also meant smaller growth rates in general.

The shift from an industrial to a post-industrial economy has originated serious upheavals in European occupational structures. "Fordist" employment (i.e. stable and guaranteed jobs with permanent contracts) has been witnessing a steady decline since the 1970s, not fully compensated by the rise of non-standard "a-typical" forms of employment (such as temporary or part-time jobs). During the 1990s (but the problem is not solved) unemployment registered an alarming surge in Europe, especially in certain regions and among some categories (e.g. young people). Low wages and poor quality jobs have increased the numbers of "working poor", systematically exposed to the risk of labour market and social exclusion (Gallie, 2002, Saraceno, 2002).

The second important change has involved family and gender relations. While in post-war industrial societies traditional families with a male breadwinner and a housewife predominated, the post-industrial age is characterised by a greater plurality of household forms: dual-earner families, single-parent households, de facto unions and so on (Lewis, 2007). Average household size has declined, partly due to a fall in fertility rates, but also due to the greater number of single-person households and to a drastic drop in multi-generational households. In parallel with the increase of separations and divorces, these changes point towards a general "precarisation" of social relations in European societies. Another important trend since the 1970s has been the increased participation of women in the labour market – a phenomenon which is closely connected to the rise of the service sector (Esping-Andersen, 1999, Daly, 2000; Orloff, 2006). In some European countries the gender gap in participation rates has virtually disappeared and women's income now accounts for almost 50% of all household income (Esping-Andersen, 2002)[9].

The third significant transformation has been demographic ageing: due to lower birth rates and higher life expectancy the proportion of elderly people in the European societies has been constantly increasing in the last three decades. All projections point towards a dramatic intensification of this process in Europe. The over 60 age group, mainly retired people, will rise by almost 50% by 2020 (OECD 2006): for each elderly person there will be less than two workers. Largely due to the full maturation of the generous benefit formulas introduced in the past, these elderly will retire on average with higher pensions than current retirees: thus the real intergenerational transfer of resources will grow by much more than 50%. And a similar syndrome will affect the real expenditure on health care – a sector which is emblematically affected by the above mentioned productivity problems and by the expansionary dynamics linked to medical progress.

These internal transformations have reinforced the pressures and constraints (especially in financial terms) linked to external changes and have originated delicate policy dilemmas. They have also generated a host of new social risks and needs: from new forms of poverty and social exclusion to personal dependency, from skills obsolescence (and thus "un-employability") to situations of work-life "imbalances" (Bonoli, 2006, Taylor Gooby, 2004). Especially in the "Bismarckian" systems of Continental and Southern Europe, these new risks have tended however to remain under-protected if not totally neglected, due to the "crowding out" effect of established programs and their expansionary inertia even under conditions of budgetary austerity. The re-balancing of social expenditure towards the new risks and the more vulnerable social groups has clashed with the high "stickiness" of the institutional status quo – a defining feature of that "new politics of the welfare state" which has been the object of a lively debate in the literature of the last decade or so. Before turning to the politics of reform, let us briefly

[9] Pay gaps between men and women and occupational "segregation" have not disappeared, however, not even in the Nordic countries. Higher rates of female participation to the labour market haws had an ambivalent effect on the welfare state. On the one hand it has expanded the tax and contribution base for welfare state financing. On the other hand it has given rise to new risks and needs in the sphere of social reproduction, calling for an expansion of state programs. For a discussion, see especially Daly (2000), Orloff (2006) and O'Connor, Orloff and Shaver (1999).

identify some common trends and key orientations of policy change that can be observed across systems, in response to environmental transformations.

5. Welfare state recalibration at a glance

Despite the gloomy prospects outlined by the early "crisis" debate, European welfare states have not crumbled under the weight of the contextual changes described so far, and have actually given signs of at least some adaptive capacity (Kuhnle, 2000). Quantitative indicators (e.g. various types of social expenditure ratios) show that there has been a *slowdown of growth* in respect to the golden age. But as concluded by a prominent scholar of the field "neither the race to the bottom predicted by the globophobes nor the expenditure blow-out predicted by the gerontophobes [has] apparently [taken] place on anything like the scale assumed by the crisis scenarios" (Castles, 2004: 7). Institutional adaptation has been a complex incremental process, which has proceeded with different speed and success across the various countries and which has involved different policy areas: from macro-economic management and industrial relations to tax policy and labour market regulation (Hemerijck, 2002). Limiting ourselves to the core elements of social protection, at least four key general trends of reform can be identified.

The first – and most significant - of these trends is constituted by structural adjustments in response to socio-economic developments. In the field of pensions the 1990s have witnessed a substantial wave of reforms that in some cases (e.g. Sweden or Italy) have altered the fundamental architecture of the system, promoting "paradigmatic" change. Most countries tough have kept within the boundaries of "parametric" reform, moving within the logic of existing systems and taking steps in one or more of these directions: increasing the age of retirement, tightening qualifying conditions, restricting indexation rules or strengthening the link between contributions and benefits. Another important common trend in this area has been the growth of occupational and private pensions, giving rise to "multi-pillar" systems combining PAYGO and funding as methods of financing[10]. In the field of health care reforms have been introduced with a view to enhancing efficacy and efficiency in the allocation of resources and in the provision of services through better incentives at both the macro and the micro levels (Freeman, 2000; Freeman and Moran, 2000; Guillen, 2002; Steffen, 2005). Social services and family policies have also witnessed some innovation in both substantive and organizational terms, with a view to responding to the rising needs of the elderly population, the changing gender division of labour and new forms of poverty and exclusion (Anntonen and Sipila, 1996; Alber, 1995; Lewis, 1993 and 2007; Saraceno, 2002).

A second general trend has been a move to an *active* approach in the management of work incapacity (e.g. disability) and especially unemployment, with a view to preventing long-term dependency on income support. In the course of the 1990s the "job first" principle has gradually made its way throughout European (un)employment protection systems (Clasen and Clegg, 2006). Access to benefits has been generally made more restrictive and conditional, but at the same time new networks of public and private employment services have been set up in order to promote and facilitate the labour market re-integration of workers without jobs. Activation strategies have proceeded hand

[10] For a systematic and updated comparative analysis of pension reforms in developed countries see Immergut *et al*. (2007).

in hand with wider exercises of labour market re-configuration, pioneered by the Netherlands in the 1980s under the banner of "flexicurity" (Visser and Hemerijck, 1997). Reforms in this field have received explicit spurs by the EU and in particular by the European Employment Strategy (EES), launched in 1997 (Zeitlin and Trubeck, 2003; Zeitlin and Pochet, 2005).

A third general trend – which cuts across various social protection programs - has been greater "targeting" or "selectivity" of resources towards those most in need (Ferrera, 1998), also in the wake the policy recommendation of influential international bodies such as the OECD or the World Bank. Different strategies have been experimented, depending on national preferences, constraints and opportunities (Kuhnle, 2000);: greater use of traditional means-testing; linking the amount of benefits received to income or means-testing from the top clawing back transfer payments from those less in need via the tax system and so on. Alongside these strategies of "vertical" targeting based on economic resources a trend is also observable towards "horizontal" targeting based on social risk: reducing the generosity of some core transfer programs (old age, disability and survivor pensions, for example) while increasing family benefits; introducing new subsidies for caregivers or categories with special needs, or expanding programs against social exclusion. Despite the above-mentioned "crowding out effect" of established programs, some policy adaptations to the new structure of risks and needs have indeed taken place in a number of countries (Armingeon and Bonoli, 2006; Taylor Gooby, 2004).

A fourth general trend has finally involved the financial side of social protection. We have already mentioned the promotion of funding as opposed to PAYGO in the area of pensions, with a double purpose: making income security at retirement less vulnerable to demographic imbalances and shifting some of the responsibility for its provision from the state to individual workers or the social partners. Another important development on the financing front has been the attempt at reducing charges on business and labour, particularly those in the form on non-wage labour. This development has been primarily motivated by competitiveness preoccupations, but also by the wish to neutralise the vicious circles generated by "contribution- heavy" social insurance systems (discussed above). More generally – and, again, as recommended by the EES – most countries have reviewed the incentives of their tax/benefit systems in order to make them more "employment-friendly". In several countries these reviews have also offered the opportunity for putting in place a more transparent and rational "division of labour" between social security contributions on the one hand and general taxation on the other in the overall financing of the welfare state (Palier, 2002) .

We cannot offer here more detail on factual developments nor provide an assessment of the extent and effectiveness of the institutional change that has already taken place. In the economy of this article, it might be interesting however to raise a broader analytical (and partly normative) question: is it possible to identify the overall direction and "flavour" of welfare state change since the late 1970s? Are there new concepts and analytical maps that can best capture the multifaceted and multidimensional dynamics of transformation?

The early "crisis" debate tended to take a rather biased and restrictive view, interpreting change primarily in negative terms (both descriptively and normatively), i.e. as steps backwards from the golden age, assuming a sort of linear trajectory of evolution and progress. Cuts, retrenchment, roll-back of the state: these were the notions most commonly used to describe the new "austerity" policies adopted by European governments since the late 1970s. Activation and targeting measures, in particular, tended

to be seen as inherently coercive and punitive "regressions" towards a conservative past or as undignified surrenders to the "neo-liberal" orthodoxy, thus forgetting that 1) activation strategies had a long and honourable history as part of Swedish social democracy and 2) in the Continental and especially South European countries targeting and selectivity could pave the way for much needed distributive rationalizations, e.g. by shifting resources from over-protected insiders to under-protected outsiders (Ferrera, 2005a). In merely descriptive terms, notions such as "cuts" or "retrenchment" did have of course some empirical grounding: traditional benefits were indeed reduced or even eliminated in certain sectors and in certain countries. But a lot of other things have been taking place – often in those very sectors and countries.
In order to escape from the traps of terminological (and at times ideological) reductionism, recent debates have suggested new and more neutral concepts in order to characterise the overall trajectory and rationale of institutional change after the golden age: *modernization* (a term launched by the European Commission) (EC 1997), *recasting* (a term coined for a broad research Forum organized at the European University Institute in Florence in 1998-9) (Ferrera and Rhodes, 2000), or *restructuring*. This latter term has been suggested by Pierson (2001a and 2001b), who has further articulated it on a number of sub-dimensions: *re-commodification* (which has to do with changes that restrict alternatives to labour market participation, either by tightening eligibility or by cutting benefits), *cost containment* (referring to changes primarily motivated by the urgency of reducing debts and deficits) and *recalibration* (involving both *rationalization*, i.e. modifications of existing programs in line with new ideas about how to achieve established goals and *updating*, i.e. specific initiatives in response to newly recognized social needs).
The notion of *recalibration* has been used also by Ferrera, Hemerijck and Rhodes (2000), for both descriptive and prescriptive purposes[11]. In the understanding of these authors, the metaphor is meant to suggest an act of institutional reconfiguration and re-balancing characterized by:

- the presence of a set of constraints conditioning policy choices and developments, stemming from the interaction between external and internal pressures and challenges;
- the interdependence between additions (or upgradings) and "subtractions" in the social policy menu, as a consequence of such constraints; and
- a deliberate shift of weight and emphasis among the various instruments and objectives of social policy, in the wake of complex dynamics of social and institutional learning.

These authors have further articulated the concept of recalibration in a number of sub-dimensions:

- *functional* recalibration, which has to do with the social risks around which welfare provision has developed over time. It involves acts of re-balancing both *within* and *across* the established functions of social protection (e.g. "less pensions and more social services and family benefits");

[11] As acknowledged also by Pierson, the concept of recalibration was originally suggested to all of us by Jonathan Zeitlin during the final seminar of the European Forum on "recasting European Welfare States", EUI, Florence, 18 June 1999. We are grateful to Jonathan for having broken this path of reflection.

- *distributive* recalibration, which has to do with social groups and it refers to policy measures aimed at rebalancing social protection in favour of the most vulnerable, and at ironing out inequitable disparities between insiders and outsiders;
- *discursive* recalibration, which has to do with norms, arguments and justifications and denotes symbolic initiatives and new discourses addressing the functional and distributive dilemmas of the status quo and the future directions of policy[12].
- *politico-institutional* recalibration, which has to do with the levels and actors that are be involved in the "governance" of social protection, including supranational, trans-national and sub-national levels and actors.

Other conceptual maps can of course be used in order to interpret the logic and direction(s) of ongoing policy changes in the realm of social protection. For our purposes, however, it is important to highlight one general point: the factual transformation of their object of study has prompted scholars of the welfare state to modernise and update their analytical toolkit and to re-consider some of their established normative and cognitive assumptions. Since the comparative turn of the 1970s, the search for shared understandings of the *investigandum* and for "conceptual deepening" has been a constant priority of the welfare state scholarship – as well as one of the keys to its "success" relative to other fields of empirical social science (Amenta, 2002). The advent of the Silver Age has definitely provided new spurs for this search, and thus for analytical and theoretical advances on how to describe and explain social policies, in their evolution through time and space.

6. Old and New: the changing politics of welfare

"Politics" has always played a dominant role in explanatory arguments about the "welfare state". The causal link between the two has been theorised in a variety of ways, in the context of grand perspectives on social and political development as well as of more modest middle-range propositions on specific aspects or moments of change. At the risk of over-simplifying, we can identify four general and interrelated trends in the debate during the last three decades.

The first trend has to do with theoretical approaches. Referring back to Alber's map mentioned earlier, on this front there has been a shift from functionalist to conflictualist accounts and then from Marxism to pluralism. Initially seen as a by-product of "late capitalism" or of "industrial modernization", the welfare state has come to be seen as the outcome of complex and largely contingent power struggles, with the participation of a plurality of actors moving within thick institutional configurations. Second, there has been a shift from society-centred perspectives, emphasising the role of classes and social conflict, to state-centred perspectives, highlighting the role of political structures/actors and institutional dynamics. This shift can also be interpreted in disciplinary terms, i.e. as a sign of the increasing contribution of political science relative to sociology. Third, causality links have become increasingly bi-directional: the welfare state is certainly a dependent variable of politics (however understood), but it can also be seen as an independent variable, i.e. a source of specific and distinctive types of politico-institutional dynamics which would not occur in its absence. Finally, there has been a gradual historicization of the comparative politics of welfare, i.e. the recognition that

[12] For a thorough and pathbreaking discussion of this dimension, cf. Schmidt (2000).

structures, actors and dynamics of interaction are linked in developmental sequences and thus have different causal impacts, depending on space and time.

The expansion debate was largely dominated by the so-called power-resources theory, whose earliest formulation was offered by Korpi (1980 and 1982). Distributional conflicts and outcomes – thus goes the theory- critically depend on the control of power resources. In capitalist democracies, the latter derive basically from two elements: the control over means of production and the organisation of the working class into collective action, through unions and political parties (typically social democratic parties). If the latter acquire strength in the wake of high levels of workers' mobilization, then distributional outcomes will be shaped in the interest of wage-earners, leading to the formation of generous and universalistic welfare state programs financed by progressive taxation (Stephens,1979, Hicks, 1999). Empirically grounded in the Swedish experience, power resource theory has been the object of extensive theoretical specifications and refinements over the years and of equally extensive quantitative and qualitative testing, becoming a sort of standard model for interpreting observable welfare state variations, both cross-sectionally and cross-time (Hicks and Esping Andersen, 2005). There were, of course, other voices in the expansion debate of the 1980s and early 1990s, rooted in state-centred and/or pluralist perspectives (e.g. Skocpol and Orloff, 1986, Baldwin, 1990). But power resources arguments (also known as "social democratic/left-party", "politico-organizational" or "class mobilization" arguments) remained firmly at the centre of the stage and provided the basic theoretical underpinnings for the welfare regimes literature initiated by Esping Andersen (1990).

As is well known, the advent of the "silver age" was accompanied by the strengthening of neo-liberal ideologies and parties in many countries and by the rise to power of Reagan and Thatcher, two conservative leaders with ambitious pro-market agendas. According to power resource theory, this political configuration should have produced a significant degree of welfare state retrenchment. The work of Paul Pierson in the early 1990s (Pierson, 1994) showed however that this was only partly the case: in both quantitative and qualitative terms the US and UK welfare states showed a much greater resilience than expected under conservative rule. Why was politics (essentially understood in the terms of a power struggle between class-based collective actors) not producing the predicted distributional outcomes? This puzzle led Pierson to advance the idea that welfare retrenchment rests on (in fact: it creates) a "new politics", driven by a different logic than the "old politics" of welfare expansion.

Retrenchment (and more generally restructuring or recalibration) is qualitatively different than expansion: it implies "taking away" rather than "giving", subtractions rather than distributions. It thus hits the electorate, often concentrating subtractions (e.g. less generous pensions) on specific and concentrated groups of voters. As shown by political psychology and "prospect theory" in particular, voters tend to be much more sensitive to losses than to gains (Kahneman and Tversky, 1979, McDermot, 2004). While the distributive politics of expansion was essentially about credit claiming, the subtractive politics of retrenchment is essentially about blame avoidance (Weaver, 1986). Moreover, retrenchment takes place in an institutional context which is shaped by the social programs which are already in place, in the wake of previous expansion. Large segments of voters benefit directly from the welfare state – a fact that has prompted the formation of several interest organizations in support of social programs. Based as they are on codified entitlements, state commitments in the core schemes (pensions, health care) are inherently hard to transform, as they impinge directly on people's expectations and life plans. Changing the distributional status quo without suffering heavy electoral punishment is not impossible: but it requires shrewd and sophisticated political strategies. In his own work on the USA and the UK, Pierson identified a number of such strategies: obfuscation (i.e. restructuring by stealth, or in indirect ways), compensation (avoiding conflict and blame through various forms of *quid pro quo* and/or exempting from sacrifices certain groups of voters) and "divide et impera" strategies (i.e. orchestrating conflicts of interest between various categories, i.e. consumers vs. producers of services). Pierson's pioneering analysis has paved the way for an articulated "new politics" literature, which has identified additional strategies and political pathways to reform: e.g. the "Nixon goes to China" strategy outlined by Ross (2000), or the "vice into virtue strategy" unveiled by Levy (1999)[13]. This literature has also discussed and explored the institutional, discursive, partisan and interest group configurations that facilitate or impede various forms of welfare state restructuring, in different policy areas (e.g. Bonoli, 2000, Huber and Stephens, 2001, Immergut *et al.*, 2007; Kitschelt, 2001; Schmidt, 2000; Swank, 2002; for a review cf. Green-Pedersen and Haverland, 2002, Starke, 2006).

The new politics literature locates itself in many ways at the opposite end in respect to the debate of the 1970s: it tends to have a pluralist-conflictualist view of social policy actors and dynamics; it focuses on the fine grain of political processes and institutions, drawing heavily on political science; it treats the welfare state less as dependent than an independent variable, i.e. as a trigger of group formation, as an arena for policy-specific forms of political interaction, as a source of path dependence; it attributes great importance to timing and developmental sequences, taking history very seriously and suggesting phase-specific characterizations and explanations of welfare state trajectories. This literature has also problematized and articulated the very nature of its *explanandum*. As mentioned at the end of last section, restructuring and recalibration are seen as multifaceted phenomena, which can also bring about normatively desirable results in terms of equity and/or efficiency, e.g. by introducing measures in favour of vulnerable groups and/or addressing novel social risks. As a matter of fact, the "new politics of new social risks" (i.e. the political configurations that affect functional and distributive recalibrations of the status quo) is one of the most interesting and promising frontiers of contemporary welfare state research (Armingeon and Bonoli, 2006, Taylor Gooby, 2004).

It must also be acknowledged, however, that the new politics debate has tended at times to overstate its case, especially as regards the loss of explanatory potential of traditional variables (Scarbourough 2000). Power resource theorists have recently shown, for example, that the impact of left power (the main causal variable of golden age development and regime variation) remains important if one looks specifically at "re-commodifying" reforms (e.g. reductions of replacement rates for unemployment benefits) . A recent study by Korpi and Palme (2004) has demonstrated that the risk of such reform is indeed sensitive to partisan differences, being highest for right wing incumbency, medium for Christian democratic incumbency and lowest for left incumbency. Also Allan and Scruggs (2004) have found a significant impact of right wing parties on the reduction of replacement rates after the early 1980s. The latest trend in the literature thus seems to be that of building new bridges between "old" and "new" political dynamics, through

[13] For an updated discussion and new theoretical proposals on politcal strategies about unpopular reforms see Vis and Van Kersbergen (2007).

more sophisticated conceptualizations and operationalizations of the relevant variables as well as through more refined theoretical specifications[14].

One final point deserves to be made about the political dimension of the welfare state. As mentioned earlier, one of the most significant trends of the last three decades has been the encounter between nation-based social programs (in particular public insurance schemes) and the EU - the legal order of the EU. This encounter has posed serious challenges to national closure rules and practices, thus "politicising" the issue of welfare state boundaries. The French referendum on the EU Constitutional Treaty (Spring 2005) was largely centred on this issue: is European integration jeopardizing domestic social sovereignty and the preservation of distinct national social models?

These developments have attracted scholarly interests towards the spatial dimension of the welfare state, understood as a political organization linked to a geographical territory and consisting in a bundle of distinct membership spaces (the pension system, the health services and so on) characterized by their own regulations and surrounded by codified membership boundaries (Ferrera, 2005b). Seen in this light, the welfare state has always had a 'spatial politics', that is, conflicts on inclusion and exclusion rules and on the relative positioning of different social groups within the bundle of sharing arrangements. But this 'old' spatial politics rested on a stable territorial basis whose boundaries were given und uncontested, and it unfolded in the shadow of a single ultimate hierarchy, that of the nation state. European integration has changed the situation not only by redrawing the territorial boundaries of national welfare states but also by imposing new direct and indirect constraints on its internal membership boundaries, thus casting a new shadow of supranational hierarchy over domestic political interactions. For example, compulsory affiliation to social security schemes is legitimate, under the current EU legal order, only under certain conditions (e.g. the adoption of pay-as-you-go financing). National actors (workers, employers, insurance companies, and so on) can now challenge their governments on this issue before the European Court of Justice, that is, a higher-level hierarchical order. The impact of integration on the membership (as distinct from the territorial) boundaries of the welfare state is a relatively recent phenomenon. Its visibility is still low also because it is not uniform across the various risk-specific schemes, tiers, and pillars of provision. Nevertheless it has already prompted dynamics of interest articulation and aggregation at various levels of the Euro-polity. Exploring this new spatial politics of welfare—its origin, its logic, and its potential consequences for both national systems and the EU as a whole—is another very promising frontier of ongoing comparative research (Obinger, H., Leibfried, S. and Castles, 2005; Ewans and Moreno, 2005; for a review see Van Kersbergen, 2006).

7. Conclusion

In a recent survey of the field, Amenta (2002) has argued that comparative welfare state research has made a "dramatic" progress in the last three decades and that, academically speaking, we can speak of a clear success story. Conceptual agreement on the nature of the *explanandum*, the ability to operationalize it in different and increasingly sophisticated

[14] It is fair to say, however, that a number of dynamics and causal mechanisms identified by the recent new politics literature had already been highlighted by the expansion debate of the 1970s (e.g. by Flora, 1981 and by the German debate on the new "social clienteles" created by the the welfare state: e.g. Baier, 1977 and Lepsius, 1979).

ways, the availability of data thanks to the work and investment of both academic and international institutions, the open-minded methodological outlook of most scholars in the field: these are the main factors identified by Amenta for explaining the success. The presence of different disciplinary perspectives (and to some extent the competition between them) has also played an important role. But there is an additional factor that must be taken into consideration, which has less to do with the academic than the professional dimension of this field: the formation of a relatively integrated debate community, supported by dedicated organizational networks (such as Research Committee 19 of the International Sociological Association or, more recently, the European Social Policy Associations Network). Adam Przeworsky perhaps exaggerated when he stated some time ago that scientific progress is less due to the compliance with methodological canons than to the exchange of experience between scholars and the appearance of "exemplary" works (Przeworsky, 1987). But comparative welfare state research has indeed been blessed with intense scholarly exchanges and several exemplary works. And both were definitely very important for the scientific results which have been achieved during the last three decades.

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