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**Towards the good society, once again?**

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# Towards the good society, once again?

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Two distinctive features stand out in the long history of western welfare states. In the first place, we see long phases of consolidation and institutional path dependency being punctuated by two epochs of intense reform. The closing decades of the 19th Century heralded a path-breaking burst of welfare reform; the 1930s-1940s produced a second, and equally decisive, wave of regime-shifts. In large measure, today's advanced welfare states are but elaborations on the post war "welfare capitalist" edifice – although the Scandinavian shift towards a servicing and "activation" bias since the 1970s may arguably constitute a third instance of fundamental regime overhaul.

In the second place, most historical regime shifts have one thing in common, namely an intensification of ideological competition between rival visions of the "Good Society". Late 19th Century reformism pitted absolutist and often anti-capitalist defenders of the *ancien regime* against liberals and occasionally also Christian reformists. What was at stake in Bismarckian Germany, in Disraeli's Britain, or in Giolitti's Italy was not merely the urgency of social amelioration but, far more to the point, huge questions of nation building. Moving forward to the second reform era visions of the Good Society emerged once again, but now by a rather different set of political actors. With the authoritarians pretty much gone, the contest now stood between liberals, social Catholicism and social democracy. The diversity of contemporary welfare models bears testimony to the kinds of historical compromises that were forged in that epoch.<sup>1</sup>

In some countries, particularly in the United States but increasingly also the United Kingdom, the compromise favoured individualism and markets with the welfare state cast as a minimal and residual player. In Scandinavia it favoured social democracy, universalism, egalitarianism and comprehensive social citizenship. And a third model fused social insurance with corporatist and often also social Catholic subsidiarity traditions in much of Continental and, especially, Southern Europe. In each and every case, these were not simply technical solutions to social security but also a promise to resolve the "social question" and put an end to class inequalities. To this end, the policy repertoire, albeit not its ambitions, contents or design, appeared quite similar everywhere: the expansion of mass education as the vehicle for equal opportunities and an end to inherited privilege; income maintenance as a means to equalize living conditions and eliminate social risks across the life cycle.

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<sup>1</sup> Excellent historical treatments of welfare state evolution can be found in Rimlinger (1971), Flora and Heidenheimer (1981), Alber (1982), and in Ferrera (1993). For an analysis of welfare regime variations, see Esping-Andersen (1990; 1999).

## The new welfare challenge

We live in an era in which rival forces, once again, promote their blueprints for a Good Society. Indeed, much suggests that we are heading towards yet another historical regime shift. We are in the midst of a revolution in demographic and family behaviour, spearheaded by women's embrace of personal independence and life-long careers. Marriage is less an act of economic necessity and more a question of individual choice. This also means a proliferation of new and far less stable household and family arrangements. The average child is increasingly unlikely to stay with *both* mother and father throughout childhood. All this echoes heightened individual freedom of choice, but also of insecurity and risk.

We are also in the midst of economic upheaval, the emergence of a very different kind of integrated global economic order than that which reigned in the epoch of our grandfathers. Technological transformation and the dominance of service employment provoke major changes in the social risk structure, creating a wholly new set of societal winners and losers. The standard production worker and the low skilled could by and large count on a decently paid and secure job in the welfare capitalist era. This is unlikely to be the case in the 21st Century. The basic requisites needed for a good and secure life are growing and changing at the same time. Those with insufficient skills or cultural and social resources may easily slide into a life course marked by low pay, unemployment and precarious jobs. Our contemporary preoccupation with social exclusion appears very much like an echo of the "social question" that permeated debates in the 1930s.

The unfolding service economy is potentially dualistic. The overwhelming thrust is in favour of skilled and professional jobs but a sizable market of low-end, routine services may easily emerge. And this is especially so if wage disparities continue to widen. The hard trade-off is that, absent a low wage market, the alternative is likely to be mass unemployment.<sup>2</sup> Those with weak human capital are therefore likely to face either low wages or unemployment. Whether they shall be condemned to a lifetime of exclusion or of precariousness is, we underline, not preordained. The duality of the post-industrial employment structure need not coagulate into a post-industrial class abyss if – and this is *the* big "if" – our society can extend guarantees against life-long entrapment. And this implies a system that ensures strong mobility opportunities. But it probably necessitates more since widening inequalities at the individual level may easily harden at the household level. Marital homogamy is definitely not in decline and, hence, the post-industrial losers and winners are likely to bundle within households.

All this seems to add up to one great ironical twist of historical change. Probably far more due to structural transformation than to the efficacy of existing welfare programs, the traditional class divide is, no doubt, eroding. This would, as many social scientists claim, indicate that class no longer matters.<sup>3</sup> The irony is that class may be less visible, but its importance is arguably far more decisive. In knowledge-intensive economies, life chances will depend on one's learning abilities and one's accumulation of human capital. As is well established, the impact of social inheritance is as strong today as in the past – in particular with regard to cognitive development and educational attainment.<sup>4</sup>

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<sup>2</sup> For recent treatments of this basic dilemma, see Scharpf and Schmidt (2000) and Esping-Andersen (1999).

<sup>3</sup> Notable examples are Bell (1976) and Clark and Lipset (1991).

<sup>4</sup> See, for example, Shavit and Blossfeld (1992).

The post war welfare state no doubt succeeded in equalizing living conditions, but it failed to deliver on its promise of disconnecting opportunities from social origins and inherited handicaps. Ideological predilections aside, it should be evident to all that we cannot afford *not* to be egalitarians in the advanced economies of the 21st Century. There are inevitably basic questions of social justice involved. But there is a very good argument that equality of opportunities and life chances is becoming *sine qua non* for efficiency as well. Our human capital constitutes the single most important resource that we must mobilize in order to ensure a dynamic and competitive knowledge economy. We are facing huge demographic imbalances with very small working age cohorts ahead, and to sustain the elderly we must maximize the productivity of the young. And, to put it bluntly, no country would willingly opt for a dualistic or, worse, polarized future scenario with “islands of excellence in a sea of ignorance”.

## Emerging blueprints for reform

For two reasons, the continued viability of the existing welfare state edifice is being questioned across all of Europe. The first is simply that the *status quo* will be difficult to sustain given adverse demographic or financial conditions. The second is that the same *status quo* appears increasingly out-of-date and ill suited to meet the great challenges ahead. Our existing systems of social protection may hinder rather than promote employment growth and competitive knowledge-intensive economies. They may also be inadequate in the face of evolving and possibly far more intense social risks and needs. It is on this backdrop that new political entrepreneurs and welfare architects are coming to the fore with calls for major regime change.

Sidelined and muted for decades, in the 1980s the libertarians and neo-liberals spearheaded the call for a recast model. Much inspired by Hayek, their blueprint advocated a return to rugged individualism, de-regulation, and privatisation of social protection. They even believed that their formulae would attack class inequalities because, as they saw it, it was primarily big government and excessive regulation that were responsible for social segmentation and the reproduction of poverty.<sup>5</sup> If markets were allowed to reign more freely, pathological barriers to individual initiative and mobility would fall. With the debatable exception of Britain, New Zealand, and the United States, the neo-liberal vision of the good society failed to ignite the passions of most ordinary citizens or even their elected representatives. Their concrete accomplishments remained limited even where their ideology was vocally embraced (Pierson, 1994). The neo-liberal vision was evidently far too radical – even to most of the European right.

"The Third Way" of the 1990s heralded the arrival of a second grand formula for the good post-industrial society. No doubt, it succeeded better in catching the mood of the times, in large part by retaining some of the more credible and popular aspects of neo-liberalism, including its accent on individual responsibility and a more competitive reward structure, while fusing these with a concomitant *public* responsibility. Contrary to the extreme transparency of neo-liberalism, it is broadly viewed as an emperor without clothes. Indeed, the Third Way does remain frustratingly vague and generic, but if one attempts to piece together its broad objectives with the few concrete measures actually introduced, the outlines of a basic architecture do seem to emerge.

First and foremost, it proposes one sharp break with the past: rather than tame, regulate or marginalize markets so as to ensure human welfare, the idea is to adapt and empower

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<sup>5</sup> Charles Murray (1984) is probably the most explicit voice along these lines.

citizens so that they may be far better equipped to satisfy their welfare needs within the market. At its core, it is a supply-driven policy attempting to furnish citizens with the requisites needed for individual success. Hence its flagship policies are training and life long learning. The assumption seems to be that the social risks and class inequalities that emanate from markets can be overridden if we target policy so that all compete on a more equal footing.

## **Towards a viable new European welfare architecture?**

It is probably fair to say that British Labour's Third Way has been received rather coolly in most of Europe. When it moves from vague catchwords to some degree of concreteness it seems to have little novel to offer or, alternatively, what it offers is perceived as problematic. There appears, for example, to be a widespread unease with its enthusiastic – and many say, naïve – embrace of markets. Additionally, Britain's steady move from universal social security towards income-tested assistance has not been halted during Labour's rule in the 1990s, and this will appear wholly incongruent with basic principles across most of Europe.

To Northern European social democrats, its accent on activation and strengthening individuals' capacities would appear old hat. With mixed results this is indeed what the Danes and, especially, the Swedes have been pursuing for decades. As many critics have suggested, the Third Way may be little more than a very belated British discovery of Nordic social democracy.

The Third Way may be criticized for its unduly selective appropriation of social democratic policy. Firstly, it has a tendency to believe that activation may *substitute* for conventional income maintenance guarantees. This may be regarded as naïve optimism but, worse, it may also be counterproductive. A leading theme of our argument is that the minimization of poverty and income insecurity is a *precondition* for an effective social investment strategy. Secondly, British Third Way policies of activation tend to be slanted towards remedial programs like adult training and job insertion. Another leading argument is that remedial policy is unlikely to be very effective unless participants already possess the necessary abilities and motivation in the first place. It is not difficult to demonstrate that a truly effective and sustainable social investment strategy must be biased towards preventative policy.

Our intention could be understood to be a complete blueprint for "a new welfare architecture", lock-stock-and-barrel. To stave off accusations of *hybris*, we readily admit that we are not selling you a completed house, let alone cathedral. Nor do we pretend to propose a set of policy *panacea* that will solve all problems, once and for all. Important pieces of the welfare edifice are simply absent in our treatment, health care in particular. Still we do believe that our work may help contribute to the ongoing project of constructing a new and workable welfare model. What we shall offer is perhaps more accurately a partial formula, a set of building blocks. The first of these is a more effective analytical methodology.

### **The need for a method**

Normal policymaking is inevitably shortsighted and fragmented into specialized areas and compartments. As such it is powerfully biased in favour of improving upon existing practice rather than questioning the *Gestalt* itself. Additionally, the identification of problems in need of attention is too often based on what we might call a static methodology, on snap-shot photos of today's reality: how many people fall below the poverty line? How many elderly require a nursing home? How many children abandon school?

If society remains very stable, snapshot diagnoses can be quite valid. They become problematic for policymaking if, as is now the case, we are undergoing very rapid change. Fragmentary, compartmentalized and static policy diagnosis is of questionable value if our real challenge is to construct a new welfare model for the 21st Century. For this we need a method that satisfies three criteria: that it allows us an informed "peek" into the future; that it links fragments to the whole (after all, we are concerned with the architecture and not simply a window here or a door step there); and that it captures the dynamics of citizens' life chances.

The latter criterion requires elaboration. The core welfare issue is not so much how many people at any given moment are low paid or ill-housed, but how many are likely to remain persistently low paid or ill-housed. Our society will probably *not* be able to avert that some people, for some period of their lives, will encounter social ills. This may not be as bad as it seems because social ills are not, by definition, socially problematic. Low wage jobs, for example, may play a positive role as entry ports into the labour market for youth or newly arrived immigrants. *The foremost challenge we face is to avert that social ills become permanent, that citizens become entrapped in exclusion or inferior opportunities in such a way that their entire life chances are affected.*

For these reasons we require a diagnostic methodology which focuses on dynamics. Our work adopts what we believe to be a powerful such tool, namely a life course framework. The life course framework allows us, firstly, to connect fragments because welfare conditions at one stage of the life cycle are often directly linked to events earlier in life (and may influence well-being later on in life). Poverty in old age is usually the result of a problematic employment career or of the death of a spouse. In turn, precarious employment tends to be powerfully correlated with insufficient educational attainment and this, we know, reverts back to conditions in childhood. Secondly, as discussed above, it is only via a life course perspective that we can adequately separate momentary (and possibly inconsequential) from lasting hardship. And thirdly, this is a methodology, which does help us take a peek into the dim future. If we know a lot about today's youth cohorts we are in a fairly good position to make informed forecasts about tomorrow's parents, workers or welfare clienteles. To exemplify, given what we already know about labour force demand, it is reasonable to assume that contemporary youth without secondary level education are likely to find themselves locked into the low-end labour market a decade hence. And considering ongoing pension reforms, most of which will come to full fruition 30 or 40 years down the line, it is equally reasonable to believe that these very same youth will face welfare problems as they reach pension age in, say, 2050.

## **Principles of social justice**

A second necessary building block involves the basic ground rules for making choices and selecting priorities. Anyone who has suffered an introductory economics course knows that the promotion of economic efficiency can only be justified if it enhances welfare. The strong side of the neo-liberal Good Society lies in its promotion of efficiency through more market clearing. Its credibility problem, to most Europeans, lies on the social justice side and this is no doubt what sealed its fate. European welfare states espouse quite different models of solidarity, but in all there exists a fundamental dedication to basic social citizenship, to pooling social risks collectively.

The welfare state implies a social contract with the citizenry. It has now been one of the chief organizing principles of the lives of several generations and, hence, it represents a deeply

institutionalised contract. Indeed, herein lies an obstacle to possibly *any* reform. As so much attitude research has shown, the welfare *status quo* remains very popular.<sup>6</sup> And as recent reform efforts (especially in pensions) demonstrate, masses of citizens will take to the streets and force parties from office if they seem to change the rules of the game. We must be certain that any design for a new social contract conforms to prevailing normative definitions of justice. This means specifying the bases of rights and reciprocity, and delineating the claims that citizens can justly make on society. And, to use Herbert Simon's expression, it also means defining our collective patrimony and how it should be allocated. In brief, what principles of solidarity do we wish to realize?

Everyday politics usually represent a hodgepodge of principles of justice. Policy is being made in favour of groups because they may be victims, unfortunate or vulnerable. In order to extend more welfare to children it might suffice to appeal to their innocence. Paretian principles are also frequently invoked, i.e. a change of the status quo is positive if it generates more efficiency with none being worse off as a result. Neither constitutes durable and solidarity-building decision principles. Paretian welfare is often not suitable to welfare *state* policy. It may be that none is visibly harmed if government helps millionaires triple their fortunes, but this would nonetheless violate most citizens' idea of fairness. And, as American policy making reveals, redistribution on the mere basis of arguing victimization or discrimination easily degenerates into a spiral of competing victimization claims.

Strong and durable solidarities spring from a principle of social justice according to which a benefit to some is demonstrably also beneficial for all; when societal welfare depends on individual well-being. The right has a strong case when it attacks welfare dependents because most citizens fail to see how more generous benefits to, say, welfare mothers will improve upon societal (i.e. *their*) well-being. The Third Way's accent on activation will, in comparison, appear less objectionable in so far as recipients are also asked to contribute something. The coincidence of individual and societal welfare may be regarded as a 'bottom-line' criterion of social justice. But it is obviously a very insufficient and potentially dangerous criterion if it ends up standing alone. It presumes a *quid pro quo* that is too often inapplicable or unreasonable to expect.

The need for a stronger criterion of justice stems from the heightened uncertainties that accompany far-reaching social transformation. Social risks are no doubt intensifying, and their incidence is changing markedly. Groups that once could count on security, like the standard manufacturing worker, now face major job risks. Similarly, young families with children are increasingly vulnerable. More broadly, when society is in flux citizens *perceive* their lives as being more insecure, and may therefore refrain from taking risks. When we simply do not know whether we, personally, will fall victim to the kinds of risks we face, we would most probably opt for a Rawlsian criterion of justice.<sup>7</sup> Here, according to the maxim in principle, a rational, risk-averse citizen would opt for egalitarianism and would accept a change of the *status quo* only if assured that the welfare of the weakest will be safeguarded.

The European social debate is quite close to the Rawlsian ethos when it prioritises social inclusion and the reduction of inequalities as essential ingredients in any strategy to boost economic competitiveness. In other words, our adoption of a Rawlsian yardstick should resonate well with the prevailing view among European welfare states.

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<sup>6</sup> See Svallfors and Taylor-Gooby (1999) for a recent comparative overview.

<sup>7</sup> I here use Rawls' concept more loosely than originally intended. Kangas (2000) presents a similar analysis which leads him to conclude that rational risk-averse voters facing a choice between existing welfare models would most likely opt for a Scandinavian type model.

## **Welfare as social investment**

National accounting systems distinguish between current consumption and investment, but social accounts do not – except in rare cases such as building hospitals. It is basically assumed that social outlays are an unproductive, yield-less consumption of a surplus produced by others. Human capital theory does, however, provide a good theoretical framework within which we might revise such practice. Nowadays most people would agree that educational expenditures yield a dividend because they (may) make citizens more productive, but we need to push the logic much further.

We shall argue that a recast family policy and, in particular, one which is powerfully child-oriented must be regarded as social investment. Since it is well-established that the ability and motivation to learn in the first place depends on the economic and social conditions of childhood, policies aimed to safeguard child welfare must be regarded as an investment on par with and, perhaps, more urgent than educational investments. Good cognitive abilities to start with will yield individual returns later on because they are an absolute precondition for educational attainment, life long learning, or for possible remedial intervention at some point in life. They also yield a social dividend because we need to offset the limited numbers within coming cohorts with greater productivity.

We shall apply the same logic in two other key areas of urgent welfare reform. Gender equality policies should not be regarded as simply a concession to women's claims. If society is not capable of harmonizing motherhood with employment, we shall forego the single most effective bulwark against child poverty – which is that mothers work. We shall, additionally, face very severe labour force shortages or, alternatively, a shortage of births. And, as women now tend to be more educated than men, we shall be wasting human capital. Gender equality is becoming a lynchpin of any positive post-industrial equilibrium. The quality of working life becomes detrimental the more we pin our social inclusion strategies on job growth. Stressful and insecure low-grade employment has severely negative spillover effects on families and children; low-grade jobs tend to become low-skill traps in which people easily experience an erosion of their learning abilities. If we pin our strategy to a life-long learning model, we will need to invest in working conditions as well.

Much of what we call social protection of children, youth, and families – or what we call "women-friendly" policy – is a mix of "consumption" and "investment". It is admittedly difficult, perhaps impossible, to draw a precise line between the two. But the need to re-think our social accounting practice is gaining urgency for every year we move closer towards a full-blown knowledge-dominated production system.

## **Rethinking security in old age**

Those who adopt the standard "snap-shot" policy diagnosis will easily be led to conclude that the elderly and the young are on a collision course. The elderly are ever more numerous and yield formidable lobbying power while children do not even have the vote. Hence, many fear that the former will benefit dis-proportionally. This is not a very fruitful way of examining the coming challenge of population aging. If instead we adopt a life course perspective, the issue will look quite different. Let us begin with today's retirees who on average, no doubt, enjoy solid welfare and income security. Is this due to exaggerated public largesse? In part, perhaps, but the real reason is that those who retire now were the main beneficiaries of the post war full employment boom, allowing them to accumulate strong resources. This is what mainly explains why the elderly fare well, regardless of whether they rely primarily on public

or private pensions. Were we to turn the clock back to our grandfathers' generation, we would see a completely different retirement scenario, one replete with poverty. Granted, in the 1950s and 1960s public pensions remained modest indeed. But the main reason was that they had suffered, as a generation, extraordinarily poor lives: young during World War 1, their careers dominated by the great depression and then World War 2.

If we apply the same generational life course logic to those who are now young, what retirement fate might we predict? One closer to our grandparents, or one more akin to our luckier fathers and mothers? If we are unable to check the potential for social exclusion that lies ahead, it is a safe bet that a substantial proportion will face the lot of our grandparents. We are back to the Rawlsian problematic. Under conditions of heightened uncertainty, we should give policy priority to the most vulnerable. In other words, a redesigned social model cannot satisfy basic criteria of justice unless it offers an adequate retirement guarantee. As longevity increases, so do the risks of severe disabilities and this implies the need for adequate caring guarantees as well.

We are also back to straightforward efficiency issues. Citizens need to accept risks if we aim for a more dynamic and vibrant future economy, and they will have to do so in a context of widespread uncertainty. The prospect of, perhaps, twenty years of old age poverty is not conducive to risk-taking when you, as a 25-year old, know that you have to complete 35 or 40 employment-years in order to qualify for a decent pension.

Population aging incorporates efficiency and social justice issues into one at the moment we must decide on how to allocate the additional expenditure burdens of aging. If we continue with a purely defined-benefit PAYGO system, the main additional burden will fall on those in working age. This means an even higher tax on employment and, as a result, probably higher unemployment among youth and the less skilled. If we instead move towards a contribution-defined system, we would allocate the burden to the elderly themselves.

## **The three welfare pillars**

One basic issue for any aspiring welfare architect is how to allocate welfare production. This means deciding on the division of responsibilities between markets, families and government. Markets are the main source of welfare for most citizens through most of their adult lives, both because most income comes from employment and because much of our welfare is purchased in the market. The reciprocity of kinship that families represent has traditionally been another chief source of welfare and security, in particular in terms of care services but also in terms of income pooling. Familial welfare production continues to be quite prominent, especially in Southern Europe. Government's role in welfare production is, of course, based neither on purchase, nor on reciprocity, but on a redistributive "social contract" that reflects some form of collective solidarity. Each of these three welfare pillars is mutually interdependent.<sup>8</sup> The family, just like government, may in theory absorb market failures; similarly, the market (or government) may compensate for family failure. Where neither is capable of substituting for "failure" in the two others, this is when we encounter an acute welfare deficit or crisis.

It can probably not be avoided that some citizens will face an acute situation of triple "failure". No welfare regime, however ambitious, can realistically safeguard against all

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<sup>8</sup> The "third sector" is arguably a fourth pillar, but where its role is of decisive importance its functioning tends to resemble markets or government, all depending on its chief financial underpinnings. For a discussion, see Esping-Andersen (1999).

misfortunes. However, what is cause for alarm is that present day societies seem to combine triple failure for a large and growing mass of citizens. As a result, to paraphrase C.W. Mills (1956), private troubles are becoming public issues.

Any choice of where to concentrate welfare production must consider two fundamental aspects. The first, and simplest, involves an accurate diagnosis of "pillar-failure". Thanks to the economists, we have a long and established tradition of identifying market failures. But this is not the case for family failures, in great part because they frequently remain hidden. Yet, families' ability to absorb social problems and provide adequate care is being doubly impaired. On one hand, many emerging risks – like Alzheimer's disease – require a level of caring intensity that most families are unable to furnish. On the other hand, families are increasingly fragile and they also lack available caring capacity.

The second, and arguably more urgent, aspect has to do with the potential second-order effects of allocating welfare responsibilities to any given pillar. To be sure, we have a massive literature on the moral hazards and negative incentive effects that government welfare provision may provoke. Unfortunately, we know far less about the second-order effects of familial welfare responsibilities. But we are becoming increasingly aware that traditional caring obligations contradict women's employment abilities. There is also evidence that the familial solution to youth unemployment typical of Southern Europe may be problematic in so far as it delays independence, job insertion, and family formation.

Too often, our attention is myopically focused on government. Should it shrink, grow, or do things differently? This leads to poor policy analysis because any specification of government's obligations has second-order effects on markets and families. If, for example, we decide *not to* develop public care services for the elderly, will markets and/or families compensate adequately? The real world of welfare is the product of how the three welfare pillars interact. If one pillar "fails", there is either the possibility that the responsibility is absorbed in the two remaining pillars or, alternatively, that unsolved welfare problems mount. When we design social policies we must ask ourselves: *can* the family, market or, alternatively, the state realistically absorb such responsibilities and, if so, would this be the most *desirable* option?

Neo-liberals advocate the primacy of markets (and usually ignore the family), while conservatives favour more family and local community social responsibility. And social democracy's longstanding preference for collective solutions is anchored in its fear that both the family and the market alternative offer insufficient security while fostering inequalitarian results. From this diversity we can learn a lot about which institutional option seems to perform well or poorly in the pursuit of any specified welfare goal. The choice of how to divide the responsibilities between the three cornerstones of the welfare triangle is what scholars term a choice between alternative *welfare regimes*. And it is this, in the final analysis, which we must decide upon

## **Similar challenges for different welfare regimes**

By and large, all European nations face similar risks, needs and trade-offs. There is everywhere a rise in inequalities coming from the market- and the manifestations of demographic change are similar. But it is equally true that the convergence of post-industrial challenges confronts very different national welfare systems. Hence, their ability to respond effectively to new risks will inevitably differ due both to their inherent strengths and weaknesses. These, in turn, depend on how the three pillars are configured but also on the institutional properties of welfare *state* programs.

## The Nordic countries

The Scandinavian welfare model is internationally unique in its emphasis on the government pillar. It has actively "de-familiarized" welfare responsibilities with two aims in mind: one, to strengthen families (by unburdening them of obligations) and, two, to strive for greater individual independence. It has also actively "de-commodified" citizens' welfare needs, thus seeking to minimize the degree to which individuals' welfare depends on their fortunes in the market. But, and this is decisive to note, the crowding out of markets in the pursuit of welfare is attached to a "crowding in" policy of maximizing citizens' employability and productivity.

The Nordic welfare *states* are characteristic for their triple accent on universal income guarantees, "activation" and highly developed services for children, the disabled and for the frail elderly. The broad and quite generous income safety net is demonstrably an effective bulwark against poverty. It is also meant as a means for greater risk-taking and, hence, should promote labour market flexibility and adaptation. Activation policies do appear to diminish long-term unemployment, and care services to families have provided a double bonus: enabling women to have children and careers while also maximising employment levels. The Nordic welfare regime is inevitably costly on the government revenue and expenditure ledger. But it can be demonstrated that it is *not* more costly if we adopt a complete "regime" accounting system. What Scandinavians are compelled to pay in taxes, their US equivalents are compelled to pay out of their own pockets. Still, notwithstanding an unusually balanced revenue mix, heavy tax requirements undoubtedly constitute a potential Achilles heel of the model.<sup>9</sup> So far it has been able to sustain its taxation needs thanks to broad support from the middle classes. Still, the deterioration of Danish health care over the past decade bears witness to severe financial constraints. As the experience of Sweden during the 1990s economic slump suggests, the model relies ultimately on sustained full employment and growth. If growth remains sluggish and if market-driven inequalities and dualisms continue to strengthen, the Nordic model will be seriously tested.

No doubt, the Scandinavian model is comparatively well positioned to face the exigencies of post-industrial change. Via its "de-familiarization" of welfare responsibilities, it is undoubtedly well placed to activate the full potential of women's new role. Since it is also effective in mobilising the more vulnerable, such as single parents with small children, older workers, or people with disabilities, it manages to maximize inclusion and minimize exclusion. Along with Belgium, the Nordic countries are among the few OECD countries able to minimize *both* aged and child poverty. They demonstrate thereby that generous old age security is not per se incompatible with an active pro-family policy. Near-maximum employment, in turn, coincides with less early retirement and fairly high fertility. Perhaps the most important lesson to be learned from Scandinavia is its quite successful investment in preventative measures.

## The "liberal" welfare model

The welfare model of Ireland and the UK, like the American, seeks actively to sponsor market solutions. It pursues this via the double strategy of encouraging private welfare provision as the norm, and by limiting public responsibilities to acute market failures. With the notable exception of national health care, the dominant thrust is towards a residual public role of targeting benefits only to the demonstrably needy. Hence, the middle classes have

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<sup>9</sup> The total welfare resource allocation (as a percent of GDP) in Scandinavia is not greater than in the United States. The difference is simply a matter of the public-private expenditure-mix (Esping-Andersen, 1999).

been encouraged to opt into the private welfare market while government has sought to strengthen income testing. In parallel, the accent is shifting from conventional needs-tests towards work-conditional benefits. This is seen as a more effective response to two problems. Firstly, to what is perceived to be a widespread lack of adequate work incentives and, secondly, to the growth of low wage employment. It can, in fact, be regarded as a necessary cushion within increasingly unregulated labour markets.

The accent on targeted in-work benefits may be regarded as a more effective way to address social exclusion than, say, conventional social insurance. But this is far from certain. If benefits are work-conditional, they do not help workless citizens. To qualify, mothers with small children will, to begin with, require cheap day care. If eligibility is subject to a needs test, benefits are most likely set at a low level and coverage gaps and welfare dependency are likely to be substantial. Also, work-conditional benefits may produce unwanted externalities, such as downward pressures on wages.

The stimulus of private welfare plans helps balance public budgets, but this easily provokes social dualisms and second-order consequences. One result may be to relegate lower income households to the status of second-rate welfare citizens. If equality remains a priority, targeted welfare performs poorly as revealed by internationally very high poverty rates. Moreover, poverty is especially evident among the fastest growing kinds of vulnerable households (such as lone mothers and young families with children). And it may be unrealistic to assume that buoyant markets effectively diminish welfare dependency. In the UK, for example, the decline in unemployment in the 1990s was not accompanied by a similar decline in workless households. Without comprehensive investments in family services, the low-wage trap that, in the first place makes assistance necessary, may not disappear.

If the overriding goal of targeting and privatisation is to reduce public taxation and expenditure, this appears to have been accomplished in Britain to a degree, especially in terms of longer-term pension expenditure projections. But the secondary consequence is growing household outlays for private insurance coverage and it is doubtful whether there are any real total cost savings to be gained. The great Achilles heel here is that government's ability to raise more revenues, as well as its capacity to conduct an effective social policy, will be progressively impaired the more that citizens exit to the market. If the welfare state provides ever fewer benefits to the middle classes, their acquiescence to high taxation will gradually evaporate – if for no other reason, simply because they are locked into paying for private insurance. The model may, therefore, face severely limited policy options to deal with pressing social problems in the future.

## **The Continental European welfare model**

One characteristic that is common to most, but not all, Continental European countries is their sustained adherence to traditional familial welfare responsibilities – most powerfully in Southern Europe, and by far the least in Belgium and France. Within this context, the security of the chief (male) breadwinner assumes fundamental importance. The familialist bias is additionally reinforced by the dominance of social insurance.

Employment-linked social insurance protects well those with stable, life-long employment. For this reason, countries that follow the insurance tradition have usually also introduced strong employment guarantees and regulations. It is not surprising that Continental European labour markets systematically score very high on most labour market "rigidity" indicators (Esping-Andersen and Regini, 2000). The long-term viability of a social insurance

dominated system is, however, increasingly questioned because it offers inadequate security for those with a tenuous connection to the labour market, such as women and for workers with irregular careers. Worse, social insurance responds poorly to the emerging demographic and employment structure. Since entry into stable employment is ever more delayed, and since work histories are becoming more unstable, citizens will face difficulties accumulating sufficient pension credits. And to cover financial shortfalls in pensions, the tax on employment is rising and this helps price the young and the less productive job seekers out of the market. Passive income maintenance, combined with strong job guarantees for male breadwinners, becomes problematic with rising marital instability and non-conventional households. Strong protection for the stably employed combined with huge barriers to labour market entry has, in many countries, nurtured a deepening abyss between privileged "insiders" and precarious "outsiders". If strong reliance on the family absorbs many of the risks of social exclusion, it simultaneously negatively affects women's search for economic independence. It can be observed that familialist welfare is paradoxically a major cause of low fertility.

To deal with "atypical" risks, Continental European welfare states have either relied on continued family support or they have added ad hoc non-contributory programs, such as social pensions and various social minima to the system. An overly transfer-biased social policy is, arguably, an ineffective response to social exclusion. There is now a clear realisation across Continental Europe that services, especially for small children and for the frail elderly, are an urgent priority. Yet, the fiscal capacity to respond is limited due to a narrow tax base combined with costly pension commitments. The model is unusually vulnerable to employment stagnation and to high inactivity rates. Hence, expanding employment among women and older workers becomes *sine qua non* for long-term sustainability.

Yet, Continental European welfare states find themselves in a "welfare without work" trap, from which it is difficult to escape. Job growth in the market economy is made difficult by high wage floors and contribution burdens, and in public services because of severe fiscal constraints. In the absence of jobs, the response has been to subsidise early retirement requiring additional increases in social contributions. A common characteristic is the narrow, or even non-existent, scope for investing in measures, which might help people out of the "welfare without work" trap (such as women-friendly benefits and services).

It is in this context that the "Dutch miracle" assumes importance. In the 1980's the Netherlands epitomised the negative aspects of an overly passive, income maintenance biased approach with very low female employment and record high transfer dependency ratios. The Dutch labour market success story is based on a number of interrelated policies including, first of all, protracted wage moderation and a huge growth of part-time and temporary employment. This was combined with a fairly effective curtailment of prolonged welfare dependency but *not* with any significant erosion of social benefits. The result has been an impressive rise in female employment and in service jobs more generally.

## **From national regimes towards a European model?**

As national interdependencies strengthen and as European integration moves ahead, the advocacy for a new welfare architecture inevitably becomes more global and pan-national. Indeed, the neo-liberal project presented itself as a universal panacea and the Third Way, even if originally meant for a British audience, swiftly mobilized disciples elsewhere. The mere fact that most, if not all, European nations are struggling to reform their social

protection systems at the same time should help boost a coordinated, joint effort at finding solutions. Hence, the noticeable intensification of an EU-wide social debate in recent years.

To be sure, there is nothing especially new in this. During the first great "Bismarckian" phase of social reform, the debate was as international as today. Countries as far apart as Italy and Sweden were intensely considering the pros and cons of the emerging German model. Many countries, including even Japan, consciously emulated Bismarck. The arena was equally, if not more, global when Gustav Moller, Franklin Roosevelt, and Lord Beveridge launched the second great reform wave. The historical moment at which we now find ourselves appears to be uniquely global. A minimum of history tells us, it is not.

The embrace of a common European social strategy for the 21st Century is still decidedly timid, if not reluctant. Granted, a first step was taken during the Dutch presidency of the EU, during which the common employment strategy was launched in tandem with an invitation to reconsider "social protection as a productive factor". A further, and more daring, impulse came from the Lisbon Summit in March 2000, where social protection was placed at the top of the political agenda. As a follow-up, point 7 of the EU Council's communication to the Nice European Council states that *"the European social model, with its developed systems of social protection, must underpin the transformation to the knowledge economy. People are Europe's main asset and should be the focal point of the Union's policies. Investing in people and developing an active and dynamic welfare state will be crucial both to Europe's place in the knowledge economy and for ensuring that the emergence of this new economy does not compound the existing social problems of unemployment, social exclusion and poverty"*.<sup>10</sup>

A full-fledged, synchronized European reform policy, especially if it aims at harmonization, remains out of the question. But the pursuit of common objectives under the umbrella of the so-called "open method of coordination" constitutes an acceptable – and possibly promising – avenue for member states to move from "negative" to "positive" integration (Scharpf, 1999). Unsurprisingly, the search for commonly acceptable and realistic policy objectives has been intensifying over the past years.

The above-cited quote gives us a first, if utterly generic, glimpse at what Europeans might agree upon, namely that the promotion of economic competitiveness is conditional upon the preservation of accustomed social entitlements and a fight against social exclusion. Here the Rawlsian underpinnings of political decision-making are evident. Moving to the more concrete, so far the common employment guidelines remain the only real success. But we can identify a host of 'proto-objectives' being sponsored and debated across the EU. The Social Affairs and Employment Council has endorsed the pursuit of gender equalisation, making work pay, safe and sustainable pensions, the promotion of social inclusion, and the pursuit of high quality and sustainable health care. Also, in the context of the Portuguese presidency, the Belgian-British call for benchmarks to combat the poverty and social exclusion was adopted by the EU Council (where children were singled out for special concern). But with few exceptions, such as the 60-percent female employment target for 2010, good intentions far exceed the number of concrete policies adopted.

Whether reform will remain predominantly a national or, alternatively, a common European affair should depend in large measure on two circumstances. One, do individual nations actually face the same set of challenges? Two, would it be realistic and advantageous to adopt similar targets considering extraordinarily diverse welfare constructions? The following four policy arenas that are key to any fundamental welfare model reconstruction should be

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<sup>10</sup> The Council of the European Union. Document 14011/00, SOC 462 (Annex).

addressed: children and families, gender relations, work life, and retirement. They are fundamental in a double sense. Firstly, they represent the main cornerstones of citizens' life chances. Secondly, they represent four of the most pressing challenges from the point of view of post-industrial adaptation.<sup>11</sup>

The question raised here is whether a new "social contract" is necessary, and if so, what should it encompass? Let me conclude this paper with a brief overview of the issues.

## Rewriting the social contract

### 1. A new family policy

The main objective of post-war family policy was to safeguard the male breadwinner and provide relief to families with large numbers of children. On five grounds the conditions are now almost the opposite. Firstly, the family structure that underpinned post-war policy is no longer dominant. Secondly, the employment of mothers requires new caring institutions for small children. Thirdly, widespread youth unemployment and huge entry-barriers to housing markets inhibit young peoples' ability to form families. Fourthly, families are increasingly unstable and this often goes hand-in-hand with poverty. And fifthly, the quality of childhood matters ever more for subsequent life chances. It is in childhood that citizens acquire most of the capital that they, later, will activate in the pursuit of a good life. Investments in education and abilities are becoming increasingly indispensable for peoples' life chances, but they must be undertaken in a context in which families are ever more fragile. The resources of parents are becoming ever more important all the while that they are more vulnerable. A new child-centred social investment strategy could be proposed based on a combined policy of income guarantees against child poverty and maximizing mothers' employment.

### 2. A new gender contract

Everywhere the post-war social contract was built on the then realistic assumption that women would, once married, withdraw into housewifery. But over the past twenty years, women's educational attainment has come to surpass men's and the male wage advantage is in decline. In as much as the new service economy favours women, the welfare calculus of households should lead to an increase in female labour supply. Additionally, women themselves increasingly insist on greater economic autonomy and professional development.

The ongoing gender revolution is both irreversible and desirable. To fully reap its advantages, we must recast the nexus between work, welfare and the family. Women's employment improves family welfare and at the same time helps to sustain future welfare state finances. But it also creates new social risks, such as greater family instability and new "atypical", often vulnerable, households. If the "incompatibility" problem is not resolved, it may lock European societies into a long-term low-fertility equilibrium. This sharply contrasts with European citizens' own stated preferences regarding their desired number of children. There is clearly a strong case for a new "women-friendly" social contract because improving the welfare of women means improving the collective welfare of society at large.

The policy challenge boils down to two principal issues. Firstly, how to make parenthood compatible with a life dedicated to work and careers as well. This is usually identified as the

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<sup>11</sup> Health policy is arguably a fifth area of key importance, one that has not been examined in this paper.

question of "women-friendly policy". Secondly, how to create a new and more egalitarian equilibrium between men's and women's lives – the gender equality issue.

A handful of European welfare states have been vanguards in harmonising motherhood and careers. Most others have, if not actively then at least verbally, begun to advocate similar "women friendly" policy. The sheer force of women's claims may drive this, but it also gains urgency from pragmatic concerns. As in Italy and Spain, where female activity rates remain half that of Northern Europe, there is an evident need to raise participation levels; partly to meet commonly agreed employment targets and partly as a necessary component of any longer-term sustainability strategy. Most European nations have been far less responsive to the gender-equality challenge. It is clearly difficult to reverse centuries of acquired behaviour, and the search for an immediate patent solution would probably be futile. Yet, Scandinavian experience suggests that fathers' contribution to unpaid domestic work and childcare can be augmented by welfare incentives. Hence, the ongoing "masculinization" of women's biographies may, via policy, find a parallel in a more "feminized" male biography.

### 3. Social inclusion through employment

Paid employment remains, as always, the basic foundation of household welfare and it is hardly surprising that more jobs are seen as a *sine qua non* in the pursuit of an inclusive society. As far as this goes, little has changed since the post-war years. Yet, the challenge we face today differs considerably. When Lord Beveridge and his political contemporaries launched their commitment to full employment, they were explicitly referring to men only. Any meaningful 21st century commitment must now also include women. In the past, a nation's employment performance was related to expanding manufacturing jobs with steady productivity – and hence wage – growth and considerable career stability. Today we must depend mainly on services, which are far more dualistic, and very uneven productivity growth poses the likelihood of growing earnings gaps. The transformation of work is, on the positive side, dominated by skilled jobs but, on the negative side, accompanied by an erosion of job security, more wage inequality, and a substantial number of low-end jobs. All this, in turn, affects peoples' career prospects and capacity to adapt to change, generating new forms of insecurity.

It is by now well documented that the overall thrust is towards rising skill levels. Industrial decline affects predominantly lower skilled jobs; the most dynamic services, like finance, business and social services are skill-biased. But the upgrading of employment easily produces polarisation because labour intensive, routine services nurture a sizeable number of low qualified jobs (the so-called MacJobs). If these are concentrated in the private sector, they are likely to offer low wages and poor working conditions.<sup>12</sup>

The European employment strategy aims to fight social exclusion through job expansion. In most EU member states, fiscal constraints appear to preclude a major growth of public service jobs and, hence, such *quantitative* expansion may be accompanied by an expansion of less secure, *poor quality* jobs. The threat of job polarisation is real because investment in new skills is concentrated in higher occupational classes, while low-skilled jobs offer few opportunities for training, skill enhancement, or personal development. High employment levels may nourish a low-end labour market with a class of workers locked into inferior jobs, precariousness and, paradoxically, also high risk of unemployment.

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<sup>12</sup> For the most up-to-date survey, see OECD (2001). See also Scharpf and Schmidt (2001) for an excellent synthetic analysis.

The transformation of work also affects employees' health. Physical dangers were the main risk in the "old economy" whereas stress-related risks come to the fore in the "new economy". This is exacerbated by firms' competitive strategies, in particular by increasing workforce productivity through decentralising responsibilities, intensifying work processes and favouring non-standard forms of employment. The new forms of worker insecurity are a contributing factor. Skill change is doing away with the tradition of jobs for life and the chances of a stable career depend on one's ability to constantly adapt and acquire new competencies. In this context, traditional health regulation systems are losing their effectiveness. Yet those who fall victim to such new health risks face high chances of labour market marginalisation.

The employment chances of households are another source of polarisation. On one hand, we see the rise of resourceful, work and income-rich households and, on the other hand, a similar rise in vulnerable households, such as lone parents and working poor couples. Such polarisation is additionally probable due to marital instability and marital homogamy. The challenge is how to coordinate employment and family policy to strengthen families' employment prospects and effectively attack household poverty.

Household vulnerabilities and inferior employment are likely to coincide and, in this case, the chances of social exclusion increase dramatically. Also here, we must distinguish between temporary and persistent deprivation. Individuals' life chances are not *per se* affected by a short stint of low pay or "MacJobs" employment. But they are if it persists and, especially, if it bundles in the form of multiple deprivation. Any serious pursuit of social integration must include guarantees against entrapment in deprivation.

The duration of poverty increases substantially when overall poverty *levels* are high (Duncan et al., 1993; Bradbury et al., 2001; OECD, 2001). This empirical relationship is absolutely critical because it suggests that lowering poverty *per se* is a first and necessary ingredient in any strategy for social inclusion. Persistent social exclusion and under-privilege constitute a growing risk and, for this reason, it is urgent to develop effective guarantees against entrapment.

Since it is abundantly clear that a negative spiral of social exclusion is primarily caused by lack of access to stable, well-paid employment, it is hardly surprising that policy is focused on either "making work pay" or on activation and learning. The weakness of either is that it typically comes too late. A first and necessary policy must be to invest in improving the quality of jobs. Since it is realistic to expect that our future labour markets will include a fair number of low-end jobs, mobility measures such as life-long learning and training become crucial so as to avoid entrapment. We know that even the best designed activation policies work poorly if they are primarily remedial. Active training and mobility policies can only be effective if they complement a strategy of prevention and this means, once again, the need for major social investments in childhood and youth. Or, to put it differently, our employment policies need to join hands with our family policies.

#### **4. The generational contract**

The post-war retirement contract was based on favourable demographics and robust economic growth. Generous pay-as-you-go pensions were financially viable because real wages and the number of contributors grew. Neither is the case now and thus we face the problem of how to sustain our pension commitments.<sup>13</sup> Failure to reform existing pension

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<sup>13</sup> Of course, a return to strong real wage growth would diminish the problem substantially.

systems may, in many countries, produce negative, secondary consequences. This is especially so in countries where financing is contribution based because rising fixed labour costs jeopardise job growth, especially in low-productivity, labour intensive, private services.

Rolling back public pensions might improve upon public finances but this is unlikely to affect total GDP use. Privatisation would, for most countries, imply both injustice (double payment), more inequality among pensioners and heightened insecurity. Compensating for negative demographics with “fertility incentives” is an inadequate avenue in the medium term and immigration will only realistically cover the shortfall if immigration rates become enormous. As a consequence, there is almost universal agreement that a viable new retirement contract must combine two elements. Firstly, it must ensure retirement security for both today’s and tomorrow’s citizens. Secondly, it must produce a reallocation of work and retirement time. In part, this can be done by raising employment rates in active ages; in part, by delaying employment exit.

The great challenge is how to ensure at the same time *intergenerational equity* (a sustainable fair distribution of the costs of future retirement between workers and retirees) and *intragenerational justice* (safeguarding the welfare of the weakest, both in working life and in retirement). One solution to the transition cost issue might be to adopt the Musgrave principle of proportional sharing among the generations. And, in address to intragenerational justice, we need to place greater emphasis on general revenue financing – both to protect the least advantaged and to meet additional retirement costs. A minimum guaranteed retirement income above the poverty line is not only affordable but must also be considered a precondition for any commitment to the well-being of future generations.

Still, the urgency of a new generational social contract does not stop here. Increased life expectancy means also a major challenge to health care systems and growing demand for services to the frail and disabled. A new generational contract necessitates both a renegotiation of the work-pension nexus and of the caring nexus. Since the EU is committed to gender equality and to raising women’s employment rates (and since this is fundamental for sustaining welfare commitments in the first place) the traditional option of the elderly being cared for by (mostly female) family members is naturally precluded.

## Conclusion

To reiterate, our intention is not to deliver policy *panacea*, solutions for all our problems, once and for all. A first, more modest, aim is to outline some of the ingredients that are necessary for a more comprehensive redesign. A second aim is to sound a warning note against some of the sweeping policy formulae that characterise contemporary debate. Take pension policy. Delaying retirement is surely a sound objective, but will it work for all? Or, take social inclusion policy. Activation seems an appealing alternative to passive income support, but can it adequately substitute for basic welfare guarantees? It is now fashionable to downplay passive and advocate active policy. This may be misguided if, as evidence suggests, activation is a costly, second-best alternative to prevention. Or, once again, take gender policy. The catchword everywhere is a “women-friendly” policy of care services – plus – parental leave schemes. But this alone will probably not resolve the difficulties facing most working mothers.

In light of the diversity of national welfare systems, it is additionally fruitless to contemplate a single design for all nations even if they do face rather similar problems. Just as no EU member state is likely to privatise its welfare state, neither is a radical welfare-regime change likely to occur. The institutional framework of national welfare systems are

historically "locked in" and any realistic move towards common objectives must presume that such, if accepted, will be adapted to national practice.

Identifying broad policy objectives with no regard for their practical political relevance and implementation within diverse European welfare models would easily end up as a sterile academic exercise. For this reason our study includes a fourth "problematic": the preconditions that make reform both necessary and feasible within nations as well as at the EU level. The challenges may be very similar, from Finland to Greece, but each member state has its own welfare policy legacy, distinct system of interest organisations and democratic polity. It is within such diversity that actual, concrete welfare reform will be undertaken.

A final thread is the need to rethink policy boundaries and, in particular, the public-private welfare dichotomy. There are two issues at stake here. The first is that social welfare policy cannot be pursued distinctly from employment policy. To take an example, an effective anti-poverty strategy must combine female employment, quality of work improvements, social care and income maintenance. The second is that our point of reference for cost efficiency and viability should not be government revenues and outlays, but GDP use. Diminishing public health, pension or social care expenditure is unlikely to produce any real cost savings since households will compensate with market purchase or with self-servicing. If welfare is externalised to markets, this will not result in appreciably lower net household money outlays. It will, however, result in more accentuated inequalities. If welfare is internalised in the family, this will probably result in more unpaid and less paid work – in other words, in a lower GDP (*and* less tax revenue). It will prove counter-productive for gender equality, and will seriously impair our capacity to generate new employment. Put differently, when we discuss what government should or should not do, we need to simultaneously consider its consequences for markets and for families.

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