EUROPEAN WELFARE STATES IN MOTION

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Abstract

In this working paper, we assess to what extent European welfare states have moved in the direction of social investment in terms of spending and how well they are performing socio-economically, for instance in terms of unemployment, poverty-reduction and work-family life reconciliation. Moreover, we discuss the welfare reform trajectories of ten selected welfare states in the period up to the financial and economic crises. We do so against the backdrop of the socio-economic adaptive challenges that 21st century welfare states face, like population ageing and increased economic globalization.

Our analysis demonstrates that the return on social investment seems considerable: those countries with high(er) levels of social investment spending perform better in terms of unemployment and poverty-reduction. However, the scope and timing of a turn towards social investment varies considerably across countries. Reforming in the direction of social investment is typically a contentious political process. In the context of tight budgets, a turn towards more social investment spending calls therefore on the learning capacity of policy makers, and on the existence of reform coalitions that are able to circumvent entrenched interests blocking fundamental reform.

Based on our findings, we draw four policy conclusions in the final chapter: (1) Welfare reform is difficult, but it happens; (2) We live in a world of path-dependent solutions and setbacks; (3) The EU helped set the social investment agenda; and (4); There is a need for an EU social investment pact.
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1. A TURN TO SOCIAL INVESTMENT?
In Europe and beyond, much welfare state reform has taken place over the past three decades, even though reform is hard (for overviews of the literature, see e.g., Starke, 2006; Palier, 2010). Initially, across Western Europe, social and economic policy adjustment primarily revolved around issues of economic competitiveness. When the European Economic and Monetary Union (EMU) set limits to deficit and debt financing in the 1990s, policy makers became more willing to adopt measures of cost-containment together with more active labour market policies such as subsidized employment and training. Eventually, new values of work, family, gender relations, distributive fairness, and social integration triggered the adoption of an active welfare state edifice, reinforced by problems such as population ageing, de-industrialization, and changing family roles (see e.g., Esping-Andersen et al., 2002). To maximize employment, promote activation, restrain early retirement, and reconcile work and family life, many countries have pursued substantial welfare reforms. These reforms have often been accompanied by societal conflict, but interestingly in many countries important reforms also received broad consent from opposition parties, trade unions and employer organizations (Hemerijck, 2013). After these three decades of reforms, only a small minority of European polities, notably Greece and Italy, still fit the notion of change-resistant passive welfare states. By the early 2000s, these latter countries had

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† We follow Clasen and Clegg (2011: 337) and define activation as “stricter work conditionality, embedded within eligibility to unemployment benefits, such as more intensive job-search criteria or greater expectations towards occupation mobility”, which encompasses “a stronger labour supply or ‘work first’ orientation within active labour market programmes”. Emphasis is “put on intensive job search, as well as participation in short training or work experience schemes”.
become the exceptions to the more general rule of welfare state reform in most other European countries, at least before the financial and economic crisis hit in late 2007, early 2008. Some countries, most notably the Nordics like Sweden and Denmark, have been able to re-establish virtuous mixes of equity and efficiency by enlarging the scope for markets in the sphere of production while simultaneously complementing income protection with so-called social investment policies, like childcare. These are also the countries that originally went furthest in the direction of social investment.

Against this backdrop, this working paper asks three, related questions. First, what are the main socio-economic adaptive challenges facing European countries? Second, how do these countries perform in terms of key socio-economic outcomes that could be related to social investment policies, like education, gender-equality and unemployment? Third, to what extent have European welfare states moved in the direction of social investment in an era of rapid socio-ecological restructuring in the period up to the global financial and economic crisis?

The concept of social investment has a central role in this study. But how do we define social investment? We follow the so-called social-democratic definition of Morel et al. (2012: 2), who indicate that a social investment approach rests on policies that both invest in human capital development (early childhood education and care, education and lifelong learning) and that help to make efficient use of human capital (through policies supporting women’s and lone parents’ employment, through active labour market policies, but also through specific forms of labour market regulation and social protection institutions that promote flexible security), while fostering greater social inclusion (notably by facilitating access to the labour market for groups that have traditionally been excluded). Crucial to this new approach is the idea that social policies should be seen as a productive factor, essential to economic development and to employment growth.

Social investment policies thus among other things aim at positive returns in terms of labour market participation (a more highly qualified and bigger labour force) and economic growth (through especially higher labour participation). Against the backdrop of increasing socio-economic challenges (see chapter 2), this productive function of the welfare state gains prominence, in addition to – and thus not as a replacement of – the more traditional functions of the welfare state, like insuring against risks (Van Kersbergen and Vis forthcoming: chap. 3).

OUTLINE OF THE STUDY
This study is organized as follows. First, chapter 2 takes stock of a number of significant adaptive challenges – exogenous, endogenous, historical and supranational – that have transformed the policy environment of European welfare states over the past three decades. It shows how these challenges have slowly but surely changed the terms of debate about welfare state futures across Europe. Next, in chapter 3, we discuss social investment (its definition, possible effects and critique on the concept) and assess how European countries have performed along a number of indicators that are, or
could be, related to social investment: economic growth, social spending, unemployment, education and service quality. We focus on the period between 1997, when the European Employment Strategy (EES) was launched, and 2007, the peak year of the most recent complete business cycle before the onslaught of the present crisis. To what extent do these quantitative data indicate a shift from the traditional function of ‘social protection’ to that of ‘social investment’? We show that those countries that spend the most on social investment perform best in terms of socio-economic outcomes.

Subsequently, in chapter 4, we present paired case studies on welfare reform over the past two decades of ten European welfare states, two from each welfare regime. We focus on Sweden and Denmark from the Nordic or social democratic regime; Ireland and the UK from the liberal regime; Germany and the Netherlands from the continental welfare regime; Spain and Italy from the Southern European or Mediterranean regime; and the Czech Republic and Poland from the CEE regime (for a discussion of this case-selection, see chapter 4). By diachronically tracing processes of welfare reform along a limited number of interdependent policies (active labour market policies, family policy, and pensions), we assess to what extent the social policy repertoires of these countries are able to deal with the adaptive challenges and to what degree they have moved into the direction of social investment. We show that the Nordic ‘dual-earner’ post-industrial welfare systems proved relatively well-equipped to tackle the adaptive challenges, thanks to their overall institutional coherence together with their full employment and active labour market policy legacy. In the liberal regime, there is a trend towards ‘Third Way’ policies, with the expansion of activation policies, supported by a strong, ‘individual responsibility’ normative political discourse. Both countries have turned away from the neoliberal orthodoxy by developing a social liberal model of an ‘enabling’ (in the UK) or a ‘developmental’ (in Ireland) welfare state. The continental countries, in turn, have to a large extent been able to reverse the syndrome of ‘welfare without work’ and move into the direction of social investment. Modernizing the Southern European welfare states started later than in the other countries, but has begun, largely because of the external pressures from the entry into EMU and intensified economic internationalization and the rapid ageing of the population. Finally, since the fall of the Berlin wall, the new EU Member States of Central and Eastern Europe have been laboratories of welfare recalibration in the transition from centrally planned economies to democratic market ones. In this regime, we find, again, regime-specific inertia, but also the ability to break – to some extent – with the old social order, and path-dependent divergence.

In chapter 5, finally, we summarize the previous chapters and draw four policy conclusions. We ask what may lie ahead for welfare policy provision and EU cooperation. We argue that, for Europe, the crisis critically exposed the shortcomings of the loose coupling of the ‘hard’ EMU and the constraints of the Stability and Growth Pact and the ‘soft’, social investment friendly, Lisbon Agenda. The years ahead will differ markedly from the past two decades when the social investment paradigm was

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2 See chapter 3 for a discussion of the term social protection.
launched after the mid-1990s. The current tide of pre-emptive austerity and the declining popular support for solutions including the European Union are all anathema to a much needed rethinking of a productive welfare state. We propose that a deliberate strategy of affordable social investment needs to be proactively embedded in a regime of macro-economic governance and budgetary monitoring at the EU level. As many governments are struggling to build domestic support for new rounds of unpopular welfare reform, any new ‘fiscal compact’ must be balanced with growth and social cohesion enhancing measures, if the European project is to survive.

2 ADOPTIVE CHALLENGES TO 21ST CENTURY EUROPEAN WELFARE STATES

2.1 THE PREDICAMENT OF EARLY 21ST CENTURY WELFARE PROVISION

To understand contemporary European welfare state reform, we start with an inventory of the most important changes in the policy environment over the past three decades. Since the 1980s, various trends have fundamentally altered European welfare states’ policy environment (Esping-Andersen et al., 2002; Van Kersbergen and Vis, forthcoming: chapter 8).

Table 2.1. Four key adaptive challenges European democracies face

<table>
<thead>
<tr>
<th>Accelerated economic internationalization</th>
<th>Post-industrial labour markets, family &amp; gender role change</th>
<th>Power of old risk social insurance pre-commitments</th>
<th>Intensified European integration</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Trade competition;</td>
<td>Emergence of new social risks across the life cycle, e.g. single-parenthood, long-term unemployment, low skills</td>
<td>Ageing and declining fertility result in difficulties to finance pensions and other old risk social insurance schemes</td>
<td>Erosion of domestic social &amp; economic policy autonomy, removal of barriers to trade, labour, capital and services</td>
</tr>
<tr>
<td>- Globalization of finance;</td>
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<tr>
<td>- Austerity bias in macro-economic policies;</td>
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<td>- Looming tax competition;</td>
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<td>- Political logic of globalization</td>
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Largely following the existing literature, we distinguish five sets of broad challenges, which Table 2.1 summarizes. First, from the outside, intensified international competition has come to challenge the redistributive capacities of national welfare states (Scharpf and Schmidt, 2000a). Second, from within, changing gender roles in families and labour markets, and increased life expectancy, together with declining birth rates, the shift from an industrial to a service economy, and the de-standardization of employment relations have confronted Europe’s social policy systems with so-called new social risks (Esping-Andersen et al., 2002; Bonoli, 2007; Esping-Andersen, 2009). Third, as policymakers try new ways to manage the new social risks of skill depletion, inadequate social security coverage, lone motherhood, and problems of reconciling work and family, their endeavours are constrained by domestic social policy commitments inherited from the past. Large portions of social expenditure are historically committed to prior welfare commitment, especially in old age pensions, which under conditions of
relative austerity and slower economic growth seem to crowd out the available policy space for initiatives to mitigate 'new social risks' (Pierson, 1994, 1998, 2001a, c). Fourth and finally, at the supranational level, the European Union (EU) has concurrently emerged as a critical intervening variable in, restricting and prescribing but also enabling, welfare state reform (Leibfried and Pierson, 2000; Ferrera, 2005; Zeitlin, 2005a, b). Together these five challenges critically delineate the political space of current and future domestic and EU-level social policymaking. Below, we discuss these four adaptive challenges in turn.

2.2 Challenge 1: Accelerated Economic Internationalization

Broadly understood, globalization refers to the intensification of international economic interdependence. While in terms of economic interdependence, the current era is nothing new (see e.g., Grassman, 1980), the way in which the world economy has started to interconnect since the 1980s is of a new and unprecedented scale. Different from the earlier period, in addition to liberalization of trade and financial markets there has also been a rapid pace of the spreading of technological innovations, increasing human migration, and intensification of international communication (especially via the Internet). The impact of international competitiveness, however, affects different welfare states in varying ways and to different degrees (Rodrik, 2007, 2011; Swank, 2010). National European economies are neither wholly absorbed into a new global order, nor are their governments totally incapacitated to protect their citizens from market volatility. With globalization, national welfare states are no longer closed systems. More than ever, domestic social policy is conditioned by the parameters set by other countries. The costs of social policy provision transcend national borders (Mishra, 1999; Genschel, 2004; Koster, 2009).

Over the past decades, there have been a five interrelated international economic impact factors which European welfare states were pressed to come to terms with (Scharpf, 2000; Huber and Stephens, 2001; Glatzer and Reuschemeyer, 2005; Begg et al., 2008). The first factor is trade competition. Labour-intensive European industry has moved offshore to Central Eastern Europe and South East Asia (Berger, 2000, 2005). As a result, the shrinking manufacturing sector became more exposed. The shift toward high value-added diversified quality production in the exposed sectors of the economy is reflected in an increase in the demand for technical and professional employees, as well as greater skill demands more generally. Trade integration constitutes a source of growth in the demand for high-skill, high value-added goods and services within the Organization for Economic Co-operation and Development (OECD). Moreover, it also remains true that the vast majority of trade continues to be among the advanced industrial countries (i.e. intra-industry) rather than between them and the developing economies (i.e. inter-industry trade, see Vis, 2005). The share of total European trade with the rest of the world is less than 15 per cent, a large part of which concerns trade with Eastern Europe and other OECD countries (Hemerijck, 2013).

Second, there is the globalization of finance. Since the late 1980s, domestic financial markets were systematically deregulated, allowing financial innovations to evolve
practically unchecked. Many countries began to dismantle controls over cross-border lending and borrowing. In particular the IMF became a strong advocate of financial capital market liberalization (Rajan, 2010; Rodrik, 2011). But as the financial sector grew and became truly global, insufficient latitude was reserved for domestic government regulation and international supervision (Posner, 2009). Real economy globalization and the deregulation of international finance, together, accelerated macro trade imbalances over the past ten to fifteen years. Emerging Asian economies and the oil-exporting countries accumulated large current account surpluses, which were matched by large current account deficits in the US, as well as the UK, Ireland, and Spain. A key driver of these imbalances was the high savings in countries such as China and Germany (Hemerijck et al., 2009).

Third, liberalization and deregulation have significantly reinforced an austerity bias in macroeconomic policy, by supporting a strong bias to fiscal balance consolidation (Mishra, 1999; Deacon, 2000; Swank, 2001, 2006; Sykes, 2002; Armengéon, 2007). While economic internationalization constrains countercyclical macroeconomic management, increased openness exposes generous welfare states to trade competition, because capital is allowed to cross borders and move to countries with lower social costs. In an environment of international capital mobility, it has therefore become even more costly than before for individual national governments to pursue expansionary monetary and fiscal policies in the effort to stimulate growth and employment. Moreover, under conditions of fully liberalized capital markets, strategic devaluations are practically ruled out as a tool to restore price competitiveness, as this would induce capital flight. Beginning in the 1980s and gathering momentum in the 1990s, macroeconomic doctrines of fiscal discipline, low inflation, financial and trade liberalization, the opening of economies to foreign investment, labour market deregulation, privatization, structural adjustment, and welfare retrenchment gained precedence across advanced OECD market economies, with the objective of making the economies more efficient and competitive, in the hope that economic growth would trickle down to mitigate social needs in the process (Howell, 2006; Glyn, 2006; Busemeyer, 2009).

In this new macroeconomic context, looming tax competition is a fourth critical dimension of intensified economic internationalization (Ganghof, 2000, Ganghof and Genschel, 2008). Many observers feared that tax competition would cause the underfinancing of the welfare state by driving away taxpayers (Sinn, 1990; Scharpf, 1991; Steinmo, 1993; Tanzi, 1995; Rodrik, 1997). To the extent that financial market globalization limits government policymaking autonomy, market integration constrains the capacity of states to engage in redistributive taxation for fear of tax competition (Genschel, 2002). The reality of tax competition is probably less extensive than some experts claim. Nonetheless, globalization does constrain capital tax autonomy (Hays, 2009). Corporate taxes since the early 1980s have fallen from about 50 per cent in 1981 to 30 per cent in 2009 across the OECD countries (Rodrik, 2011).

The final and fifth critical dimension of economic internationalization, closely associated with tax competition and macroeconomic regime change, concerns the so-called political logic of globalization, a concept coined by Swank (2002, 2010). Increased
international financial integration is said to have strengthened the social and political power of capital—in particular for capitalists with mobile or diversified assets. As such, the relocation threat—a major manifestation of the political logic on globalization—can exert a powerful influence on domestic policy and institutional arrangements, as shown in certain high-regulation European countries where large firms have used it to weaken the power of unions and force concession bargaining. Powerful economic interests thus use the opportunities provided by international capital markets and trade liberalization to throw weight behind their ideological opposition to generous social and employment protection. This opposition probably differs across different aspects of social policy, for instance being more modest with respect to active labour-market protections than to more passive income transfers (Burgoon, 2001). Still, the political logic of globalization (Swank, 2002, 2006; see also Streeck, 2009, 2010; Trampusch, 2009) is illustrated by a declining wage share relative to profits since the early 1990s.

2.3 Challenge 2: Post-industrial labour markets, family, and gender role change

Scholars highlighting the negative forces of globalization have a tendency to downplay, wrongly, the critical importance of from-within post-industrial social change on the effectiveness of the welfare state (Pierson, 2001b; Esping-Andersen, 2009; Van Kersbergen and Vis, forthcoming: chapter 8). For most of the post-war era, the male-breadwinner welfare provision was based on a relatively standardized life cycle made up of three functionally differentiated phases, starting with maternal homemaking, followed by education and training until adolescence, after which a phase of stable (industrial) employment followed for adult males, to be concluded, finally, by a post-active phase of old age. Each phase was supported by different kinds of social policy measures, moving from passive family support for young households, education and training in preparation for stable employment, social insurance over the active phase, and old age pension provision covering the years in retirement. Over the post-war era, the key social risk was that a male breadwinner would lose his job. The policy focus was therefore income maintenance through social insurance and job and dismissal protection. Poverty risks were mostly related to people in old age and children in large families. From the 1980s onwards, a number of endogenous societal changes in labour markets, gender relations, and family demography have come to undermine the effectiveness of male-breadwinner social policy provision.

European societies are confronted with a range of new social risks, ranging from rising old age dependency, unemployment hysteresis of low-skilled and older workers, insufficient social security coverage, precarious employment, human capital depletion also due to rapid technological change, retraining needs, youth and long-term unemployment, increasing levels of early school drop-out, greater family instability and single parenthood, and unsatisfactory work-care-family reconciliation, especially for working mothers (Esping-Andersen et al., 2002; Esping-Andersen, 2009; Bonoli, 2005,
The majority of these endogenous ‘new’ social risks relate to socioeconomic changes, brought about by demographic ageing, gender and family change, increased ethnic and cultural diversity, and changes in the labour market associated with the rise of the knowledge-based service economy. The most important life-course transforming trend by far concerns what Esping-Andersen (2009) has called the ‘incomplete revolution’ in the role change of women from homemakers to lifetime employees. Women’s lives have changed dramatically in the course of only one generation. In particular the shift from maternal homemaking to employment participation has been extraordinarily rapid. Over the past quarter century female labour force participation increased by about 20 per cent (European Commission, 2008).

The main drivers of the increased female labour force participation are feminist emancipation, educational expansion, and the shift to the service economy and its associated labour market flexibility, together with greater possibilities of reconciling work and family responsibilities (Jaumotte, 2003). Initially, much of the increase in female employment rates was in part-time work. However, over the past two decades there has been a general shift towards full-time, lifelong employment. Moreover, female educational attainment today exceeds that of males throughout most of EU Member States. In the process of higher female career employment, family ties have weakened, resulting in delayed and fewer official marriages, with higher divorce rates, lower fertility, and smaller family units, together with a significant increase in single-parent households. The rapid rise of female labour market participation and the swift turn to more pluralized family structures has given welfare institutions little time to catch up to this new social reality (Aasve et al., 2005). Despite evidence of a continued preference among families to have on average two children, birth rates have steadily declined. The total fertility rate of the EU-27 is now less than the replacement level of 2.1 children per woman. Involuntary childlessness is becoming more common and the average age at which women have their first child is nearing 30 years (Castles, 2003). The massive entry of women into the labour market, longer education, later childbirth, and lone parenthood evoke new social service demands, such as externalizing care for their children, frail relatives, and the elderly. Women and dual-earner households no longer enter the job market ‘unencumbered’ by the burden of caring for dependants (Bernard and Boucher, 2007). As a result of higher formal female employment, smaller family size, and the geographical dispersion of families, increasingly care provision has been ‘defamilialized’, left to professional public and private providers (Crompton, 2006). The adaptive challenge here is thus to resolve dilemmas associated with women’s new career preferences (Gautier, 1996; Hakim, 2000; Orloff, 2006; Esping-Andersen 2009).

2.4. Challenge 3: The staying power of old risk social insurance pre-commitments
As policymakers try new ways to manage the new social risks associated with post-industrial social change, against an economic background of intensified global competition, their endeavours to adapt the welfare state to new labour market, family, and gender role realities are severely constrained by the standing social policy commitments inherited from the past (Pierson, 2001c). Many experts agree that, institutionally, one of the biggest adaptive challenges has its roots in the staying power of male-breadwinner old social insurance, especially in the areas of old age pensions (Esping-Andersen et al., 2002). This problématique is particularly pressing because of rapid demographic ageing. Falling birth rates on the one hand and rising life expectancy on the other have led to a fundamental shift in the demographic structure of European populations. Increased life expectancy is the result of the swift disappearance of infant and childhood mortality and increased and still increasing longevity of older age-groups. Since the 1960s, life expectancy has increased by an average of ten years. According to Eurostat estimates, by 2050 almost one-third of Europeans will be over 65 years old—compared to one-tenth in the 1960s and one-eighth in 1990. Over the next quarter century, the number of people over 85 will double. Between 2007 and 2030, the European Union will see its working population decrease by at least 20 million people, while the number of Europeans aged 65 and over will increase by 40 million.

An ageing population is a challenge for public finances. This is especially the case when ageing goes hand-in-hand with population de-greening (i.e., lower fertility rates), as is the case in many European countries. Increased longevity will contribute massively to rising costs for healthcare funding and old age pensions, provisions originally designed for the high-fertility, full (male) employment, and high growth socio-economic context of the Golden Age of post-war welfare state expansion.

The majority of current public resources committed to welfare provision continue to be directed at old social risk categories, including unemployment insurance, disability benefits, and, particularly, old age pensions and healthcare. In the ‘silver era’ of slower economic and productivity growth, prior extensions of welfare entitlements associated with the post-war industrial era, and the increased fiscal pressure of population ageing, Pierson (2010) expects that the staying power of passive social insurance and pension provision could easily crowd out the policy space to counter new risks, such as lone motherhood and labour market exclusion because of institutional inertia (see also Glennerster, 2010).

2.5. CHALLENGE 4: INTENSIFIED EUROPEAN INTEGRATION

In recent years, the European Union has emerged as a critical force in issues of work and welfare. Historically, social policy is premised on the nation state. The fusion of territory, national identity, political legitimacy, law, public policy, and administration in the nation state is increasingly being challenged, undermined, and superseded by the cross-border movement of capital, goods, services, and persons, regulated by binding European rules of supranational cooperation (Zürn and Leibfried, 2005). Although substantive social policy choices largely remain domestic affairs, national welfare states today are embedded in a complex multi-level system of EU social and economic gov-
ernance. It is fair to say that in the EU we have entered an era of semi-sovereign welfare states (Leibfried and Pierson, 2000; Ferrera, 2005; Falkner, 2010).

Since the Treaty of Rome of 1957, European integration has deepened, expanded, and, hence, constantly reinvented itself. The Union successfully incorporated twenty-one new Member States, beyond the original six, established a single market, and developed a single currency—the euro—which has become the second largest global reserve currency. In the process, European economic integration has fundamentally redrawn the boundaries of national systems of welfare provision, by constraining the autonomy of domestic policy options and also by opening opportunities for EU legislation, directives, guidelines, and social policy agenda-setting (Ferrera, 2005; Zeitlin, 2005a, b). From the beginning, European leaders understood the need for domestic welfare provision as a key complement to the establishment of the common market. The ultimate aim, now anchored in the Lisbon Treaty, was to create a ‘social market economy’ with a clear commitment to high employment, universal social protection, and effective anti-poverty policy.

While national leaders agreed on the rules for the single market, they did not recognize the need for establishing some kind of supranational social policy framework. According to Ferrera (2005), there is an inherent tension or institutional asymmetry between the genuine EU concern with social cohesion and the predominant institutional modus operandi of the EU. Post-war welfare state expansion hinges on the logic of closure, of clearly demarcating cohesive citizenship communities of the nation-state. In contrast, the logic of European integration is based on opening—on the weakening of barriers and closure practices that European nation-states have built to protect their citizens from economic contingencies, in favour of free movement, undistorted competition, and non-discrimination. With the supremacy of free movement and competition rules since the late 1980s, the nation state is no longer the sole and ultimate arbiter of inclusion and exclusion of social protection. On the contrary, the thickening layer of European market integration has resulted in an erosion of domestic social and economic policy autonomy, because the Single Market and the EU’s macroeconomic policy repertoire is asymmetrically designed to serve the purposes of price stability, fiscal sustainability, and the progressive removal of barriers to trade, labour, capital, and services so as to enforce the economic liberties of individuals and firms (Scharpf, 1999, 2003, 2010). The growing asymmetry between market-making so-called negative integration and market-correcting positive integration has been reinforced by the basic legal architecture of the EU. Because EU law precedes domestic law in areas related to the single market, the rulings of the European Court of Justice (ECJ) have binding effect (Höpner, 2008; Scharpf, 2010). In addition, the high consensus requirements of political decisions in favour of positive integration in a Union of twenty-seven Member States make it difficult for European policymakers in concert to correct market deficiencies through common social policy directives and some measure of tax harmonization. A number of attempts to expand ‘social Europe’ have on numerous occasions met with Member States’ fierce resistance, eager to preserve their domestic labour market and social policy competences, either as a shield to welfare regime competition or to
accelerate domestic labour market deregulation and welfare retrenchment (Burgoon, 2009).

2.6 DISCUSSION
Although the drivers behind long-term social and economic change are common across Europe, the pressures they create for existing social portfolios, together with the policy responses they trigger vary from country to country. In the next chapters, we examine how the different European welfare states have coped with these challenges, in particular to what extent they have done so by turning to social investment.

3 SOCIAL INVESTMENT POLICIES & WELFARE PERFORMANCE OVER TIME

3.1 INTRODUCTION
How do welfare states address the challenges identified in chapter 2? While some of the challenges are outside of the direct influence of social policies, some lie within the sphere of social policy-making. Especially the challenges associated with new social risks (like the combination of work and family life) can be directly addressed by social policies. Social investment policies are important here, since they focus on the role of the (welfare) state as a supporter of skills attainment, employability and reconciliation of work and care. These investments can take place at different stages over the life-course, aiming at long-term improvements rather than short-term solutions. The emphasis is on individual development, which is rooted in the notion that traditional welfare state benefits can buffer detrimental effects of poverty and unemployment in the short-term, but do not necessarily enable individuals to obtain a better position in the long(er)-term.

The chapter is structured as follows: First, we introduce the concept of social investment, discussing its definition and the different types of social investment. We also address some criticism on social investment. Next, we examine European countries’ spending patterns with a focus on social investment policies. Subsequently, we examine employment and education performance over the last two decades, followed by performance in terms of poverty-reduction. The countries that spend most on social investment policies display the best performance in terms of employment, education and poverty-reduction.

3.2 SOCIAL INVESTMENT: DEFINITION AND CRITIQUE
ORIGIN OF THE SOCIAL INVESTMENT APPROACH, AND WHY IT CAN HAVE POSITIVE PAYOFFS
The intellectual roots of the notion of social investment lie with thinkers such as Esping-Andersen (1999) and Giddens (1998). They advocated a new type of welfare state that differed radically from both the post-war male breadwinner, social insurance welfare state and its 1980s neoliberal successor of labour market deregulation and welfare retrenchment. The philosophy underpinning social investment received more substance by a book edited by Esping-Andersen et al. in 2002, Why We Need a New Welfare State, which endorsed the view that “the single greatest challenge we face today is how to rethink social policy so that, once again, labor markets and families are welfare
optimizers and a good guarantee that tomorrow’s adult workers will be as productive and resourceful as possible” (Esping-Andersen et al., 2002: 25). The key idea was to prepare individuals, families and societies to adapt to various transformations over the life course, such as changing career patterns and working conditions, the development of new social risks, population ageing and climate change, instead of simply repairing damage after passive social policies prove inadequate. In terms of intellectual roots, Jenson (2009, 2012) regards social investment as a new paradigm, differing from Neoliberalism and Keynesianism in its means, goals and underlying ideas.

In the scholarly discussion, however, it is not always clear what social investment entails and how it can be measured. In addition to the social-democratic social investment type that we focus on here (see below), the literature distinguishes another type of social investment. This so-called Third Way social investment type is more likely to be found in liberal countries than the social-democratic variant is (Mahon, 2012; Morel, 2012, Antonucci, 2011). Third Way social investment is an inclusive liberal version, focusing on investments in education, early childhood education, training, and equity across the life-cycle. On the labour market, flexicurity can go along with corporatist partnerships, but not necessarily. There is some awareness of gender-related questions. The social-democratic social investment type, conversely, distinguishes itself by coupling social protection and human capital investment in an attempt to address future and present inequality. In addition, in terms of focusing on children, this social investment type stresses human capital accumulation and the child as a citizen. Flexicurity is combined with an engagement of unions and public policies for job creation. Gender equality has also a centre stage in this social investment type (Mahon, 2012). Because the possible effects of this second social-democratic social investment type are more positive than of the first type, for instance in terms of human capital development, we focus on the social-democratic type here. Recall that we adopt Morel et al.’s (2012: 2) definition of social investment, according to whom social investment:

rests on policies that both invest in human capital development (early childhood education and care, education and lifelong learning) and that help to make efficient use of human capital (through policies supporting women’s and lone parents’ employment, through active labour market policies, but also through specific forms of labour market regulation and social protection institutions that promote flexible security), while fostering greater social inclusion (notably by facilitating access to the labour market for groups that have traditionally been excluded). Crucial to this new approach is the idea that social policies should be seen as a productive factor, essential to economic development and to employment growth.

This is in line with the definition of the European Commission (2013: 3) in its recently published Communication of social investment for growth and social cohesion:

Social investment involves strengthening people’s current and future capacities. In other words, as well have having immediate effects, social policies also have lasting impacts by offering economic and social returns over time, notably in terms of employ-
ment prospects or labour incomes. In particular, social investment helps to ‘prepare’ people to confront life’s risks, rather than simply ‘repairing’ the consequences. Modernisation of social policies requires systematic introduction of ex-ante result orientation in financing decisions and a systematic approach of the role social policies play in the different stages in life: from education via work/unemployment to sickness and old-age.

According to a social investment approach, welfare policies would thus boost productivity by increasing human capital and employability and thereby, indirectly, employment. At the same time, social investment policies would decrease the adverse impact of intergenerational transmission of poverty and lower inequality. Let us summarize empirical evidence for social investment policies’ alleged impact on growth, employment and poverty.

The impact of education and ALMPs on employment and growth has been widely studied. Most studies find a positive effect of general educational expansion on economic growth (Benhabib and Spiegel, 1994; Temple, 2001; Stevens and Weale, 2004; Bassanini and Scarpetta, 2002; Cohen and Soto, 2007; L’Angevin and Laib, 2005; Arnold et al., 2011; Thévenon, 2012, but see Krüger and Lindahl, 2001; Pritchett, 2001; Delgado et al., 2011). Several studies show that education plays an important role in increasing female employment (Cantillon et al., 2001; Evertsson et al., 2009; Lancker and Ghysels, 2012).

Concerning employment, several studies find that higher education has a positive impact on employment (Nunez and Livanos, 2010) and re-employment (Ridella and Song, 2011) and limits the risk of long-term unemployment (Nunez and Livanos, 2010) or job loss (Ridella and Song, 2012). Educated unemployed are more likely to search more intensively for jobs (Ridella and Song, 2012), and their unemployment spells are typically shorter. The degree to which education matters for employment varies across countries and across fields of study. The impact of higher education on employment chances is not that strong in Greece, Italy and Portugal (Nunez and Livanos, 2010), i.e. in countries with very high levels of unemployment, especially among the young. The positive effect of higher education differs by the field of studies (Livanos and Nunez 2012), with demand being higher for graduates in science, biology and IT than for arts and social sciences. Furthermore, labour demand is U-shaped with a higher demand for low skill jobs and high skill ones than for middle skill jobs. Overall, the matching of labour supply and demand by skills differs across Europe with Southern Europe facing high low-skilled unemployment and Austria, Germany, UK and the Baltics oversupplying middle skilled workers. Poland might soon face an oversupply of high-skilled, however employers also raise their expectations concerning educational attainment, rendering less skilled workers worse off (Maselli 2012).

In general, there is a positive relationship between family policies and female employment (see Nelson, 2012). In which direction the causal arrow runs, from childcare to increases in female employment or from female employment to increases in childcare, varies across countries (Jaumotte, 2003). Parental leave policies of less than 20 weeks
have a positive impact on female labour participation (idem). Overall, the impact of family policies varies by educational attainment. The adverse effect of high childcare costs and long parental leave on female labour market participation is also higher for lowly educated women (Hegewisch and Gornick, 2011). Also elderly care responsibilities depress female employment, in addition to having a child under 4 (Cipollone et al., 2012).

Adjacent to employment, the impact of family policies on child development figures prominently in the social investment debate (e.g. Esping-Andersen, 2009; Morgan, 2009, 2012). Quality childcare and pre-school attendance have been found to increase educational attainment and achievement (Belsky et al., 2007; Brooks-Gunn, 2003; Campbell et al., 2002; OECD, 2006; Schweinhart et al., 2005; Waldfogel, 2006; OECD, 2007). Educational inequality in post-communist countries has been reduced through pre-school education (Schlicht et al., 2010). Childcare especially positively influence children above 3, while the impact on children aged less than six month or a year is negative (Jaumotte, 2003). Furthermore, Engster (2011) finds that higher educational attainment is in general associated with generous family policies.

Concerning the redistributive impact of welfare services, beneficiaries of childcare differ across countries. Several studies find a higher childcare use for high income families (Lancker et al., 2012; Verbist et al., 2012). However, there is a high degree of variation across Europe, with Swedish childcare being biased towards the lower income groups (Van Lancker et al., 2012), just as Canada, Czech Republic, Estonia and Germany (Verbist et al., 2012). General enrolment rates and the costs of childcare for lower income families explain most of this variation. Verbist et al. (2012) find that enrolment rates in public childcare are particularly pronounced in Belgium, Denmark, Iceland, the Netherlands, Spain and Sweden. Yet, the redistributive impact of early childhood education (ECEC) is highest in Hungary, Luxembourg, Czech Republic, the US and Canada. If ECEC are included in disposable income, their share is highest in Hungary, Iceland, Luxembourg, Sweden and Spain. Poverty-reduction for children attending childcare is high (50% less), while the overall influence of ECEC on poverty is rather small (Pisu, 2012).

Employment also matters for the likelihood to be poor, especially for single-mothers (Kollmeyer, 2012; OECD, 2007; Engster, 2012) and for child poverty in general (Pisu, 2012); issues which are closely linked to the availability of affordable childcare. Engster (2011) points out that countries providing public childcare and paid parental leave schemes and establishing dual-earner models exhibit lower levels of child poverty. Yet, family benefits and tax credits play also an important role in child poverty reduction. For poverty reduction among single-parents, childcare is more important than

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3 Another aspect is that the increase in social service provision can create new job opportunities. In times of ageing societies and increases in single-parent households, rising need for services can provide new jobs. Yet, in terms of job quality and accessibility of services, the risk of dualization exists especially in case of low public funding (Sirovatka, 2012).
paid parental leave (Engster, 2012). Similarly, Whiteford and Adema (2006) stress the importance of the combination of high employment and redistributive policies to combat child poverty.

For the redistributive effect of education, Verbist et al. (2012) find that total education expenditure is biased towards lower income groups especially in Poland, Italy, Greece, Canada and Hungary. This is especially the case for compulsory education. Yet, for the Nordic countries and for Germany, the bias is more towards the middle class. The richer income groups tends to profit more from tertiary education, except for the Nordic countries and Germany. However, in these latter countries, students often do not live with their parents, which explains the high poverty reduction by tertiary education spending in these countries. For other countries, compulsory education and upper secondary education have a higher positive influence on the poverty gap. Besides the effect on poverty, educational inequality has been reduced more in Sweden, the Netherlands, Britain, Germany, and France than in Italy, Ireland, and Poland (Breen et al., 2009). Concerning the overall orientation of the welfare state, Beblavy et al. (2012) indicate that distinct clusters of combining welfare and education policies exist. One cluster follows in education and welfare the idea of “the role of public policy is to promote equality” and another cluster focuses on stratification instead of equality. In addition, there are a couple of mixed types.

CRITICISM ON SOCIAL INVESTMENT

Not all authors are positive about social investment. For some authors, social investment means a replacement of benefits with services, a focus on incentives and sanctioning, targeting, means-testing, a market-based service provision and a move towards self-reliance and towards helping only those who “deserve” help and to blame and stigmatise the others. This is typically done, so the argument goes, by shifting funds for universal benefits towards services that are mostly used by the richer income groups (Cantillon and Van Lancker, 2012; Cantillon 2012; Vandenbroeck et al., 2012). In our view, this criticism is only partly valid. Cantillon (2012) and Vandenbroeck (2012), for example, criticize the ‘no rights without duties’ discourse by Giddens and other Third Way advocates. For them, social investment has given rise to policies that “blame the poor” who “choose” not to take responsibility, thus creating a distinction of “deserving” and “undeserving” poor. For Vandenbroeck (2012), these types of policies are even a class-based form of stigmatization and discrimination. Yet, it is questionable whether the policies they describe are actually social investment policies – of either the social-democratic or Third Way type –, as they do not necessarily focus on increasing training and employability but build on a more neoliberal conception of self-responsibility and remind more of medieval poorhouses where the poor had to work as to receive help than of a capacitating strategy.

Another source of criticism on social investment is that spending on these policies crowds out other social expenditures. This would have a regressive effect because spending on childcare and education is typically less redistributive than benefits for the poor are, creating a so-called “Matthew effect” (Cantillon, 2012; Pintelon et al., 2013).
There is empirical evidence questioning the crowding out hypothesis. Vandenbroucke and Vleminckx (2012), for one, show that higher spending on social investment does not result in retrenchment on benefits. Moreover, yes, there are some countries (like Belgium) in which the use of childcare services is biased towards the richer segments of society, but there are other countries where the poorer segments profit more (like Sweden) (Verbist et al., 2012; Van Lancker and Ghysels, 2012). Thus, childcare is not always regressive. Furthermore, Verbist et al. (2012) emphasize that poor families profit from high-quality childcare both by having their children taken care of but also through enabling women to work. When child poverty is considered, parental employment is a crucial factor, especially for single-parents (Engster et al., 2011; Engster, 2012; Kollmeyer, 2012).

The debate on market-based service provision and the replacement of benefits with services is more relevant for the Third-Way social investment type. The social-democratic type, conversely, advocates state-provided universal services instead of means-tested, private provision (Esping-Andersen, 2009; Morel et al., 2012). Some authors argue that in order to achieve its goals, not every policy for activation or family is in line with social investment ideas. Bonoli (2012), for example, makes a useful distinction for active labour market policies between policies that aim for 1) incentive reinforcement (i.e., strengthening of work incentives), 2) employment assistance (i.e., removing obstacles for labour market participation), 3) occupation (‘keeping the jobless busy’), or 4) human capital investment (i.e., providing vocational or basic training to benefit recipients). Bonoli regards only upskilling and employment assistance as social investment. Morgan (2009, 2012) argues that public service provision might be more suitable to achieve higher quality care suitable for human capital investment within the social investment framework. Other researchers emphasize that spending on activation and services have to be regarded as complementary to spending on benefits rather than as replacement (Esping-Andersen, 2009; Vandenbroucke, 2012).

**Empirical Evidence for a Shift Towards Social Investment?**

Has there been a shift towards social investment across Europe and beyond? As an idea, social investment gained prominence in organizations like the OECD and the European Union (Jenson, 2008; Mahon, 2012; Daly, 2012; Van Kersbergen and Hemerijck, 2012; European Commission, 2013). In terms of policy goals and targeting, several authors find that EU strategies have not produced the envisaged results (De la Porte and Jacobsen, 2012; Daly, 2012), while others find that ideologically, a move has taken place within the OECD towards a stronger emphasis of a more social-democratic social investment type (Mahon, 2012). In terms of spending on social investment, there is discussion in the literature. Some authors identify policy changes in the direction of social investment in some policy fields and countries but no general trend (Kühner and Hudson, 2009; Nikolai, 2011; White, 2012). Others, however, conclude that such a general shift towards social investment is taking place (e.g., Van Kersbergen and Hemerijck, 2012).
How do different social investment patterns relate to socio-economic outcomes? Our empirical aim is to reveal the differences in social investment patterns across countries and over time, and examine whether these are accompanied by differences in socio-economic performance. Recall that we use Morel et al.’s (2012) conceptualization of social investment and consider spending on childcare and early childhood-education, education, life-long learning and active labour market policies to be social investment policies. We study how these policies match— or not— spending on more traditional benefits. In addition, we analyse socio-economic indicators that social investment policies could have an impact on, as we discussed in the beginning of this chapter. Our intention here is to provide an overview on important indicators that serves as the backdrop for the next chapter, in which we trace the policy changes over time in ten case studies. We employ descriptive indicators which we have taken from the OECD and the statistical office of the European Union (Eurostat).

The contribution to current research lies in the coupling of indicators on spending per head and outcomes across policy fields so as to go beyond the scope of input indicators and a narrow view on one policy field that is common in previous studies. We provide an encompassing overview on general policy trends and welfare states efforts to adjust to existing pressures.

For the discussion in this chapter, we employ the heuristic of welfare regime analysis. Across Europe, countries differ immensely in economic development, the size and structure of the public sector, and social policy design, resulting from the divisive experiences of among other factors feudalism, absolutism, the Reformation, the Enlightenment, capitalist industrial development, economic depression, and two dislocating 20th century world wars (Esping-Andersen, 1990, 1999). This means that national distinctions matter. Still, there is a rich literature on ‘worlds’ or ‘families’ of welfare that has revealed how key policy and institutional variables are systematically related to one another, producing distinctive welfare state regimes (Esping-Andersen, 1990; Castles and Mitchell, 1993; Arts and Gelissen, 2002, 2010; Hemerijck and Ferrera, 2004). The key theoretical claim of welfare regime analysis is that the past institutions and politics influence the room for policy change (Castles, 1993; Scharpf and Schmidt, 2000a, 2000b). We use the regime approach here because the EU-27 countries start off with very different levels of social investment. Consequently, in order to detect a change towards social investment, we need to allow for a shift towards social investment to take more time and investment in some countries than in others. Using the welfare regime approach makes a departure from previous policy strategies much more visible. We distinguish five welfare regimes: a Nordic or social democratic regime, a con-

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4 Identifying a priori which ones are the “true” social investment policies that they lead to higher levels of human capital development, make more efficient use of human capital and produce higher levels of social inclusion for all groups in society is a challenging task. We propose that childcare and early childhood-education, education, life-long learning and active labour market policies (ALMPs) qualify in most cases and for most groups indeed as social investment policies (but see e.g. Bonoli, 2012, discussed in the main text for a differentiation in ALMPs that are social investment and those that are not).
servative or continental regime, a southern European or Mediterranean regime, a liberal regime, and a Central and Eastern European (CEE) regime. The characteristics of the first four of these regimes are well-known and will not be repeated here (for recent discussions, see e.g., Van Kersbergen, 2012, or Hemerijck, 2013). The CEE regime, however, is less known and we therefore briefly introduce it.

The eight CEE member states who joined the EU in 2004, Poland, Hungary, the Czech Republic, Slovakia, Slovenia, and the three Baltic states, Estonia, Latvia, and Lithuanian, together with Bulgaria and Romania, which entered the EU in 2007 went through two radical changes in the past sixty-five years—the shift from capitalism to state-socialism in the 1940s and from state-socialism back to capitalism after 1989. It is therefore hard to capture them in a number of stable institutional characteristics. Before World War II, CEE welfare provision was Bismarckian in character, dating back to the Austro-Hungarian Empire. Social insurance was linked to employment and occupation. Next, state socialist social policy became particularly ‘service heavy’ and ‘transfer lean’, owing to the communist commitment to state-guaranteed full employment for all, mobilizing high levels of both male and female labour force participation (Inglot, 2003, 2008; Manning, 2004; Cerami, 2006; Haggard and Kaufman, 2008; Cerami and Vanhuysse, 2009). Because of multiple economic, social, and political changes since 1989 it is impossible to place the new member states in a single group. Reforms since 1989 seem to be making these systems ‘hybrids’ rather than thoroughbred members of existing welfare regimes (Cerami, 2006; Cerami and Vanhuysse, 2009; Cook, 2010). We therefore follow Hemerijck (2013) and include them in a separate CEE welfare regime.

Our country selection is based on data-availability. For some Central and Eastern European countries, data are hardly available over time. Note that our descriptive statistical information is intended for illustrative purposes only, to visualise the general trends. Therefore, we zoom in onto ‘typical’ cases per regime (see also chapter 4) or present a selection of countries that represent the range of variety within the regime on that specific indicator. We focus mostly on the period 1997–2007. Data-availability precludes a systematic descriptive analysis of all indicators for a large selection of European welfare states, including the CEE ones, prior to 1997. When an indicator fluctuates strongly over time, we focus on averages across years. The year 2007 is the year before the financial and economic crises hit European welfare states.

3.3 SPENDING PATTERNS
At the core of the debate on a social investment turn has been the focus on social expenditure. Public social spending differs highly across Europe. Interestingly, gross domestic product (GDP) is not necessarily low in countries with high levels of social spending. As figure 3.1 shows, spending is the highest in the social democratic and continental regimes where it ranges between 30% and 20% of GDP. It is lowest in the liberal regime where it reaches levels below 20% of GDP. The social democratic regime and some of the continental countries decreased their spending since 1997, while the liberal and Mediterranean regimes increased their expenditure between 1997 and 2007.
At the same time, GDP increased in all European welfare states (see figure 3.2). The data in figures 3.1 and 3.2 suggests that social spending is not necessarily cyclical. Instead, it is rather stable in some countries while countries with overall low expenditure levels increased their spending in times of economic growth.

**Figure 3.1 Gross public social spending (% of GDP)**

Source: OECD Social expenditure database (SOCX), extracted October 2012.

**Figure 3.2 GDP per capita, US$, constant prices, constant PPPs, base year 2005**

Source: OECD National accounts, extracted October 2012.

Adema and Ladaique (2005, 2009) have shown that while gross social spending – such as figure 3.1 displays – differs highly across welfare state regimes, net social spending levels are much more similar. However, what does differ is the distribution of spending across policies. As indicated, we focus on social investment policies, i.e., spending on services or benefits that are focused on long-term investments related to human capital development or employability. We compare these to spending on social insurance based spending (old-age, survivors, disability pensions, and unemployment spending excluding expenses on active labour market programmes excluding the rehabilitation expenses). Insurance based spending from this perspective aims at mitigating short-term
risks and is mostly related to individual contributions to insurance funds. We are aware that, due to difficulties in classifying policies as serving just one purpose, our distinction is rather crude.\(^5\) However, it helps to get an idea of the variation in spending patterns, enabling us to identify which countries follow a social-democratic social investment approach, a liberal Third Way social investment approach, or a more Keynesian approach. Based on Mahon’s (2012) distinction, it can be expected that countries of the social-democratic social investment type invest in both social investment spending in addition to insurance-based spending. Conversely, liberal Third Way social investment focuses predominantly on social investment policies, while Keynesian approach focuses primarily on insurance-based spending.

Comparing spending on social investment policies and insurance based spending across European welfare state in 1997 and 2007 (figure 3.3), we see that several countries have increased their spending on social investment policies. To this group belong the UK and Ireland, which upheld their overall spending levels on insurance based spending at the same time. Some countries have increased social investment spending while decreasing insurance based spending (e.g., Belgium, Finland and Poland). In general, most continental, Mediterranean and liberal countries are clustering around the average in 2007, while Sweden and Denmark continue to depict higher spending levels on social investment policies.

\(^5\) For instance, Nelson and Stephens (2009) show that unemployment insurance benefits can also be social investment.
However, simply comparing public spending for work-life reconciliation policies, active labour market policies, and education in relation to spending on old age and passive labour market policies can be misleading. Because for instance population ageing and higher levels of unemployment automatically raise insurance-based social spending, it is tempting to jump to the conclusion that social investment spending has not expanded that much (Nikolai, 2011). Focusing on the change in spending per individual, family or student, i.e., per (potential) recipient removes this problem. Vandenbroucke and Vleminckx (2011) were one of the first to use spending per person, thereby offering an analysis that is largely independent of the state of the economy.

For the spending on policies to combine work and care, we use OECD data on family policy. Not all family policies can be considered as promoting work and care. Two policy priorities are at stake: spending on maternity and parental leave and spending on day care and home help services. The former are cash benefits; the latter are benefits in kind and the unit of measurement is per head at constant prices (2000) and constant Purchasing Power Parity’s (PPPs) in US dollars (2000). Both can be seen as measures to help reconcile work and family life, potentially fostering higher levels of female employment. An increased focus on policies to combine work and care reflects a change in orientation towards the norm of dual earner households (Lambert, 2008; Bradshaw and Finch, 2010; Plantenga et al. 2012). Figures 3.4, 3.5 and 3.6 show that the Scandinavian countries have the highest level of public spending on day care and home-help services as well as on maternal and parental leave. Furthermore, Czech
Republic and Austria have high spending on maternal and parental leave but rather low spending on day care. Belgium, the Netherlands, France and the UK spent much more on day care and home-help services. Day care spending is rather low in Ireland, the Mediterranean countries and in the new member states. Although the Mediterranean countries display in general low levels of spending on these policies, there is a trend towards more investment in Spain.

**Figure 3.4 Spending on day care and home-help services, 1997-2007**

![Graph showing spending on day care and home-help services](image)

Source: OECD Social Expenditure Database (SOCX), extracted March 2012.

**Figure 3.5 Spending on maternal and parental leave, 1997-2007**

![Graph showing spending on maternal and parental leave](image)

Source: OECD Social Expenditure Database, extracted March 2012.
Although services for the (frail) elderly are no “real” social investment policy, since they do not directly contribute to the competitiveness of the workforce, these services do play an important role in the labour market. Traditionally, in most countries, women took care of the elderly. This means that for raising female employment, services for the elderly are an important tool. For spending on services for the elderly, we focus on benefits in kind measured by spending on ‘residential care/home-help services’, which we take from the old age spending OECD database. The unit of measurement is again per head, at constant prices (2000) and constant PPPs (2000) in US dollars. Figure 3.7 demonstrates that Denmark and Sweden have the highest levels of spending on residential care/home-help services followed by the Netherlands and Finland. The majority of other EU member states invest much lower amounts, if any.

Investment in education is a social investment par excellence. Total spending on education per student differs a lot among the EU member states, as figure 3.7 shows. All countries experienced upward trends in spending on education since 1997, but the levels are quite different. Denmark and Austria reached over €8,000 per student in 2005, while Greece and Portugal remained below €5,000. Italy’s level of spending is quite high since 2000, but remained stable at that level until 2005. The Netherlands has improved a lot, and has become the third best performer after Austria and Denmark. All in all, Scandinavian countries and Austria spend the most on education and the Mediterranean countries the least.
Figure 3.7 Expenditure on public and private educational institutions per student/pupil in EUR PPS, for all levels of education combined, based on full-time equivalents 1997-2007

Table 3.1 Spending on ALMP per head, from largest to the smallest in 2005

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>2000</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Denmark</td>
<td>487,144</td>
<td>582,852</td>
</tr>
<tr>
<td>2.</td>
<td>Netherlands</td>
<td>338,385</td>
<td>442,628</td>
</tr>
<tr>
<td>3.</td>
<td>Sweden</td>
<td>514,364</td>
<td>486,955</td>
</tr>
<tr>
<td>4.</td>
<td>Belgium</td>
<td>295,384</td>
<td>297,036</td>
</tr>
<tr>
<td>5.</td>
<td>Norway</td>
<td>386,478</td>
<td>219,92</td>
</tr>
<tr>
<td>6.</td>
<td>Germany</td>
<td>281,33</td>
<td>307,468</td>
</tr>
<tr>
<td>7.</td>
<td>Finland</td>
<td>291,411</td>
<td>228,577</td>
</tr>
<tr>
<td>8.</td>
<td>France</td>
<td>267,692</td>
<td>301,077</td>
</tr>
<tr>
<td>9.</td>
<td>Ireland</td>
<td>257,97</td>
<td>272,179</td>
</tr>
<tr>
<td>10.</td>
<td>Austria</td>
<td>94,889</td>
<td>150,715</td>
</tr>
<tr>
<td>11.</td>
<td>Spain</td>
<td>76,11</td>
<td>142,886</td>
</tr>
<tr>
<td>12.</td>
<td>UK</td>
<td>92,922</td>
<td>88,569</td>
</tr>
<tr>
<td>13.</td>
<td>Italy</td>
<td>62,188</td>
<td>143,456</td>
</tr>
<tr>
<td>14.</td>
<td>Portugal</td>
<td>70,893</td>
<td>103,998</td>
</tr>
<tr>
<td>15.</td>
<td>Poland</td>
<td>30,899</td>
<td>26,804</td>
</tr>
<tr>
<td>16.</td>
<td>Slovak Republic</td>
<td>69,672</td>
<td>34,264</td>
</tr>
<tr>
<td>17.</td>
<td>Hungary</td>
<td>40,72</td>
<td>46,492</td>
</tr>
<tr>
<td>18.</td>
<td>Czech Republic</td>
<td>18,179</td>
<td>29,376</td>
</tr>
<tr>
<td>19.</td>
<td>Greece</td>
<td>63,43</td>
<td>44,625</td>
</tr>
</tbody>
</table>

Source: OECD Social Expenditure Database, extracted December 2011.

Another typical social investment policy is active labour market policy (ALMP), which facilitates job experience, job search counseling, vocational training and education and access to in-work benefits for unemployed. Table 3.1 demonstrates that spending on ALMPs per head is highest in the Scandinavian countries, the Netherlands and Belgium, while new EU member states and Mediterranean countries have the lowest
spending levels. Sweden has decreased its spending, whereas Austria, Czech Republic, Hungary, Italy, Spain, Portugal and the UK have increased their expenditure. As Clasen and Clegg (2011) show, the steep increase in ALMP expenditure in Italy and the UK are due to governmental decisions to focus more strongly on activation.

All in all, the Scandinavian countries invest considerably more than other regime types in social investment policies. However, several countries have also increased their spending on some social investment policies over the last decade or so.

3.4 EMPLOYMENT

The previous section has depicted that, as could have been expected, the Scandinavian countries invest the most in social investment policies but that other countries increased their spending on such policies as well. To what extent does this investment match socio-economic outcomes in terms of employment?

EMPLOYMENT POLICY AND LABOUR MARKET REGULATION

A first factor we consider is how difficult it is for the unemployed to re-enter the labour market. This depends, among other factors, on how strict employment regulations are. The indicator employment protection accounts for the costs and procedures of hiring or dismissing workers employed on fixed-term or temporary basis. As figure 3.8 shows, employment protection declined in the majority of European countries since the mid-1980s, but is still high in the Mediterranean and conservative countries. The liberal countries have the lowest employment protection levels. Recall that the support for unemployed in terms of ALMPs and unemployment benefits differs across countries, with Sweden being among the high spenders and the UK reaching much lower levels.

Figure 3.8 Employment protection, 1985-2005

Note: OECD indicator for employment protection strictness, version 1.
EMPLOYMENT RATES
Over the period under review, there has been a significant increase in employment in virtually all European welfare states (see also chapter 4). Figure 3.9 presents the employment/population ratios among people in the working age population. Strikingly, there is a long-term increase in employment in most countries. Moreover, there are some persistent differences in the overall share of people in gainful employment across countries and welfare state regimes. The convergence over time within the EU is also striking. Now, both the liberal and the Scandinavian countries have about 75% to 80% of the working-age population in employment. The same level is also achieved by the Netherlands after an impressive increase in employment over the last two decades. The other continental and Mediterranean European countries lack behind with employment rates of 60% to 70%. But even there we can see some progress, in particular in Spain and Italy, while France and Germany have been more stagnant.

Figure 3.9 Employment/population ratio, 1980-2007

Unemployment
International comparisons often use the level of unemployment as an important yardstick for assessing the functioning of labour markets. Figure 3.10 shows that in 2007, the standardized unemployment rate - a measure that enables comparison of unemployment rates across countries - in the EU ranged between 5% and 11% of the labour force. Standardized unemployment rates declined in most European countries between the 1990s and 2007, in particular in Spain, Ireland and Finland. In the liberal countries and in Austria, Denmark and the Netherlands, the average unemployment rates were the lowest across Europe in 2005-2007, while most other countries ranged between 10% or 5% of unemployment. Long-term unemployment (being unemployed 12 months or more) significantly differed across Europe with high levels in Belgium and Germany, the new EU member states, and most Mediterranean countries (except Spain); and particularly low levels in Scandinavia, the liberal countries and Austria. Especially Ireland
and Spain experienced a remarkable decrease in unemployment between 1990 and 2007.

**Figure 3.10 Standardized unemployment rate and long-term unemployment rate, 1990-1994 & 2005-2007**


**AGE DIFFERENCES**

If we zoom in onto Sweden, Spain, the Netherlands and the UK, representing each of the West-European welfare regimes, we see interesting variation in terms of the age composition of employment figures. The youth and the elderly have lower employment rates, and women’s employment patterns across different welfare regimes changed over time. Differences in the extent to which these three groups are integrated into the labour market basically determine differences in the overall employment rate.

Regarding employment profiles, youth unemployment in 2007 is higher than for prime age workers across all sampled countries (Hemerijck, 2013). The average exit

---

6 The UK and Sweden are typical cases and the Netherlands and Spain are the cases exhibit the strongest development over time and therefore the most interesting to study.
age from the labour force continues to differ between regimes. The liberal countries and Sweden have the highest average exit age for men and women while the other regimes reveal lower levels. Employment of older workers is still lower in Spain and the Netherlands than in other countries, although it increased over time in the Netherlands. For women, the increase in employment rates at older ages is especially pronounced in Spain and the Netherlands, while Sweden achieved quite high employment rates for older women.

**Gender**

In both 1987 and 2007, the employment rates for all age groups of men and women were similar in Sweden (see figure 3.11). In Spain and the Netherlands, in comparison, female employment used to be high for young women while it steadily decreased with age in 1987 (idem). In 2007, female employment over 24s has risen extremely in these countries, while male employment rates declined slightly. In the Netherlands, this strong expansion of female labour market participation is due to a strong increase in part-time work for especially women. Female part-time work is less common in the new member states and the Mediterranean regime. The UK, Denmark and Sweden reach continental European levels of part-time employment, Ireland and Finland depict lower levels. In Spain, the female employment rate over 50 is still significantly lower than in Scandinavian countries and many continental ones. This reveals a number of key barriers on the Southern European labour market. For instance, it is usual for women to leave the employment process when turning 50 in the Mediterranean welfare states, to take on the care of parents/parents-in-law. Although the gender gap has been less pronounced in the UK, it also decreased for all age groups between 1987 and 2007. Overall, there is a trend to more female employment, resulting in an increase in employment rates, especially for prime age workers, and a tendency towards convergence across Europe. Cipollone et al. (2012) also find that increases in female employment in Southern countries are especially attributed to the availability of part-time jobs. Since women increasingly enter ‘a-typical’ jobs, there has been an increase in the gender gap in quality of occupations. Gauthier (2012) points out that female labour market attachment among mothers varies by educational attainment, with higher educated mothers being more in favour of re-employment.
Figure 3.11 Age employment profiles, 1987, 2007, selected countries

- **Age employment profile Sweden 1987**
- **Age employment profile Sweden 2007**
- **Age employment profile Spain 1987**
- **Age employment profile Spain 2007**
- **Age employment profile UK 1987**
- **Age employment profile UK 2007**
Figure 3.12 Female full-time equivalent employment, selected countries, 1983-2007

Note: Female full time equivalent employment is calculated according to the formula given by OECD (2011): Proportion of men (or women) in paid employment * proportion of men (or women) in full-time employment. Source: Own calculations based on OECD labour force statistics, extracted October 2012.
Figure 3.13 Maternal employment rate by number of children and child

Panel A. Maternal employment rates, women aged 15-64, by age of youngest child

Panel B. Maternal employment rates, women age 15-64, by number of children under 15

In both panels countries ordered in ascending order of maternal employment rate with youngest child aged 0-16.

* Panel A: For Australia, Iceland and Ireland children aged <2 and 3-5 are grouped together as children aged under 6. Panel B: For Australia and Ireland the "two children" group represents "2+ children".
1. 1999 for Denmark; 2001 for Belgium, Canada and Japan; 2002 for Finland, Iceland and Italy; 2003 for Sweden; 2005 for Australia; 2006 for Switzerland.
Data missing for Chile, Estonia, Israel, Korea, Mexico, Norway, Slovenia and Turkey.


### Table 3.2 Childcare and pre-school enrolment, approx. 2008

<table>
<thead>
<tr>
<th>Country</th>
<th>Under 3 years</th>
<th>3 years</th>
<th>4 years</th>
<th>5 years</th>
<th>3 to 5 years</th>
<th>Average hours of attendance per week</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>72.7</td>
<td>94.1</td>
<td>95.3</td>
<td>85.1</td>
<td>2.7</td>
<td>34</td>
</tr>
<tr>
<td>Finland</td>
<td>24.2</td>
<td>43.9</td>
<td>52.5</td>
<td>60.8</td>
<td>1.6</td>
<td>34</td>
</tr>
<tr>
<td>Sweden</td>
<td>50.3</td>
<td>88.6</td>
<td>91.8</td>
<td>93.0</td>
<td>2.7</td>
<td>33</td>
</tr>
<tr>
<td>Belgium</td>
<td>48.4</td>
<td>99.3</td>
<td>99.6</td>
<td>99.5</td>
<td>3.0</td>
<td>29</td>
</tr>
<tr>
<td>Germany</td>
<td>27.6</td>
<td>86.9</td>
<td>95.4</td>
<td>95.8</td>
<td>2.8</td>
<td>23</td>
</tr>
<tr>
<td>France</td>
<td>42.0</td>
<td>99.0</td>
<td>100.0</td>
<td>100.6</td>
<td>3.0</td>
<td>31</td>
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<td>Netherlands</td>
<td>55.9</td>
<td>0.1</td>
<td>99.5</td>
<td>99.3</td>
<td>2.0</td>
<td>19</td>
</tr>
<tr>
<td>Austria</td>
<td>12.1</td>
<td>52.4</td>
<td>85.6</td>
<td>94.8</td>
<td>2.3</td>
<td>19</td>
</tr>
<tr>
<td>Ireland</td>
<td>30.8</td>
<td>13.1</td>
<td>54.8</td>
<td>101.5</td>
<td>1.7</td>
<td>25</td>
</tr>
<tr>
<td>UK</td>
<td>40.8</td>
<td>82.4</td>
<td>97.3</td>
<td>98.8</td>
<td>2.8</td>
<td>16</td>
</tr>
<tr>
<td>Greece</td>
<td>15.7</td>
<td>0.0</td>
<td>52.4</td>
<td>88.0</td>
<td>1.4</td>
<td>30</td>
</tr>
<tr>
<td>Spain</td>
<td>37.5</td>
<td>97.6</td>
<td>98.7</td>
<td>99.3</td>
<td>3.0</td>
<td>28</td>
</tr>
<tr>
<td>Italy</td>
<td>29.2</td>
<td>94.8</td>
<td>98.6</td>
<td>99.0</td>
<td>2.9</td>
<td>29</td>
</tr>
<tr>
<td>Portugal</td>
<td>47.4</td>
<td>63.0</td>
<td>81.3</td>
<td>92.6</td>
<td>2.4</td>
<td>38</td>
</tr>
<tr>
<td>Czech Republic</td>
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<td>58.3</td>
<td>86.8</td>
<td>95.0</td>
<td>2.4</td>
<td>16</td>
</tr>
<tr>
<td>Hungary</td>
<td>8.8</td>
<td>72.1</td>
<td>92.5</td>
<td>96.6</td>
<td>2.6</td>
<td>30</td>
</tr>
<tr>
<td>Poland</td>
<td>7.9</td>
<td>36.1</td>
<td>48.1</td>
<td>57.7</td>
<td>1.4</td>
<td>35</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>3.0</td>
<td>62.9</td>
<td>74.8</td>
<td>83.5</td>
<td>2.2</td>
<td>29</td>
</tr>
</tbody>
</table>


Note: Rates above 100% can be due to double counting of children if they are enrolled in more than one institution as one only offers part-time services.
Before the onslaught of the global financial and economic crises, gains in employment have been truly significant. However, in terms of full-time equivalents (FTE), progress was more limited. While age employment profiles depict a high increase of employment especially for the Netherlands and Spain (see figure 3.11), accounting for female full-time equivalent employment rates reveals that this increase is much smaller in the Netherlands where female part-time work is widespread while it is substantial for Spain (see figure 3.12). The Czech Republic and Sweden have the highest female full-time equivalent employment with rates above 50%, while France, Germany, Spain and the UK range in the middle followed by Italy and the Netherlands. The gap between nominal and full-time equivalent employment reflects the wish, especially of women, to work part-time, and more generally to change employment patterns over the life course. On the other hand, part-time work and reduced working hours are often involuntary (see Berkhout et al., 2010; Erhel and Guergoat-Lariviera, 2010; Schmid, 2008). Cipollone et al. (2012) find that married mothers with young children are more likely to work part-time.

Figure 3.12 shows that the employment of mothers it is the highest in Scandinavia, followed by Portugal, the continental regime and the liberal regime. In general, this rate is lower when children are young, a tendency that is especially pronounced in the new member states, Finland and Germany. Furthermore, maternal employment decreases the higher the total amount of children under 15; again, particularly in the new member states, but also in the continental regime and the UK. One reason is that the higher the number of children within one family, the higher the probability that childcare costs exceed the possible revenue of maternal employment.
unless free universal childcare facilities exist for everyone. Of course, it could also be that women who opt for having more than two children, despite the challenges of reconciling work and family, have a lower preference for employment outside the household. Culture and low educational levels can negatively affect mothers' decision to work (Gauthier, 2012). Moreover, women's ability to return to the workspace hold prior to maternity can positively influence the preference of women to re-enter the labour market (idem).

Public childcare provision is no longer seen only as a policy arrangement to further female employment and reconcile work and family life. Instead, it is increasingly perceived as the first pillar of human capital formation and life-long learning. Investment at early stages of the life cycle forms the basis for further successful education and training, and thereby a tool enabling skills acquisition and capacities to learn and benefit from later stages of general education, vocational and academic training, and further training as adults (Esping-Andersen, 2009). Table 3.2 demonstrates substantial differences across Europe in the use of childcare and preschool enrolment in 2008. Whereas in Denmark, Sweden, Italy, Spain, Hungary and in the continental regime (except Austria) more than 90% of children above 3 are taken care of by these facilities, this only holds for less than 50% of the under 4s in Finland, Ireland and Poland. Whereas more than 70% of Danish children under 3 spent time in child care facilities, these numbers vary between 12% and 55% for most other Western European countries. In many new member states, these numbers are below 10%. Significant differences also exist in the average hours of attendance per week. Hungary, Poland, Greece, Portugal, France and the Scandinavian countries are leading with more than 30 hours per week. In the liberal regime, in most countries of the continental regime and in the Czech Republic, average hours of attendance vary between 16 and 23.

Figure 3.14 zooms into the incomes of families using formal childcare services for under 3s. Across income groups, enrolment rates are equally high or low in Denmark, Sweden, the Czech Republic, the Slovak Republic and Austria. In most other countries, conversely, high and medium income parents are more likely to make use of formal childcare services. Greve (2012) finds that Danish citizens report better possibilities to reconcile work and care than Germans and Czechs do. Furthermore, citizens in the UK face even higher barriers than these latter two countries, which might be related to the strong dependence on market-provided childcare services. The fact that Denmark and Sweden are among the countries with the highest enrolment of children under 3 and depict low differences in enrolment by income groups is probably related to offering free childcare services for everyone and the fact that a tradition for high female full-time employment exists.

3.5 Education
Apart from gender, educational levels have a high impact on employment and unemployment rates. Employment rates by skill levels differ the most for those with less
than upper secondary schooling or vocational training. Figure 3.15 shows marked differences in low skill employment across countries and welfare regimes. Particularly low levels of low skill employment are found in the CEE countries, but also in some continental European countries such as Belgium, Italy or Germany. In these countries, only about half of the low skilled are integrated into the labour market. Given the strong pressures of technological progress and globalization, it is interesting that there is no general decline in the employment rates of the low skilled. Today, the highly skilled groups surpass, by about 15 percentage points, the Lisbon benchmark of 70% participation in gainful employment, independently of welfare regime.

**Figure 3.15 Employment and educational attainment 1997, 2007**

![Graph showing employment and educational attainment](image)

Source: Eurostat labour force survey lfsa_ergaed, extracted February 2012.

**Educational attainment and training**

Human capital development stands out in the social investment perspective. In the new, knowledge-based economies, there is a need to invest in human capital throughout the life course. Youth with poor skills or inadequate schooling today are at risk to become tomorrow’s precarious workers. The higher educated are less likely to be unemployed, and more likely to find permanent employment and to find re-employment (Forum, 2012).
Considering the looming demographic imbalances in Europe, large skill deficits and elevated school dropout rates aggravate the situation. Education system designs can play an important role for vulnerable groups (Thum et al. 2012; Beblavy et al. 2012). For example, the school system has a large influence on the significant differences across educational attainment of Turkish migrants across Europe (Crul and Schneider, 2009). However, even if the school system is taken into consideration, Dronkers and Heus (2010) find that a negative selectivity of guest-workers, being more likely to have only low educational levels, helps explain the low scores for the educational achievement of children with a Turkish migration background all over Europe. This indicates that although investment in schools and the structure of school systems have an impact, the problems to overcome social inequality remain pertinent across Europe.

Investment in human capital has always taken place in the early stages of life, but due to rapidly changing work environments, people need to keep investing in their human capital throughout their life cycle. To assess the extent to which a country invests in its human capital stock, we examine both initial education as well as lifelong learning. Figure 3.16 shows that the percentage of the 20 to 24 year old population with at least an upper secondary education is highest in some of the new member states and Finland and Sweden, followed by the continental regime and the liberal one. Educational attainment is especially low in Portugal and Spain. In general, educational attainment increased or remained stable within all European Union member states between 1997 and 2007, with the most dramatic increases in Italy and the UK.

![Figure 3.16 Percentage of the 20 to 24 Year Old Population with at least an Upper Secondary Education](image)

Source: Eurostat, extracted September 2012.
Some countries are more successful than others in achieving high and egalitarian cognitive skills. While there is no recent assessment of adults’ skills levels, the OECD PISA study found major differences in pupils’ competence levels across countries and within countries, whereby family background plays a role (OECD, 2010). Figure 3.17, which displays the PISA reading scale scores for 2006, indicates that Finland, Ireland and Sweden score the highest, while the Slovak Republic and the Mediterranean regime score comparatively low. Public early childhood education and comprehensive schooling can help mitigate the reproduction of inequality and low skills (OECD, 2006).

Apart from marked differences in the use and the provision of qualified extra-mural childcare, countries differ regarding both the institutional structures of education and training, and the population’s educational attainment. Most countries still do not achieve basic formal skills for all. A varying, but still considerable part of the working-age population does not achieve at least upper secondary education, i.e. qualified schooling or vocational training, as figure 3.17 shows. However the share of the low skilled has declined in most countries (see above). A complementary picture to the percentage of the 20 to 24 year old population with at least an upper secondary education can be drawn for early school leaving. In general, there has been a decrease in early school leaving between 2000 and 2007. The highest drop-out rates exist in the Mediterranean countries ranging between 15% (Greece 2007) and more than 40% (Portugal 2000), followed by the Anglo-Saxon and Continental countries.

**Figure 3.16 PISA reading scores (age 15), 2000, 2003, 2006**

Tertiary graduation rates per 1,000 of population aged 25 to 34 increased between 1997 – the earliest year for which data are available – and 2007, especially in Lithuania, Poland and Denmark (see figure 3.17). Whereas Denmark, Belgium, France, Ireland, the UK, Lithuania and Poland reach levels around 80 per 1,000 people aged 20 to 29, Germany, Austria, Italy, Greece and Spain accomplish levels between 30 and 40 per 1,000 people aged 20 to 29. The low rates in Germany and Austria can be explained by the significance of a dual system of vocational training at work and in school within the educational system, which traditionally has always been much higher as for instance in the UK. In these former countries, certain professions which are taught at the university level in other countries fall into the category of vocational education and training.

There are also marked differences in terms of participation and intensity of lifelong learning activities (OECD, 2005a). Figure 3.18 shows that, in general, participation in continuous education and training is higher in the Scandinavian countries and the UK. However, despite some increases in most countries, the adjustment of skills over the life cycle is still far from perfect. Particular deficits are found in the continental regime and the Mediterranean regime as well as in most new EU member states. Comparing employment rates and participation in education and training of the working age population 7 weeks prior to the survey shows countries with high employment rates usually have a rather high participation in life-long learning.
This section has shown that employment levels have improved for all age groups and gender groups, but that significant differences persist between welfare states in the degree to which they are able to integrate the youth, women and older workers into the labour market. Childcare and education play a key role for the ability to find a job or to reconcile work and family. Scandinavian countries have a high degree of investment, enrolment and attainment in education and childcare whereas especially Mediterranean countries are still in a catching up process.

### 3.6 Poverty

Poverty rates play a key role for society, especially for the educational attainment and future career chances of children (Engster and Stensöta, 2011). Consequently, poverty matters for a country’s economic development. The EU uses a measure of relative poverty, which defines poverty in relation to income dispersion in the lower income groups. Thus, the definition of poverty does not only aim for survival (absolute poverty), but the broader goal of participation in society.

Considering the dispersion of household income, the liberal countries display not only high levels of wage dispersion, but also comparatively high poverty rates and a comparatively inegalitarian distribution of disposable household income in comparison to Scandinavian or continental welfare states (Moller et al., 2003). Income inequality differs across Europe, with the Scandinavian countries being more equal, closely followed by the continental regime. The liberal, Mediterranean and new EU member states face higher levels of inequality (Hemerijck, 2013). As the OECD (2011a)
Highlights, income dispersion has increased since 1980, especially in Finland, Germany, Luxembourg, and Sweden.

The risk at poverty rate defines poverty as the percentage of the population that is below 60% of the median wage.\textsuperscript{7} Regarding overall poverty levels between 1997 and 2007, countries are split in two groups: the Mediterranean and Anglo-Saxon countries, with risk at poverty rates of around 20%, and the Scandinavian and continental countries with rates between 10% and 15%. The risk at poverty increased in the Scandinavian and continental countries and stagnated in the Southern European countries.\textsuperscript{8}

Furthermore, at risk of poverty rates differ per age group and household composition. As figure 3.19 shows, for children under 16, risk of poverty used to be highest in the liberal countries but decreased between 1997 and 2007 to levels comparable to the Mediterranean countries. In the continental countries, risk of poverty for children under 16 fluctuates around 15%, whereas it increased in the Scandinavian countries from rates around 5% in 1997 to 10% in 2007. In the new member states poverty varies between 15% and 24%.

The risk of poverty is even higher for singles with dependent children. Although these poverty rates declined in the Anglo-Saxon countries between 1997 and 2007, the UK still has the highest level (around 40%). The Southern European and continental countries mostly range around 30%. Germany, Portugal and the Netherlands have achieved a more than 10% decrease within one decade, whereas poverty rose in the other countries of these regimes. Scandinavian countries show risk at poverty rates of approximately 20% for singles with dependent children, with Finland facing a more than 10% increase within 10 years. The new member states show varying rates between 25% and 40%.

\textsuperscript{7} The 60% threshold set by the EU, the OECD uses a 50% threshold.
\textsuperscript{8} Based on EUROSTAT estimates
Figure 3.19 Children’s at-risk of poverty


Figure 3.20 shows that risk at poverty figures for the elderly aged above 65 highly varies across Europe. In 1997, poverty rates were especially high in Portugal (37%) and Greece (34%), while approaching the level of other Southern European countries of around 25% in 2007. The liberal countries have an increase from around 25% to 28%, whereas the Continental and Scandinavian countries vary between 4% (the Netherlands 1997) and 23% (Belgium 2007). The risk of poverty for elderly aged 65 and above is the lowest in the Netherlands (9.5%, 2007) and Sweden (9.9%, 2007).

Figure 3.20 At-risk-of-poverty aged above 64

Source: Based on Eurostat, EU-SILC, variable: ilc_li02, extracted March 2011.
How much of this variation in poverty is due to differences in the welfare state? This can be better assessed when accounting for the poverty-reducing effects of taxes and transfers by using a poverty line of 50% of household disposable income. Figure 3.21 indicates that Denmark, Sweden, France and the Czech Republic achieve the highest percentage point reduction in the poverty rate. Portugal and Ireland realize lower levels of poverty reduction. Much variation exists within regimes, but the figure also indicates that higher pre-transfer poverty in some countries than in other countries might explain variation in poverty rates between countries like Finland and Italy. Which group’s poverty is reduced also varies across Europe. Most countries depict high poverty reductions for the retired population, especially in the Netherlands, and much lower levels for the working age population and for children. Outliers here are France and the Scandinavian countries, where the differences are less marked. Furthermore, in many countries the poverty-reducing effect of taxes and transfers decreased between the mid-1990s and mid-2000s, especially for children. Only in Italy and the UK did it increase for children, the working-age and the retirement-age population. Concerning the regime types, in the social democratic regime the poverty-reducing effects of taxes and transfers are comparably high for all groups. The Mediterranean regime has comparatively low poverty-reduction for children. The continental regime has high within-regime variation. The liberal regime ranges somewhere in the middle, and the Czech Republic, the only new EU member state for which we have these data, shows a bias towards higher poverty-reduction for elderly but overall quite high levels of poverty-reduction in general.

Concerning the poverty-reducing effect of transfers, table 3.3 indicates that especially Scandinavian countries are able to lower child poverty considerably via maintenance payments and child support. For continental and Mediterranean countries, this is only true for child poverty in sole-parent families, but not at all for liberal countries and also much less for new member states. The exception is Poland, which has an enormous decrease in child income poverty in sole-parent families due to maintenance payments and child support.

As figure 3.22 shows, poverty persistence throughout Europe is especially high in countries with high poverty rates such as Ireland, Greece and Portugal, and much lower in the Scandinavian countries and most of the continental countries. Regarding intergenerational mobility, most Scandinavian countries face low income inequality and low intergenerational earnings-elasticity, meaning that social mobility is high. The UK, conversely, displays low social mobility. In Spain, we see an interesting pattern with high income inequality but moderate intergenerational earnings-elasticity (0.3), indicating that the relation between the parents’ and children’s incomes is lower in this country than in the liberal ones.

Overall, poverty has increased in the EU member states, although the trends have been far from stable. In terms of redistributive performance, we observe that poverty and inequality is the lowest in relative terms in Scandinavia and the highest in the Mediterranean countries, followed by the liberal countries and some of the new mem-
ber states. Likewise, intergenerational transmission and persistence of poverty is the highest in the Mediterranean countries and the lowest in Scandinavia and the Netherlands. However, Scandinavian countries have witnessed an increase of poverty and inequality during the last decade.

**Figure 3.21 Effects of taxes and transfers in reducing poverty among the entire population**

![Graph showing effects of taxes and transfers on poverty reduction]

**Effects of taxes and transfers in reducing among poverty children, adults and the elderly**

<table>
<thead>
<tr>
<th>Children</th>
<th>Working-age population</th>
<th>Retirement-age population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>Finland</td>
<td>Belgium</td>
</tr>
<tr>
<td>Sweden</td>
<td>Germany</td>
<td>France</td>
</tr>
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<td>Belgium</td>
<td>Netherlands</td>
<td>Ireland</td>
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<td>United Kingdom</td>
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<tr>
<td>France</td>
<td>Portugal</td>
<td>Czech Republic</td>
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<tr>
<td>Netherlands</td>
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<td>Portugal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Czech Republic</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 3.3 Child poverty rates (50% of median household equalised income) and influence of child-support payments

<table>
<thead>
<tr>
<th>Country</th>
<th>Child poverty before consideration of the child-support system</th>
<th>Child poverty after advances on maintenance payments AND receipt of child support AND payment of child support</th>
<th>Child poverty in sole-parent families before consideration of the child-support system</th>
<th>Child poverty in sole-parent families after advances on maintenance payments AND receipt of child support AND payment of child support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark (2004)</td>
<td>6.4 %</td>
<td>3.9 %</td>
<td>23.3 %</td>
<td>8.5 %</td>
</tr>
<tr>
<td>Finland (2004)</td>
<td>5.4 %</td>
<td>3.7 %</td>
<td>22.8 %</td>
<td>11.2 %</td>
</tr>
<tr>
<td>Sweden (2005)</td>
<td>7.4 %</td>
<td>4.7 %</td>
<td>21.2 %</td>
<td>9.7 %</td>
</tr>
<tr>
<td>Belgium (2000)</td>
<td>8.3 %</td>
<td>7.2 %</td>
<td>36.0 %</td>
<td>25.9 %</td>
</tr>
<tr>
<td>Germany (2004)</td>
<td>13.3 %</td>
<td>10.7 %</td>
<td>49.8 %</td>
<td>38.1 %</td>
</tr>
<tr>
<td>France (2000)</td>
<td>8.7 %</td>
<td>7.9 %</td>
<td>34.2 %</td>
<td>28.0 %</td>
</tr>
<tr>
<td>Austria (2004)</td>
<td>8.7 %</td>
<td>7.0 %</td>
<td>32.7 %</td>
<td>19.6 %</td>
</tr>
<tr>
<td>Netherlands (2004)</td>
<td>10.4 %</td>
<td>9.1 %</td>
<td>28.1 %</td>
<td>20.5 %</td>
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<tr>
<td>Ireland (2004)</td>
<td>17.0 %</td>
<td>15.8 %</td>
<td>41.9 %</td>
<td>38.7 %</td>
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<tr>
<td>UK (2004)</td>
<td>14.8 %</td>
<td>14.0 %</td>
<td>35.6 %</td>
<td>32.5 %</td>
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<tr>
<td>Greece (2004)</td>
<td>14.8 %</td>
<td>13.2 %</td>
<td>43.4 %</td>
<td>35.5 %</td>
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<tr>
<td>Italy (2004)</td>
<td>18.5 %</td>
<td>18.4 %</td>
<td>29.0 %</td>
<td>26.7 %</td>
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<tr>
<td>Spain (2004)</td>
<td>17.7 %</td>
<td>17.2 %</td>
<td>39.4 %</td>
<td>33.2 %</td>
</tr>
<tr>
<td>Hungary (2005)a</td>
<td>10.3 %</td>
<td>9.9 %</td>
<td>25.9 %</td>
<td>25.9 %</td>
</tr>
<tr>
<td>Poland (2004)</td>
<td>19.6 %</td>
<td>17.2 %</td>
<td>40.4 %</td>
<td>22.5 %</td>
</tr>
</tbody>
</table>

Source: OECD (2011b).

Notes: Families are defined as households with at least one child under 18.

a Denotes when a weighted country sample is below 200 cases.
3.7 DISCUSSION

This chapter started has investigated: 1) if European welfare states have started to spend more on social investment policies; and 2) if the countries with high social investment spending achieve better socio-economic with respect to employment, education and poverty-reduction. Overall, social investment spending did not increase massively in most countries. This is in line with existing findings (see Nelson, 2012b: 16-17). If we focus only on aggregate public spending, we do not see an explicit policy shift towards social investment (cf. Streeck and Mertens, 2011; Hudson and Kühner, 2009; Wolf and Zohlnhöfer, 2009). However, our analysis shows that the Austria, Belgium, Finland, Ireland, Poland and the UK have significantly increased their spending on social investment policies as a percentage of GDP between 1997 and 2007, indicative of an increased emphasis on social investment. Greece, Hungary and Sweden – albeit from a high level –, conversely, decreased their spending on social investment policies over this period. In general, social investment spending is highest in the Scandinavian countries, followed by the continental countries, the liberal ones, the Mediterranean countries, and finally the new member states. There are also considerable differences within the regimes, especially in the field of childcare and elderly care. Within total social spending, the allocation of funds to certain policies has also resulted in increases in some policy fields. The Netherlands, Sweden and the UK increased their spending per capita on day-care facilities, while the Czech Republic, Sweden and the UK increased their expenditure per capita on maternal and parental leave. Educational expenditure increased across most welfare states.

Concerning socio-economic performance, we focused on employment and other labour market indicators, education and at-risk of poverty rates. Labour market indicators show, first and foremost, an overall improvement in employment and a significant decline in unemployment across most European welfare states over the last
ten years (before the financial crisis). The average employment rate of the EU-15 countries increased from 61% in 1997 to 66% in 2007, while the EU-27 moved from 61% to 65%. The employment rate for women rose from 52% to 59% in the EU-15 (57% for the EU-27), bringing it somewhat within reach of the Lisbon objective of 60% in 2010. However, huge differences persist between the welfare states regarding the degree and type of female employment. Mothers and lowly educated are less likely to be employed than childless women or the highly-educated ones. Single mothers are more likely to live below the poverty line than the majority of the society. Our descriptive data suggest that countries with high investment in childcare and education have higher female employment levels and higher general employment levels. The Scandinavian countries have high full-time employment rates for men and women, low long-term unemployment rates, an average employment protection level (except Denmark), and the highest per person spending on active labour market policies. The countries belonging to the Mediterranean regime, conversely, have low levels of female employment, high levels of long-term unemployment, high employment protection levels with far worse public finances, especially when it comes to public debt. Labour market integration of immigrants remains a challenge especially for Scandinavian countries and Continental ones and might become one in the future for more recent immigration countries such as Italy and Spain or Ireland.

Furthermore, our descriptive data indicate that employment rates by skill levels differ mostly for the labour force with less than upper secondary schooling or vocational training, and less so for the high skilled. We have noted marked differences in low skill employment across countries and regimes. Particular deficits are found in the CEE countries, but also in some Continental European countries such as Belgium, and Germany.

Overall, over the period of 1997 and 2007, employment rates improved, unemployment rates fell, and educational attainment increased. These trends speak to important accomplishments of the reform-strategies of individual countries (see chapter 4), but also to some extent of the Lisbon strategy that has partially shaped these reform trajectories. Across many indicators, regime differences remain apparent, especially regarding the differences in public spending, poverty-reduction, female employment, long-term unemployment, and employment protection.

The social democratic regime has achieved the highest employment levels, especially for women, while keeping inequality comparably lower than other countries – despite the rise during the last decade. In their policy mix, the Nordic countries have become full-fledge ‘social investment’-oriented welfare states. These countries invest the most in education, active labour market policy, and childcare and leave arrangements. The liberal countries performed well before the 2008 global financial crisis in terms for instance job creation, but with far higher levels of poverty than the social democratic regime or the continental one. The Mediterranean regime showed lower levels on all indicators. It displayed high levels of inequality, low levels employment for women and older men, high long term and youth unemployment, against a background of troubled public finances, notably in Italy and Greece. Regarding social in-
vestment, Mediterranean countries spend the least of all regimes on education, active labour market policy and early childhood development, although they are slowly catching up in terms of closing the gender employment gap, however, at low levels of fertility. The new member states depict a similar performance as the Mediterranean countries with the difference that relative poverty is significantly lower, especially for the elderly.

Educational outcomes have improved throughout Europe during the past decade. Spending on education per student rose, educational participation of 15 to 24 years olds increased, and so did the amount of tertiary graduates and people with upper secondary education. Participation in life-long learning programmes augmented. Also gender inequality declined. Nonetheless, considerable differences persist concerning maternal employment across regimes, with the Nordic regime having the highest employment rates followed by the Continental regime, the Anglo-Saxon regime, and with the Mediterranean regime and the new member states closing the line.

Childcare enrolment persists to differ between the regimes, especially for younger children, and also by income. While Scandinavian countries are more egalitarian in the distribution of childcare, other regime types display higher differences across income groups or generally low levels of childcare for children aged under 3 or 4. Childcare enrolment and spending, together with maternal employment patterns continue to vary across member states in the levels of care offered, the use of facilities, and the extent of balancing work and family. The Scandinavian countries are not only leading in terms of maternal employment, but unsurprisingly also in terms of family policy support. While the members of the Continental regime are catching up, the difference in especially to the new member states is considerable. Overall, however, these outcomes suggest that there is a significant trend towards social investment across EU member states with respect to higher educational spending, rising educational attainment, accompanied by higher employment rates and a decline in gender inequality.

4 PATTERN OF WELFARE REFORM IN EUROPEAN WELFARE STATES

4.1 INTRODUCTION

In the previous chapter, we examined to what extent Europe's welfare states have moved in the direction of social investment in terms of spending. In this chapter, we discuss the reforms behind the spending figures and zoom in onto ten European welfare states, paired in two's per welfare regime. Of each regime, we take the 'prototypical' country (if available) and a country that is particularly interesting in terms of social investment. While this case selection does not allow for generalization to all (European) welfare states, it does enable us to get insight into the transformation towards

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9 Much of the information on the reforms in the ten cases comes from Hemerijck (2013: ch. 6). For information on reforms in the areas of labour market activation and family policy for the Danish, Swedish, Irish, Dutch, German, Spanish and Czech Republic cases, we have also extensively used Nelson (2012c).
social investment, or absence thereof, across and within European welfare states. From the Nordic or social democratic regime, we pair Sweden and Denmark. The former is the prototypical social democratic country, whereas the latter has gone furthest in the direction of social investment in recent years. From the liberal regime, we pair Ireland and the UK – the only two European countries from this regime. From the conservative regime, we zoom into Germany and the Netherlands. The former is the prototypical conservative country, whereas the Netherlands displays hybrid features (Vis et al., 2008) and shows a remarkable variation over time in its focus on social investment. From the Mediterranean regime, we focus on Spain and Italy, both typical cases. From the Central and Eastern European (CEE) regime, we pair the Czech Republic and Poland. Since there is no typical CEE country, we focus on the country that has gone furthest in terms of social investment (the Czech Republic), and the country that has gone the least far (Poland). Rather than discussing all reforms that have taken place in the two decades prior to the financial and economic crises, we concentrate on two key areas related to social investment – active labour market policies and family policy – and on what it perhaps the key ‘old’ social policy – pensions.

We show that most reforms took place in a sequence of cumulative policy adjustments, with one reform building on the success or shortcomings of a previous one. This implies that welfare reform draws on the capacity of (national) policy makers to learn from among other factors mistakes. Next to the uniqueness of national reform paths, we also observed a remarkable convergence of employment and social policy objectives across the countries, suggesting that policy makers may learn from each other’s experiences. Finally, we reveal that social investment is not merely a technical issue but is embedded in a highly contentious political process. Policy failures are not necessarily the result of bad institutional design, but can also occur because entrenched interests stand in the way of fundamental reform.

4.2 Sweden & Denmark: Moving Further Towards Social Investment

In terms of social investment, the social democratic regime has always been the clear forerunner (Weishaupt, 2011). The strong emphasis on, for instance work-life reconcili-
ing little room to maneuver to develop new social risk policies (Bonoli 2007: 497-498).

Let us examine the developments since the early 1990s.

**SWEDEN**

What reforms in the areas of active labour market policies, family policy and pensions did the Swedish governments undertake since the early 1990s? After decades of more or less unbroken expansion, the Swedish welfare state was hard hit by a home-grown financial crisis in 1992. The centre-right Bildt I government immediately negotiated two crises packages with the social democratic opposition. The crisis package was a mix of social investment policies, like the expansion of public employment and active labour market policies (Benner and Vad, 2000), and cutbacks in for instance unemployment insurance and the reduction of employment protection (for an overview of all major labour market reform measures in Sweden, see Sjöberg, 2011: 229-231). In this more difficult period for Sweden, the quality (if not the quantity) of active labour market policy was diluted, and the focus of social reform discussions turned to reducing the length and generosity of unemployment benefits. Following an economic upturn in the late 1990s, and under the centre-left Persson governments, most benefits were re-adjusted upwards, but not to previous levels of generosity. More stringent qualifying conditions, including waiting periods, largely remained intact (Sjöberg, 2011: 229-231).

When the social democrats returned to office in 1994, they initiated a policy mix to ensure balanced budgets and encourage new investment centred on increases in taxes and social security contributions and cuts in public expenditure (Benner and Vad, 2000). The government reduced replacement rates to 75% and cut back public sector employment. At the end of the 1990s, the social democrats reinstated a few of the retrenching reforms that they had earlier made. They especially directed more resources to the development of human capital, including training, adult education, and higher education to raise the skill level of the active population and to raise employment rates (Huber and Stephens, 2001: 244-249). Policymakers also institutionalized a variety of activation measures, including a youth guarantee in 1998 and an activation guarantee in 2000. Both measures include ‘active periods’ that require drawing up individual action plans, close collaboration with supervisors, and participation in a variety of job coaching and/or ALMP programmes. In contrast to Denmark, Sweden retained separate approaches to insured jobseekers claiming unemployment benefits and uninsured claimants of social assistance (Köhler et al., 2008: 278-279; Sjöberg, 2011). Nevertheless, since 1998, Swedish social assistance claimants—especially the young—were progressively required actively to seek work.

In Sweden, women’s labour force participation had already reached quite high levels by 1970 and increased slightly since 1970. Over the 1990s, the proportion of children attending pre-school and day centres for school-age children increased sharply (see Greve, 2012). Simultaneously, staff size and costs per child declined and children’s group size grew. This led to greater universalism but also to resource depletion. Therefore, the nominal value of universal child benefits had been reduced in 1996 by the
Persson I government, and indexation was stopped for ‘advance maintenance allowances’ for single parents (without income or means testing, Palme et al., 2003). A particularly strong feature of Swedish welfare reform in the 2000s has been the reinforced commitment, under more stringent budgetary constraints, to active family support by enhancing early childhood education and care. Reforms in 2001 and 2003, for example, improved childcare service affordability and access. Local authorities were required to provide pre-school or family day care to children aged 1–5 even when the parents are studying, unemployed, or taking parental leave to look after a sibling. All families are entitled to early childhood education from when the child reaches 12 months (Chronholm, 2009). The reforms also introduced a system of maximum childcare fees. At pre-school facilities, the fee charged is subject to a maximum capped to a fairly low level. In addition, the new system is topped up with a range of family/child benefits and parental leaves in connection with childbirth or adoption. Paid parental leave is granted for a period of up to well over a year (480 days). Nearly all parents take advantage of the days available. The centre-right Reinfeldt coalition that came into power in 2006 forwarded a new family policy reform that was implemented in 2008. It consisted of municipal childcare allowance and a gender equality bonus (Chronholm, 2009). The latter offered financial benefits to couples that shared parental leave more equally. The proportion of parental cash benefit days used by men has markedly increased from 3 per cent since 1974 to 23 per cent in 2010 following the introduction of first one and later two ‘daddy months’.11 Paternity leave provides fathers with 10 working days at 80% of their wage at a ceiling of 410,000 SEK (€36,815) a year. Practically all new fathers make use of these days.

In terms of policies catering to a typical old social risk, old age, far-reaching pension reforms have been undertaken in Sweden. A reform in 1994 by the centre-right Bildt I government increased the statutory retirement age from 65 to 67, while making retirement flexible between age 61 and 67. Another reform aimed to strengthen the links between contributions and benefits in Sweden (Anderson, 2001; Kangas et al., 2006; Palme, 2005). Under the Persson governments, the social democrats negotiated this widespread reform of the pension system with the opposition parties. The reform streamlined existing policies and changed its pay-as-you-go system from defined-benefit to defined-contribution in 1999. In a notional defined-contribution model, each insured employee’s contributions are recorded in an individual account that will earn interest, typically at a rate tied to the growth of ‘pensionable income’ (mostly wages). At retirement, the balance in the account is converted into a life annuity based on estimates of the cohort’s expected life-span (Schludi, 2005). The Swedish reform made its pension system approximately actuarially neutral. In addition to the opposition parties, the social partners were consulted on the pension reform. Although the reform

11 Part of the reason for the low take-up of leave among men involved the types of jobs that they held (Haas and Hwang, 1995). Women were by and large employed in the public sector which offered them more flexibility in working hours and temporary periods of exit (Rosen, 1996).
initially divided the unions, the social partners granted their support in the end. The deep recession in the first half of the 1990s had strengthened a common understanding across the political spectrum over the need for fiscal sustainability of the Swedish welfare state, including the pension system. In Denmark, where a substantial share of existing occupational pensions was based on individual contributions, such adjustments were not needed. Related to the pension reform, in Sweden there has also been a general trend towards introducing disincentives for early retirement and bonuses for working longer.

**Denmark**
Whereas the Swedish welfare state had been quite ‘active’ for longer, the Danish welfare state made a turn towards social investment in the late 1980s, early 1990s. In fact, the Danish economic philosophy of unemployment made a U-turn between 1988 and 1992 (Andersen and Pedersen, 2007). The roots of this U-turn and the consequent reforms can be traced back to a series of White Papers published in the early 1990s (Tørring, 1999), focusing more on work rather than passive benefits. It was for instance a discourse of ‘combat unemployment’ that brought the social democrats into power in 1993 (Halvorsen and Jensen, 2004). Although the White Papers were well-received by the previous bourgeois government, it were the social democrats who made legislative change as a response.

A series of reforms in 1994, 1996, and 1998 gradually implemented both a right and a duty to activation, including mandatory individual action plans that activate the unemployed within three to five months (Albrechtsen, 2004; Goul-Andersen 2007, 2011; Larsen and Andersen, 2009; Bonoli, 2011; Andersen, 2011). Consequently, the repertoire of active labour market policies was expanded and jobseekers received earlier and better access to publicly subsidized employment opportunities, education and training measures, and rehabilitation courses, together with (temporary) expansions of leave possibilities for employed workers, and sheltered employment for people with permanently reduced working capacities (Andersen and Svarer, 2007). Over the 1990s, compulsory activation measures were expanded to also reach practically all social assistance recipients. The duration of unemployment benefits was reduced from nine to four years in 1999, and reduced further to two years early 2011. However, with the exception of young people with no qualifying education, the levels of benefits remained high (Kvist et al., 2008: 227).

Note that the ‘active’ turn in the Danish welfare state was the beginning of the now famous ‘flexicurity’ model that integrates ‘flexible labour markets, generous unemployment benefits, and active labour market policies—all coordinated to reduce unemployment and improve the quality and supply of workers to the labour market’ (Campbell and Hall, 2006: 30, see also Erhel and Gazier, 2007).

The centre-right coalition of Føgh Rasmussen that came into office in 2001 continued a shift from a rights-based system to a workfare one. This government also launched a campaign entitled ‘Bringing more people into employment,’ Fiære i arbejde, which focused on rationalizing the organization of labour market policies and orientat-
ing training policy more closely towards the needs of the market. The government passed a reform in 2002 that allowed for cross-sector insurance funds. In 2007, the Fogh Rasmussen II government once again restructured the Public Employment Service (PES) system. The responsibilities for all labour market measures for both insured and uninsured jobseekers were streamlined under one National Labour Market Authority. The number of regional councils was reduced from fourteen to four ‘employment regions’, while seventy-seven newly established one-stop job centres were developed to deliver placement, benefits, and training referrals all under one roof (Lindsay and McQuaid, 2008). In addition, fourteen ‘pilot’ job centres under full municipal responsibility were created. Regional councils have lost much of their steering capacity to municipal policymaking and implementation (Kvist et al., 2008: 244; Weishaupt, 2011).

In terms of family policies, Denmark has seen some reforms in the past two decades, both by the centre-left governments of Nyrup Rasmussen and the centre-right governments of Schlüter and Fogh Rasmussen. In the 1990s, reforms further facilitated the combination of work and family life. In 2002, the conservative government expanded the length of parental leave to 52 weeks, allowing for up to 32 weeks to be shared between the parents (Eklund Hansen, 2003). In 2005, the Fogh Rasmussen government furthermore took many steps to lay out an investment approach to family policy. The Family and Working Life Commission published its findings in 2007 on how to create a more flexible policy approach to enabling the healthy combination of work and family life. The report detailed a number of policy recommendations, including steps to improve the quality of day care (Abrahamson, 2010). In contrast to the 2002 reform, this report led to few differences between the conservative government and the social democratic opposition.

In terms of pensions, a 1999 reform in Denmark introduced various incentives for retirement at 65, but this reform was complemented by a lowering of the retirement age from 67 to 65 (Anderson and Immergut, 2007; Kangas, 2007).

**DISCUSSION**

Given the high level of popular support for the welfare state, the social reform agenda in the Scandinavian countries has been shaped by a pragmatic, problem-solving approach, with no ‘grand controversy’ on alternative views and scenarios. The existing predominance of universal benefits as opposed to means-testing has not been significantly reversed, even if this has meant cuts across the board of replacement rates (especially in the fields of sickness and unemployment benefits), of eligibility conditions and benefit duration. Steps have also been taken towards the ‘Bismarckian tradition’ in the field of pensions: the link between contributions and benefits has been significantly strengthened by the Swedish reforms of the mid-1990s to late-1990s. Besides cost-containment, a second important leitmotiv of the Scandinavian reform agenda – especially in Denmark – in the 1990s has been activation, i.e. the modification of social security programmes to give actual and potential beneficiaries’ incentives to stay in or find gainful employment. While the reforms of the 1990s downsized the Scandinavian model, at least in terms of generosity, closer to the 2000s, the Nordic welfare recalibr-
tion efforts shifted to management of so-called new social risks associated with the feminization of the labour market and demographic ageing. Here, the presence of basic income guarantees proved to be safeguard not only against poverty and exclusion, but also against the penalties deriving from spells out of work and broken or composite careers. More importantly has been the availability of a wide array of services which allowed both Sweden and Denmark to respond effectively to the caring needs of families and to socialize their costs (including the cost of children). Finally, high social investment in labour market training, together with the highest education expenditure ratios in Europe, once again proved worthwhile assets in the open knowledge intensive economy of the 21st century.

4.3 Anglo-Irish ‘Third Ways’

United Kingdom

In the United Kingdom (UK), the conservative governments of Thatcher and Major embraced a fairly orthodox market-liberal approach to welfare reform from 1979 to 1997. Thatcher’s government among other things engaged in large-scale privatization and down-sizing of most welfare state programmes (King, 1995; Rhodes, 2000). Benefits eroded relative to average wages. Since the costs of targeted, means-tested benefits started to soar despite a tightening of eligibility rules inspired by the new ‘workfare’ philosophy, a stricter benefit regime further contained spending by reducing the number of claimants (Rhodes, 2000). The unemployment compensation system was reoriented in the direction of activation, but it were the subsequent New Labour governments of Blair that made more significant steps in this regard (Bonoli, 2011: 329-330).

After 1997, the Blair government embarked on a broad strategy of ‘Third Way’ reform. The central feature of the Third Way was a strong reliance on employment and employability to address poverty, disadvantage, and social exclusion. The government’s ‘welfare-to-work’ strategy differed substantially from its predecessor’s welfare policies. The government developed the idea of an ‘enabling’ welfare state with a deliberate policy choice of making welfare provisions more contingent upon paid employment (Clasen, 2005). Its reform agenda boiled down to a radical recalibration of ‘rights and obligations’ in such a way that social policy is used as a ‘trampoline’ rather than a ‘hammock’ by attaching conditions to benefits, requiring the unemployed actively to seek work and training, matched by more generous in-work benefits for those who take low-paid jobs (Schmidt, 2002).

These reforms were inspired by the active labour market policy tradition of the Scandinavian countries. The government introduced a series of New Deals that targeted different sectors of the inactive population (Clegg, 2010). The emphasis on paid work, skills, and compulsory job search, aimed to move especially young workers from public benefits into employment (Clasen, 2005). Central to New Labour’s ideas of the importance of activation is the emphasis on individual responsibility to seek gainful employment (Daly, 2010). The New Deals envisioned new labour market policy institutions that would offer the unemployed efficient job centres, more personalized support
services, and core skills training such as literacy, numeracy, and self-presentation (Weishaupt, 2011). It offered education and training programmes and jobs to 250,000 young people aged between 18 and 24 years. The option of passively living on benefits was suspended and failure to comply with New Deal rules would ultimately lead to a loss of benefit rights. After 1997, the New Deal programmes were extended to additional target groups, including single parents, chronically disabled persons, workless partners of claimants, and older workers. The Blair government also initiated a series of supplementary policies in an effort to curb hardship and promote employment. It introduced a national minimum wage in 1999 (Weishaupt, 2011). Perhaps the master trend over the past decade is that New Labour, across a long sequence of policy changes, has steered towards eradicating many differences between different types of out-of-work support (e.g., unemployment, social assistance, disability) for working-age people in the benefit system, both in terms of benefit levels and the expectation of efforts to return to work. Clasen and Clegg (2011) have coined this tendency ‘risk re-categorization’. UK activation and benefit policy has come to focus very much on working-age people as a whole, rather than discrete groups such as the unemployed, which resulted in significant benefit simplification (see Clasen, 2011 for an overview of the major labour market reforms in the UK since 1990).

Another element of New Labour’s ‘make work pay’ strategy was the replacement of the previous administration’s Family Credit with a more generous Working Families Tax Credit (WFTC) in October 1999. Rewarding those in work through an almost tenfold increase in tax credits, this programme sky-rocketed from £1.4 billion in 1999 to £11.5 in 2004 (Nachtwey and Heise, 2006: 6). It was subsequently extended to adults without children, disabled persons, and pensioners. In combination, the tax credits and the minimum wage ensured that anyone working at least thirty hours a week was to receive an income above the poverty line (Brücker and Konle-Seidl, 2006: 5).

A core New Labour policy objective was to ‘provide the best possible start in life for all children’ through early education, childcare, and health and family services. This led to a neighbourhood-based series of initiatives that sought to improve the quantity of and reorganize service provision to families in the poorest neighbourhoods. Although the main focus of New Labour social policy agenda was directed towards anti-poverty and pro-employment policy priorities, it also enacted an impressive range of family policy measures, addressing children’s early education and care, financial support for families and children, services to improve the quality of family relations in low-income urban areas, parental employment, and greater flexibility in work and family life (Daly, 2010). With respect to family servicing, the Sure Start programme, introduced in 1997, introduced an integrated platform for child- and family-centred services, locally available in poor areas. Sure Start was originally conceived as a one-stop shop for disadvantages 0- to 3-year-old children and their families. In 2004, Sure Start was redirected towards the expansion of universal provision through 3,500 childcare service centres (trebling the 2006 provision) by 2010 (Daly, 2010). The National Childcare Strategy combined the establishment of nursery places with subsidies for
pre- and post-school childcare to promote measures that enable parents to balance paid work with the needs of their children and improve access to childcare. Childcare expenses are tax-deductible for lone parents and there is a means-tested benefit for childcare costs (Clasen, 2005). In this respect, reconciling work and family life became an element of New Labour’s agenda. The Employment Act of 2002 introduced both paid paternity and adoption leave, while extending paid maternity leave from eighteen to twenty-six weeks. Also the right to flexible working arrangements for parents with young or disabled children was granted. This right was in 2007 extended to carers of frail adults. The Work and Families Act of 2006 further extended paid maternity leave to thirty-nine weeks. Prior to the outbreak of the global financial crisis in 2008, the Gordon Brown Labour government even planned to extend paid maternity further to forty-two weeks and to introduce a complementary paid paternal leave scheme of maximum six months at a wage replacement rate of a maximum 90 per cent. Still, many ‘new’ family policy measures remained anchored in the classical design of the British welfare state, with childcare provision being in the market (Daly, 2010).

With respect to pensions, in 2000 the Blair government introduced a means-tested minimum income guarantee. In 2004, the government established a pension protection fund to protect members of occupational pension schemes if employers become insolvent or pension funds became underfunded. In 2006, the government raised the retirement age to 68 by 2044, complemented by more generous qualifying rules through a reduction in the number of years of work required to receive a basic state pension and the introduction of weekly credits to recognize and reward caring years. The new 2008 Pensions Act made it necessary for employees to opt out of occupational pensions, rather than opt in as before. It also created a non-profit trust for those working in companies who do not offer occupation pensions (Bridgen and Meyer, 2011). In addition, private pensions were regulated to ensure coverage for those without access to occupational pensions, including tax relief and obligatory employer contributions (Schulze and Moran, 2007a).

IRELAND

Just as in the UK, Irish policymakers also focused on the promotion of a well-educated workforce, complemented by economic and welfare reforms. Since the early years of rapid economic growth, i.e. from the early 1990s onwards, Ireland gradually implemented several changes that together constituted a major break with its Anglo-Irish heritage. Some of these reforms intended to upgrade skills involved immense financial efforts, especially in the tertiary sector (see Hemerijck, 2013). Because policymakers feared that economic growth would not translate into job growth during the early years of what came to be known as the ‘Celtic Tiger’, active labour market policies were expanded, giving long-term unemployed work experience in community projects (Fitzgerald 2005, 129), with financial incentives that made virtually any low-paid job for the long-term unemployed over the age of 23 more attractive than remaining on unemployment benefits (Tansey, 1998; Taylor, 2005: 65). When unemployment dropped substantially during the late 1990s, many of these financial advantages were
retrenched and the development of skills was emphasized instead (Weishaupt, 2011: 210).

As rapid economic growth was accompanied by strong job growth over the 1990s, Irish governments were able to expand the welfare state. In the 1990s, labour market policy became more activating and Irish policy changes stressed ‘performative inclusion’. This approach involved three basic policy tools: active labour market policy, changes in conditionality, and the extension of activation beyond the unemployed (Murphy, 2007). Two major reforms took place that retrenched the welfare state, the 1992 Dirty Dozen and the 2003 Savage Sixteen. Eligibility was tightened to exclude immigrants and asylum seekers. A reform in 1999 left asylum seekers only eligible for the ‘direct provision’ and a 2004 reform restricted access for ‘habitual residents’ (Murphy, 2008).

A distinct trend towards less state involvement in social policy provision is also evident (Murphy, 2008). Since 1994, public employment services have been transferred to non-statutory agencies. In 2000, for example, a new carer’s benefit was introduced to facilitate short-term exit from the workforce to care for dependent ill or elderly adults (Daly and Yeates, 2003: 93). As part of the National Anti-Poverty Strategy (NAPS), social support for families with children also expanded dramatically. Generous improvements in social welfare occurred in tandem with spending increases, from €5.7 billion in 1997 to nearly €14 billion in 2006 (Irish Government, 2006: 1).

In terms of family policy, the Irish government initiated major changes in the 1990s in response to Europeanization and the rapid increase in women’s employment as well as child poverty (Nolan, 2001). A Commission on the Family was set up in 1996, marking a historical turn insofar as the needs of the family were seen as a distinct form of social policy (Daly and Clavero, 2002). The Commission’s work resulted in two main changes: the consolidation of family policy and extension of policies to reconcile work and family life. The Parental Leave Act of 1998 entitled both parents to 14 weeks of paid leave and in 2001 paid maternity leave was extended from 14 to 18 weeks (Russell et al., 2007). Since then, it has been increased to forty-two weeks of which twenty-six weeks are paid at 80 per cent of the former gross wage by the employer. Prior to the 2008 credit crunch, there were also plans to provide non-employed mothers with a generous lump sum subsidy, upon childbirth, of close to €250 per week. Overall, during the 1990s, child benefits increased in value by over 300 per cent (Weishaupt, 2011: 199).

Childcare remained a policy area that has been widely criticized for providing low quality services and few spaces (Murphy-Lawles, 2000). The National Development Plan, 2000-2006, made €317 million available to fund the expansion of grants to community-based non-profit providers (Daly and Clavero, 2002). The government committed an extra €50.7 million. County Childcare Committees were initiated in the late 1990s to assess rural need for childcare services and develop locally appropriate plans (Gallagher, 2012). Since 2006, they have been declared a ‘capacity building’ resource to local providers. Steps have also been taken to improve working time flexibility to help reconcile work and family life. In line with EU recommendations, the Pro-
tection of Employees (Part Time) Act of 2001 aimed at improving the remuneration and working conditions of part-time work (Russell et al., 2007).

In terms of pensions, the Irish state pension was the lowest in Western Europe (OECD, 2005b: 16). Addressing its shortcomings, a tripartite pension board was set up in 1990 to advise the social minister. In 2000, the government established a national pension reserve fund, wherein the government invests 1 per cent of GDP annually in order to meet future pension liabilities. In 2002, the government made existing public pension schemes more generous by guaranteeing that entitlements would be adjusted with inflation by up to 4 per cent per year. Finally, basic pension benefits were raised in 2006 (NESC, 2005; Schulze and Moran, 2007b).

**DISCUSSION**

Overall, activation policies have widely expanded in both liberal countries, supported by a strong, ‘individual responsibility’ normative political discourse (especially in the UK). Social insurance has been remodelled as to increase the willingness to take-up employment by using stricter conditions and sanctions. Both countries have departed from neoliberal orthodoxy by developing a social liberal model of an ‘enabling’ (in the UK) or a ‘developmental’ (in Ireland) welfare state. Moreover, both countries have improved the interrelation between activating employability measures and improved passive, means-tested, income measures and in-work benefits, in support of the overriding normative objective of ‘making work pay’ with a greater focus on family functioning and with greater state responsibility for early childhood care and education and expanded parental leave, especially in the UK. Both countries have also expanded in-work benefits. In terms of pensions, multi-pillar schemes expanded together with public support of lower income groups with irregular employment patterns. Politically, New Labour’s policy success became possible only after the party had undergone a phase of drastic normative reorientation and a change in its preferred mix of policy instruments. This shifting orientation is aptly expressed in Blair’s commitment to provide ‘work for those who can [and] security for those who cannot’; a commitment embodied in a comprehensive welfare-to-work policy mix, a reorientation of family policy, the promotion of a state-regulated private pension pillar, and education policies to improve Britain’s global competitiveness. New Labour concentrated its social investment turn primarily on inclusion policies by targeting poor neighbourhoods and within them families with young children, much of which remained embedded in a liberal economy with highly flexible labour markets, deregulated product markets.

**4.4 Germany & Netherlands: Removing the ‘Welfare without Work’ Vice**

In the 1990s, the continental welfare regime was the sick man of Western Europe. The root cause of the problems lay in the combination of four characteristics: the generosity and long duration of insurance-based income replacement benefits; the mainly ‘passive’ or compensatory nature of such benefits; their contributory pay-roll financing;
and high minimum wages (see e.g., Scharpf and Schmidt, 2000b; Huber and Stephens, 2001; Pierson, 2001a, 2001b; Streeck, 2009; Eichhorst and Hemerijck, 2010). Luring people out of the labour market by facilitating early retirement, increasing benefits for the long-term unemployed, lifting the obligation of job seeking for older workers, discouraging mothers from job seeking, favouring long periods of leave, easing the access to disability pensions and reducing working hours, conjures up the continental predicament of ‘welfare without work’ that remained politically popular well into the 1990s.

From the 1990s onwards, a novel policy consensus emerged of expanding employment levels among women (and perhaps also older workers) as a sine qua non for the long-term sustainability of the inclusive welfare states of mainland Europe. The result hereof was a long, complex, and cumulative reform agenda, including among other things the containment of wages and social spending, trimming pensions and ‘passive’ benefits, reducing payroll charges, introducing ‘active’ incentives, and updating family policy (Ferrera and Hemerijck, 2003). Because of these changes, the continental welfare states underwent the most dramatic reforms (Palier, 2010; see also Levy, 1999). Like in Denmark, many conservative welfare states, especially the Netherlands and Germany, made an explicit U-turn towards an activating welfare state. However, whereas the turn was already made in Denmark in the early 1990s, it occurred some years later in the Netherlands and Germany.

The Netherlands

As of the early 1980s, the Netherlands started to restructure its welfare state, as the first continental European country – a process for which the revitalization of the negotiations between the social partners and the government were crucial (Visser and Hemerijck, 1997; Hemerijck and Marx, 2010). While there had hardly been active labour market policies until the late 1980s, this changed with the coming into office of the successive ‘Purple’ governments from 1994 onwards. The first Purple government, Kok I, pursued a ‘jobs, jobs, and more jobs’ strategy, and among other things introduced and intensified activation obligations for the long-term unemployed (Kuipers, 2006). The various labour market programmes were combined in two framework laws: the Reduction of Taxes and Social Security Contributions (WVA) in 1996 and Integration of Job Seekers Act (WIW) in 1998. The latter focused on the employment of the long-term unemployed and the former promoted employment by reducing wage costs for workers earning less than 115% of the legal minimum wage. At the same time sanctioning and monitoring increased as well. The Law on Penalties and Measures in 1996 made sanctioning of benefit recipients obligatory and administrative units were policed (Van Oorschot, 2004). To activate social assistance claimants, the government implemented a contractual approach and stronger municipal responsibility in terms of measures and resources (Borghi and Van Berkel, 2007).

In addition, in 1995, the Netherlands also improved employment protection for workers in flexible jobs in exchange for small adjustments in dismissal protection for employees on permanent contracts. This ‘flexicurity’ agreement – comparable to the Danish approach – between the trade unions and the employers struck a balance be-
between flexible employment, and a slight loosening of employee dismissal legislation. In 2000, the flexicurity agreement was transformed into the Working Hours Act, granting part-time workers an explicit right to equal treatment in all areas negotiated by the social partners, such as wages, basic social security, training and education, subsidized care provision, holiday pay, and second tier pensions (Hemerijck and Sleegers, 2007; Houwing, 2010). In 1998, the activation reform widened the comprehensive approach for all jobseekers (not only the young as was implemented in the early 1990s). Counselling, training, and job offers were provided for all jobseekers after six months of unemployment from 2001 onwards. After 2000, Dutch governments took increasingly bold steps to foster activation. Since 2004, the elderly unemployed are required to look for work. At the same time, employers are no longer obliged to pay premiums for disabled employees aged over 55. In 2005, the introduction of the Work and Income According to Labour Capacity Act (Wet Werk en Inkomensniveau Arbeidsvermogen [WIA]) government significantly reduced disability benefits for partially disabled individuals, but also expanded training opportunities and created wage subsidies for partially disabled workers and their employers (Hoogenboom, 2011). In the same year, tax benefits for pre-pension schemes were replaced by a life-course scheme that stimulates employees to accrue 210 per cent of their annual salary by saving a yearly maximum of 12 per cent of their annual income, enabling employees to receive 70 per cent of their annual salary while away on leave (parental, educational, sabbatical, or early retirement) for three years. The Gatekeepers Act, introduced in 2007, raised the stakes by obliging recipients to find work after three months.

In terms of family policy, there had been moderate success in enacting reforms to facilitate work-life balance in the Netherlands in the 1980s and 1990s. During the 1980s, part-time work became a central policy which with to promote women’s employment (Visser, 2002). Reforms also created a right to work part-time and adjusted eligibility criteria so that part-time workers receive similar rights as full-time workers.

The Dutch maternity leave is historically quite short. Until 2001, there was a compensated statutory maternity leave of 16 weeks and no paid parental leave (Knijn and Saraceno, 2010). Parental leave was first introduced in 1996 under the EU Directive on parental leave. Only after the implementation of the Work and Care Act (Wet Arbeid en Zorg) in 2002 did all employees have the right to leave. In 2002, mothers were entitled to paid leave with up to 115 per cent of their previous wage for about 10 weeks. Then part-time parental leave was available for up to 42 weeks and the government pays 75 per cent of the previous wage (OECD, 2002). In 2006, the Work and Care Act was replace with the Life Course Savings Scheme (Levensloopregeling) with which parents could fund periods of leave.

In 2005, the centre-right government Balkenende II\(^{12}\) expanded childcare by creating additional facilities at schools and by paying one-third of childcare costs. The remaining costs are equally divided among employers and employees. Critics of the

\(^{12}\) The Balkenende I government fell after only 86 days.
2005 Childcare Act have shown that many employers fail to contribute and the benefits are unequally distributed. In response, a new centre-left coalition – Balkenende III – made contributions obligatory. A new tax rebate subsidy scheme proved so popular and costly that the government felt forced to scale it down in 2008. Limited availability of childcare provision and the early end of the school day in classes for young children had remained an obstacle for parents and in particular mothers wishing to work full-time (Plantenga et al., 2009).

Childcare developed quite late in the Netherlands, in contrast to long-term care for the elderly (Van Hooren and Becker, 2012). A state-run childcare market was first expanded in the Netherlands in 1990 with the Childcare Stimulation Act. In the five years following the implementation of this Act, the percentage of children in preschool increased from 4.4 percent to 12.8 percent (Wetzels, 2005). Public expenditure reaching 300 million Dutch guilders was spent on day care in 1994 (Bussemaker, 1998). The 1990 Act was replaced with the Childcare Stimulation Act in 1996, which created an additional 70,000 additional facilities. The Childcare Stimulation Act was replaced with the Childcare Act in 2005. This Act improved the accessibility to and competition between providers. The reform stipulated that employers, parents, and the government would each pay one third of childcare costs. Each parent’s employer would then pay one sixth of the total amount. Consequently, government subsidies were also paid directly to parents rather than to the municipalities, which meant that the parents were free to choose the childcare provider. Employers’ contribution is secured by the imposition of a levy. The childcare allowance is paid on a per child basis and capped out at €6.10 per hour in 2008.

Over the past two decades, there has been no path-breaking pension reform in the Netherlands. Somewhat different from for example Germany’s pay-as-you-go (PAYG) pension system architecture, the Dutch pension system is based on three tiers. All Dutch residents are entitled to a compulsory PAYG pension in the first tier. The second tier is based on compulsory, fully funded and sector-based occupational pensions, managed by employers and unions. The third pillar of the Dutch pension system is based on private provision, for instance, through annuity insurance (Van Riel et al., 2003). With its integrated public and private mandatory pension provision, the Dutch pension system has arguably faced far less fiscal strain due to population ageing. The overall policy response to welfare reform since the 1990s has been directed at increasing labour force participation. Relevant for older workers have been a series of cumulative by various government between the mid-1990s to mid-2000s to discourage early exit. Replacing early retirement schemes by actuarially neutral pre-funded pre-pension arrangements has been an important step in the raising the employment rate of older workers. Pension reform efforts have concentrated on the modernization of the pension system with stronger work incentives in both the public and mandatory supplementary pensions. A major adjustment has been the shift from a final pay scheme to an average pay scheme, including an element of cost-containment, based on a covenant between the social partners and the government in 1997. In addition, a public pension saving fund was set up. For the trade unions, the government’s pledge to safeguard the

![NEUJOBS](image-url)
basic income function was crucial. For employers, on the other hand, their cherished social partnership autonomy of supplementary pension held sway. Beyond the significant advantages of a fully fledged multi-tiered pension system with a strong funded component, the Dutch pension system is vulnerable to capital market risk exposure in its large supplementary tier; a risk that has come to fore in the global financial crisis. The reliance on occupational pension capital funding under the highly favourable economic, financial and labour market condition around the turn of the century reinforced a belief that there was no need for parametric pension reform. The financial crisis has washed away this element of fortuna. Thus we expect pressures for pension reform in the Netherlands to intensify in the years ahead.

GERMANY
Active labour market policies had played a role in preventing unemployment during the golden years in Germany, but not to such an extent that the German welfare state qualified as an active welfare state at the time. The active labour market policies then were embedded in the Employment Promotion Act of 1969 (Bleses and Seeleib-Kaiser, 2004). Active measures were expanded under the Kohl I government until 1987, although the measures’ generosity was reduced (Bleses and Seeleib-Kaiser, 2004: 52). In terms of spending on ALMPs, there was a peak in 1992 (1.8% of GDP), mostly because of job-creation programmes initiated in the context of reunification (Bonoli 2011: 327). The Kohl I government also increased the weeks of previous employment necessary to qualify for unemployment insurance from 24 to 36 months (Clasen, 2005). This caused a massive number of individuals to shift from the unemployment insurance schemes to locally administered social assistance schemes. Participants in these projects would eventually partake in subsidized job projects that would become re-qualified for unemployment insurance. In response to these viscous cycles, the government eventually strengthened the work requirements of workfare programs and capped social assistance benefits. Older workers who were compensated for labour market exit with early retirement programs were exempt from these changes.

The Employment Promotion Act, Arbeitsförderungsgesetz, moreover, which came into effect on 1 April 1997, included measures for the promotion of employment among disadvantaged groups, support for the foundation of new firms, and restrictions on job-creation schemes. The Act declared that the primary responsibility of employment falls on the employee and employer and that public measures should play only a residual role.

While the subsequent first Schröder Red-Green government (1998–2002) was not aggressive in correcting inherited Continental welfare problems, in its second term (2002–2005) it adopted a much bolder reform stance (Vis, 2010). The publication of a critique by the Federal Audit Bureau of misleading placement statistics by the Federal Agency for Work (Bundesanstalt für Arbeit—the German Public Employment Service), at a time when unemployment soared, evolved into a political scandal at the beginning of 2002. Immediately, the Schröder government seized the moment by appointing an expert commission led by the then Volkswagen head of human resources, Peter Hartz.
In its final report, the Hartz Commission recommended the remodelling of the German social insurance system, the restructuring of the governance of the German Public Employment Service, the further deregulation of the labour market, while radically stepping up activation strategies, especially for labour market outsiders, and, ultimately, the establishment of a single ‘unified gateway’ for all unemployed and jobseeking persons in Germany (Hartz Commission, 2002; Weishaupt, 2010). Together, the so-called Hartz reforms (2002–2005) constituted a clear break with the traditional Continental social insurance legacy of high benefit dependency, low employment, reluctant activation, and truncated flexibilization (Seeleib-Kaiser and Fleckenstein, 2007). The most radical Hartz IV reform, enacted in 2005, involved the merger of the provisions of unemployment assistance for the long-term unemployed and social assistance for those in need without an employment record into a new, tax-financed, Unemployment Benefit II (Arbeitslosengeld II [ALG-2]) to complemented the more traditional unemployment insurance provision, termed ‘Unemployment Benefit I’ (Arbeitslosengeld I [ALG-1]). In the same instance, the duration of unemployment insurance payments was reduced from 32 to 12 months (18 months for older workers). The removal of the entire unemployment assistance pillar from German social insurance system, which previously offered income-related (but means-tested) benefits to jobseekers with an employment record, trampled on both the insurance and equivalence principles of the Bismarckian welfare state (Trampusch, 2005; Eichhorst and Kaiser, 2006; Eichhorst et al., 2008; Dingeldey, 2011; Weishaupt, 2010, 2011). The Hartz reforms also helped to expand the low-wage sector through new ‘in-work benefits’, tax and contribution exemptions and reductions. A new direct low-wage job-creation programme included public employment opportunities through so-called One-Euro-Jobs, which provide additional income of €1.00 to €2.00 per hour, in combination with full benefits. Altogether, the Hartz reforms were extremely unpopular, particularly with the traditional social democratic electorate. Popular discontent ultimately resulted in the defeat of the Red-Green government in the 2005 German elections.

In terms of family policy, there was initially only weak reform in the 1980s and 1990s. In 1986, the centre-right Kohl I government in West Germany introduced the childrearing allowance and parental leave as part of a package of reforms in family policy (Morel, 2007). These were essentially policies which protected the male breadwinner model since they provided incentives for women to stay at home. These policies were in theory at least open to both parents for the first time. In 1996, the Kohl IV government embarked on a number of reforms to the 1986 parental leave and childcare allowance schemes that were passed. The reform acknowledged the joint responsibility of childrearing by both parents and the role of the state in care provision (Fleckenstein, 2011). It also provided childcare as a right, although this applied only to those over the age of three and was restricted to half-day care.

While the Netherlands developed the ‘combination scenario’ of childcare through the mothers’ working part-time, the German Red-Green Schröder government put childcare at the core of its policy platform with generous tax deductions for parents taking up childcare facilities so as to stimulate demand, especially among low-income
families. The centre-left government increased the flexibility of the parental leave scheme in 2001 (Fleckenstein, 2011). As a result of the reform, it became easier to split leave between two parents and parents were allowed to work up to 30 hours a week while on the benefit. The government also provided incentives to return to work earlier by increasing the generosity for reductions in the duration of the leave. Schröder, often less progressive on family issues than other members of his party, moved for the dramatic expansion of day care spaces as part of Agenda 2010. Subsequent legislation aimed for the creation of 230,000-300,000 places between 2005 and 2010 and allocation €1.5 billion, which was to be taken from the unemployment and social assistance funds (Fleckenstein, 2011).

The centre-left Grand Coalition Merkel I expanded tax reimbursements to cover childcare costs and introduced a new parental leave benefit, while expanding (public) childcare facilities. The Minister for Family, Seniors, Women, and Youth Affairs, Ursula von der Leyen (CDU), committed the Grand Coalition to expand childcare facilities rapidly to 750,000 places by 2013 with a subsidy of €4 billion, covering one-third of the costs. In 2007, despite fierce opposition by Catholic factions in the German Christian democratic parties, a new parental allowance came into force, modelled after the Swedish experience, granting parents 67 per cent of their previous wage for twelve months, with a ceiling of €1,800, with the intention of more equal gender roles, financial security for young parents, and higher levels of labour force participation of mothers. These new reforms demonstrated the German welfare state’s new commitment to bringing more mothers and single parents into the world of paid employment in a country plagued by one of the lowest birth rates in the EU (Korthouwer, 2010). In addition, Germany extended the pension crediting for caregivers which gives credits to the insurance records of workers who have children, in order to mitigate the adverse financial consequences of careers interrupted by child-rearing. In 1994, Dutch policymakers also introduced the option of splitting the rights for occupational pensions in the event of divorce or the dissolution of a marriage during retirement.

The Grand Coalition continued the shift away from the male breadwinner model. In 2007-2008, the government introduced earnings-related parental leave. The replacement rate was set at 67 per cent and reached a maximum at €1800. Twelve months are provided to the first parent. Two additional months are available for the second parent, typically fathers leading to their nickname ‘daddy months’. Single parents are free to take the full fourteen months. The Grand Coalition also passed legislation in 2008 which pledged to increase childcare places to 750,000 by 2013 (Fleckenstein, 2011).

It has been only recently that old-age pension provision moved to the centre of the Continental social reform momentum. Pension reform in Continental welfare states, especially in the large pay-as-you-go (PAYG) defined benefit systems of Germany, adds up to a very cumbersome exercise (Immergut et al., 2007). Unlike transfers financed from general revenue, PAYG schemes are financed from payroll taxes, imposing the costs of ageing societies on the wages of current, younger employees. Germany took first steps in establishing a multi-pillar system of pension provision, including a
partial privatization of pensions with a greater emphasis on occupational pensions in 2001. The so-called Riester pension reform included restrictions of the level of public pensions, but also created the possibility for complementary future pension rights through private personal or occupational pension plans. The pension replacement rate was further reduced in 2004 (Stiller, 2010). Germany has also taken important steps towards transferring risk associated with ageing to retirees by indexing future benefits against the life expectancy of the retiring cohort. Policymakers began to encourage younger cohorts of the workforce to participate in fully funded occupational pensions schemes through the use of direct transfers and tax advantages. Finally, in Germany a new basic pension scheme has been implemented for low-income retirees. Since 2000, activation has become the prevailing goal in pension reform. Germany, and also the Netherlands, has extended contribution periods while granting bonuses to people who work beyond the legal retirement age and reductions to those who retire early. Germany, formerly the quintessential case of policy immobility, has been the first European country to increase the retirement age from 65 to 67. Moreover, to consolidate the shift away from early-exit, the government also decided to raise the early retirement age in all three major schemes from 60 to 63 in 2007. Germany also introduced several options for partial retirement in the 1990s for workers over the age of 55.

**Discussion**

The overview of the reforms in the areas of (active) labour market policies, family policy, and pensions in our two continental European countries reveals this regime’s erosion of two core values over the past two decades or so: status maintenance and privileged support for traditional male-breadwinner families. This has been replaced by the promotion of equal opportunities via labour market participation and more inclusive poverty reduction strategies. Virtually all continental welfare states are in the process of bidding ‘farewell to maternalism’ to use Orloff’s metaphor (2006). This is not merely the product of changing gender values; it is also part of a deliberate strategy to attract mothers, in the face of population ageing, into the workforce (Morel, 2008; Morgan, 2006, 2008). Overall, the Netherlands (already at an early stage), and Germany (much later) have moved furthest in the direction of social investment-oriented reform of the Continental regime. In comparison to the Netherlands, path-shifting reforms were initially far more difficult to enact and implement in Germany’s fragmented political system (Bonoli, 2001; Immergut et al., 2007). One of the difficulties was that Schröder’s Red-Green government lost its dominant position in the second chamber by early 2000. Hence, it needed the support of the Christian democrats for substantive welfare reform. By forging an informal alliance with the Christian democrats in the Senate (Bundesrat), the social democrats were able to enact important pension reforms (Schludi, 2005; Trampusch, 2009; Korthouwer, 2010). It is important to highlight that the more daring policy changes, such as the Dutch social insurance reforms of the 1990s and the radical Hartz reforms in Germany in the mid-2000s were prefaced by expert reports that publicly exposed many drawbacks of the welfare status quo, thereby raising public awareness of reform urgency. By subsequently framing reform
resistance as problematic, reform-minded politicians such as Lubbers (Visser and Hemerijck, 1997) in the Netherlands and Riester and Clement in Germany (Stiller, 2010) were able to go against the grain of entrenched policy stakeholders.

4.5 Spain & Italy: Modernizing Progress and Its Setbacks

The Southern European welfare states entered the 1990s with severe internal imbalances. Both Spain and Italy were, for example, not even close to the EMU entrance criteria. Consequently, these countries were forced to take the politically perilous decision of severe internal restructuring: less generous benefits for insiders in order to cut down debts and deficits and—to the extent that budgetary constraints allowed it—in order to finance new benefits and services for the outsiders (Guillén et al., 2003; Guillen and Matsaganis, 2000). This background set the stage for a rather ambitious welfare reform in the second half of the 1990s, centred on: the reduction of generous guarantees for historically privileged occupational groups, accompanied by an improvement of minimum or ‘social’ benefits; the introduction and consolidation of the safety net, especially through means-tested minimum income schemes; the expansion of family policy, with explicit attention to gender equality and equity issues; more measures against the black economy and tax evasion; the reform of labour market legislation to promote desegmentation and modification of unemployment insurance benefits (Ferrera, et al., 2000; Ferrera and Hemerijck, 2003). Let us examine the reforms in Spain and Italy in some more detail.

Spain

Since the 1980s, reforms in policies such as employment protection have continued to make it easier to dismiss workers and have made the labour market more flexible. Small reforms in the unemployment benefit schemes were also enacted to relieve pressure on public spending and increase work incentives. Special arrangements for the self-employed have been created. The reforms did not deal sufficiently with the problem of joblessness. In the early 1990s, the debate on labour market reform resumed. A government-commissioned study revealed the extensiveness of temporary contracts and, with one-third of salaried workers on such contracts, its focus shifted from flexibilization to labour market reform (Toharia and Malo, 2000). The EMU entrance criteria triggered a series of substantial retrenchments in the early 1990s (Mato, 2011: 185-186), restricting both the eligibility and generosity in the unemployment protection system. Benefits starting at 80 per cent of previous wages were cut to 70 per cent and lower, while minimum contribution periods were raised. These reforms were conducted by the Socialist government, against backdrop of much protest from the unions (Del Pino et al. 2012).

The 1995 Toledo Pact, agreed among the main political parties and later supported by the social partners, is of special importance for the change in the Spanish welfare state (Molina, 2011). Several measures of labour market reform were introduced by the socialist government up to 1996 and by the conservative government
thereafter: the introduction of flexible contracts, the rationalization of unemployment benefits, new programmes and incentives to reconcile family responsibility and work (and thus gender equality), various activation measures, and a broad reform of employment services. The 1997 reforms were more consensual than the 1994 ones had been. Despite these reforms being implemented by a centre-right government, the reform that promoted permanent employment contracts and secure employment passed a Royal Degree that was based upon agreements by the social partners (EIRO, 1997).

Since the mid-2000s, Spain has accelerated the reform of its welfare system (Guillén and Léon, 2011). A new social assistance scheme was introduced in 2000, the means-tested Renta Activa de Inserción (RAI), or Active Integration Income, targeted at 45-year-olds and over who have exhausted their unemployment benefits and have family dependants, coupled to tougher activation and job offer requirements. In 2001 and 2006, labour laws were changed, further relaxing the protection of ‘core’ employees and improving both the social security rights of irregular/temporary workers and their opportunities to access the regular labour market. In 2002, unemployment insurance beneficiaries were required to sign up to an ‘active agreement’, compromising active job seeking and the acceptance of ‘adequate employment’. This latter reform dramatically changed the eligibility criteria for receiving an unemployment benefit. Under the new reform, the benefit claimant would need to show that s/he is unemployed and sign a commitment to activate, i.e., to participate in a re-integration programme and to seek employment actively. Any job offer within 50 kilometres is considered acceptable. Both the left opposition parties and the trade unions considered the reform unnecessary given the good socioeconomic situation. This led even to a general strike by the unions. Just 20 days thereafter, prime-minister Aznar replaced the minister of Labour. Aznar was willing to re-negotiate parts of the reform proposal, such as a broadening of what was an adequate job and removal of the obligatory activation requirement during the first 100 days of unemployment (Del Pino et al., 2012).

In 2003, Regional PES offices took over labour market intermediation functions from the national PES organization. In 2003, the Toledo Pact was updated. In 2006, the RAI became part of the unemployment compensation system. A new major reform of the labour market was agreed with the social partners in 2006. The main aim of the reform was to reduce temporality in the labour market and to gain in flexicurity.

Partially in response to EU accession in 1986, and under the incumbency of a socialist government, various steps were made towards realizing greater gender equality. In 1986, maternity leave was extended to 14 weeks and breastfeeding leave could be transferred to men. In 1994, replacement rates for maternity leave were increased to 100 per cent. Women on temporary contracts, however, a non-negligible proportion of employed women, did not feel comfortable taking leave (Wall, 2009). The conservative government in office between 1996 and 2004 placed family policy on the agenda, with measures to improve the work life balance (Wall, 2009). The government implemented

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13 As a result of these changes, Spain’s employment performance improved spectacularly, creating over 8 million jobs in the period from 1996 to the advent of the global financial crisis.
tax incentives to promote an early return to work and deregulated childcare services to enable to the growth of cheaper services (Wall, 2009). A law in 1999 furthered the implementation of EU directives by making maternity leave more flexible, extending paternity leave, and allowing relatives to use parental leave (Escobedo, 1999).

Under the socialist Zapatero governments, in power between 2004 and 2011, the most recent adjustments to leave schemes were enacted (Wall, 2009). For the first time, paternity leave did not result only from maternity leave being transferred to the father, but was provided in its own right and could be taken for 2 weeks during or after maternity leave. The government improved coverage to include more marginalized groups and also extended unpaid leave. In 2005, the government with the support of the social partners designed a plan (Concilia Plan) to improve the work life balance for workers in the public sector (Meseguer Gancedo, 2006). The main change involved a reduction of the working day to the hours between 9h and 15h. Single parents and women with dependents at home have additional hour of flexibility. A progressive law on gender equality was passed in 2007, as well as a law to promote care for dependent people and thus facilitate the reconciliation of work and family responsibilities: Ley de Dependencia. Other progressive reforms included the legislation allowing gay marriages and adoption by gay couples, together with the liberalization of abortion.

Spain engaged in restrictive pension reforms but also improved minimum benefits in the fields of old age, family allowances, and the basic safety net. In 2006, a significant reform had been reach on pensions, focused on an amelioration of both contributory and non-contributory benefits. In June 2011, the socialist government in Spain approved a reform to increase the pension age to 67 – one of the highest in Europe – to be implemented over a period of 14 years beginning in 2013. When announcing the reform proposal in 2010, the socialist prime-minister Zapatero was still planning to reform pensions only with the consent of the unions. However, it became clear that the unions were unwilling to accept this proposal. The Zapatero government continued with the reform, backed by the pressure from the markets and despite the unions threatening with a second general strike in one year (Davies, 2011).

ITALY

Italy may be seen as an almost emblematic case of multi-dimensional recalibration in the 1990s (Ferrera and Gualmini, 2004; Hemerijck, 2013). In terms of labour market policy, Italy made a U-turn in the late 1990s when its low investment in labour market policies and underdeveloped active measures were no longer capable of addressing the changed socioeconomic environment (the shift away from Keynesianism and towards more flexible labour markets). Still, according to Jessoula and Vesan (2011: 142), the aim of being better adapted to the post-industrial labour market has only been partially successful. In their view, this stems from “an incomplete learning process resulting from the combination of a number of unfavourable conditions for reform: scare eco-

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nomic resources, cognitive factors that until recently reduced problem pressure, and path-dependent dynamics cutting across policy sectors, linked to the relative power of various social groups”. Moreover, they note that “when important reforms have been introduced, implementation has often been weak because of low institutional capabilities and the persistence of traditional organizational habits at delivery level” (Jessoula and Vesan, 2011: 142-143). Still, at least on paper, the Italian welfare state has been reformed dramatically.

The so-called Treu labour market reforms of 1997 by the centre-left Prodi government eased the shift towards a more flexible and deregulated labour market, including the expansion of active labour market policies. In 2003, the centre-right government of Berlusconi introduced an even more flexible labour market with the so-called Biagi law. By then, a-typical contracts had become rather typical (Jessoula and Vesan, 2011: 147). Different from other countries, Italy’s unemployment insurance became more generous in terms of replacement rates and duration between 1993 and 2007, respectively from 30 to 60 per cent of previous average daily wage for the first six months of unemployment and from six to eight months (Jessoula and Vesan, 2011: 163). The system has also become more inclusive, although recipiency rates remain comparatively low (Jessoula and Vesan, 2011: 149 & 151).

Also family benefits were improved and a broad reform of social services and assistance was carried out in 2000 by the centre-left government. In hindsight, the EMU deadline, pressed the ‘Olive-Tree’ coalition governments to enact a wide range of comprehensive welfare reforms in social insurance, pensions, labour markets, and social assistance, with a strong focus on cost-containment, negotiated with various parties, regions, and societal interests. The EMU exam, in other words, strengthened domestic cooperation.

Overall, the reforms in the 1990s were accompanied by the appearance of a novel discourse on the current state and future prospects of the Italian welfare state, a discourse building on various notions of ‘social equity’, ‘inter-generational justice’, ‘gender equality’, ‘productive efficiency’, ‘subsidiarity’, and so on. The idea that the Italian welfare state ought to give ‘more to children, less to fathers’ (Rossi, 1997), and that it should be aimed less at ‘indemnifying’ than at ‘promoting’ people’s opportunities, became the object of an articulated public debate. The new line of argumentation indicates a significant normative recalibration (Hemerijck, 2013). However, as Jessoula and Versan (2011: 160) note, the implementation of such policy ideas remained rather weak.

After 2000, there were important setbacks in the Italian reform momentum (Sacchi and Bastagli, 2005). As the centre-right Berlusconi governments privileged a welfare model based on family and community networks, it drastically cut the funds for social services and family policy and put an end to the experimentation with the minimum insertion income. Subsequently, the rather weak and short-lived centre-left Prodi II cabinet (2006-2008) preferred not to expand childcare, but rather regressively chose to strengthen ordinary unemployment insurance, by extending duration and increasing benefits. These setbacks left Italy without provisions against new social risks
to combat the new social risks of poverty and social exclusion by the mid-2000s. The positive trend of increased emphasis and spending on ALMPs came to an abrupt halt in 2004 (Jessoula and Vesan, 2011: 156). Although conditionality criteria for participation in ALMP programmes were increased in 2000 and 2002, requiring more of benefit recipients, the actual implementation is lax and sporadic (Jessoula and Vesan, 2011: 157).

In terms of pensions, Italy attempted to halt the expansion of its hypertrophic pension system, with a view to ‘restoring to health’, its battered public budget, and making room for some upgrading in family policy and social assistance. Pensions were reformed in 1992 and then again in 1995, 1997, 2004, and 2007. The so-called Dini reform of 1995 completely changed the pension formula, linking it closely to contributions in a quasi-actuarial fashion (Ferrera and Jessoula, 2007). Following the Swedish example, a public notional defined contribution system was introduced, to be implemented through a long transition process. After Berlusconi regained power in 2008, his cabinet reintroduced a rigid retirement age 65 for men and 60 for women, to replace the flexible retirement of the 1995 Dini reform (Jessoula and Alti, 2010).

**Discussion**

Overall, ex negativo, many Southern European countries, except Spain, stand out as having declined to pursue explicit social investment policy strategies, with continued under-investments in services together with overspending in passive benefits. This partly also explains their continuing high levels of inequality, low levels employment for women and older men, high long-term and youth unemployment, and more troubled public finances, together with lower fertility, in Italy especially (see chapter 3). What stands out for the experience of welfare reform in Southern Europe has been the importance of the EMU entrance exam and the macroeconomic criteria of the Stability and Growth Pact (Pochet and Fajertag, 2000; Featherstone and Kazamias, 2001; Dølvik, 2004; Baccaro and Simoni, 2008; Avdagic et al, 2011). These external so to speak productive constraints forged the resurgence of social pacts throughout the 1990s between national government and the social partners, many of which revolved around old-age pensions. In hindsight, however, the EMU proved to be something of mixed blessing. While the entrance exam of the EMU has had evident welfare reform effects, this no longer applies as soon as Italy had secured its fully-fledged membership of the euro zone. Spain, conversely, kept up the reform effort of trading cuts for insider groups in return for enhancements in the status positions of youngsters, women, and low-income families, recognizing the importance of social investment for successful economic performance in the EMU.

**4.6 Recalibrating work and welfare in the Czech Republic & Poland**

Overall, social policy transformation in post-communist CEE is more a story of ‘system
transformation’ than one of ‘catching up’ with the older Member States of the EU (Cook, 2007; Haggard and Kaufman, 2008; Inglot, 2008; Nölke and Vliegenthart, 2009).

To gain analytic leverage on the complex dynamics of CEE welfare state transformation since the collapse of communism, we follow Cerami (2010) identification of three distinct episodes of reform across the region. In the first phase of the transformation to the market economy (roughly between 1989 and 1993), the breakdown of the socialist economy, followed by a deep economic recession, pressed policymakers to expand welfare provision to mitigate the immediate social distress of mass unemployment and poverty. After 1994, in phase two, the cumulative burden of social protection expansion of the first phase proved financially unsustainable and retrenchment and privatization efforts gained overriding importance, leading to, also on the advice of the IMF and the World Bank, the introduction and expansion of multi-pillar (private) pension systems in most CEE countries. In the third phase, from 2001 to the onslaught of the global financial crisis, in many CEE countries social reform shifted towards efforts of rebalancing existing social policy practices and activating social priorities. Rather than discussing the experiences of the Czech Republic (until 1992, Czechoslovakia) and Poland separately, we organize this section along the three transition phases, paying most attention to the Czech Republic. Between 1989 and 1992, the Czech and Slovak Republics shared a three-year period of reform. In 1992, the federations were separated and the Slovak Republic largely instigated a unique reform path whereby the Czech Republic continued in the same tradition as in the past (Inglot, 2008).

Transition Phase One

In the first phase, social policy was used as a buffer to cushion the most dramatic effects of the economic crisis and reform towards a market system (Inglot, 2003, 2008). The governments of the CEE countries expanded for example early retirement provisions and disability pensions for redundant workers (Fultz and Ruck, 2001; Müller, 2002). At the beginning of the early 1990s, both Polish and Czech governments introduced fairly generous targeted unemployment insurance and established basic safety nets, together with other compensatory policies, based on lenient eligibility criteria including expanded pension entitlements and family benefits with broad coverage. In Poland in the early 1990s, the government committed itself to the creation of a social safety net for workers in the formal sectors of the economy, including farmers’ insurance system and an unemployment protection scheme. The Czechoslovakian government also established a safety net designed to protect the most vulnerable groups in the transition to a market economy, in anticipation of the ensuing economic crisis. By late 1992, subsequent reform intentions were temporarily suspended due to the separation of the Czech Republic and Slovakia (Inglot, 2008: 219-226). Also family allowances, inherited from the communist era, were deployed as ad hoc policy tools for assisting victims of the transitional recessions of the early 1990s.

The transition towards a market economy in the Czech Republic can be described as rather smooth, economically and socially, due in large part to an emphasis on promoting both market liberalism and a strong social safety net. The Czech ap-
proach to the transition differed from its Polish (and also Hungarian) neighbour by being less shock therapy and more social democratic. Specifically, the Czech government relied on five policies to ease transition to a market economy: unemployment control policies, corporatist labour market policies (especially wage restraint and active labour market policies), social safety net policies, reasonably fair and equitable privatization policies (Orenstein, 1994). Unemployment control policies essentially meant ensuring wage restraint, which led to labour hoarding, and the enactment of active labour market policies. Many ‘socially relevant’ jobs were created which involved jobs such as street cleaners as well as subsidies to new entrepreneurs (Orenstein, 1994). The public employment services were set up in 1991 but remained understaffed and underfinanced compared to other countries, limiting the scope for active labour market policies and job mediation (Graziano and Winkler, 2012). Immediately after the transition, the government began to reform parental leave. Extended leave for fathers was enacted in 1991, though legislators did not really expect fathers to use it (Castle-Kanerova, 1992). In 1993, the centre-right government reduced the generosity of parental from 90 per cent of the gross wage to 69 per cent of the net wage (Saxonberg and Sirovátka, 2007). During this early period, the government also sharply curbed spending on day care facilities. In 1989, there were 1,313 facilities and nearly 53,000 vacancies whereas in 2003 there were only 60 facilities and less than 1,700 vacancies (Saxonberg and Sirovátka, 2007). Part of this decline is due to parents’ hesitation to use facilities because of their low quality (Szeliewa and Polakowski, 2008). In the first transition phase, the number of people on pension benefits, unemployment benefits, or social assistance benefits had increased dramatically, placing greater financial strain on the welfare schemes. As a result, social spending as a percentage of GDP increased rapidly, while GDP itself contracted (Nesporova, 1999; Potucek, 2007).

**TRANSITION PHASE TWO**

By 1995, the CEE economies had been growing again, as had real wages, but employment rates remained extremely low in Poland (Hemerijck et al., 2006). The wide use of welfare led to a near fiscal crisis by the mid-1990s in most CEE countries. The large number of people that received welfare benefits of some kind made the early politics of welfare state expansion to compensate for the economic distress and consolidate democracy unsustainable. A new wave of social reform took shape with a view to cost-containment and welfare retrenchment (Keune, 2006; Cerami, 2011).

Cost containment was achieved by tightening unemployment benefits, reducing replacement rates, limiting the duration of benefits, and suspending price-inflation indexation. In Poland, criteria for unemployment insurance were tightened in 1994. In regions where unemployment was high, entitlement duration was cut to six month, to incentivize regional mobility. Furthermore, the government abolished maternity leave programmes in 1996. In addition, families with incomes in the top 10 per cent were no longer entitled to family allowances and childcare benefits. Furthermore, the government tightened eligibility criteria for disability pensions.
In contrast to the first transition phase, the period between 1992 and 1998 was one of retrenchment and conservatism in the Czech Republic, with the government announcing intentions to weaken the earnings-related component of state pensions, introduce an income test for family benefits, strengthen the insurance principle in health insurance, conduct better targeting of social assistance, and relying more fully on a citizen-based rights (Večermík, 2008). The government reduced the generosity of unemployment insurance and increased the pension age (Saxonberg and Sirovátka, 2009). The consequence of these reforms was that employment remained quite high, relatively speaking, meaning that only marginal groups suffered unemployment such as Roma and pensioners (Sirovátka and Hora, 2011).

Overall, three important features stand out in the second transition phase. The first trend is the shift away from tax financing to increased payroll financing, linking duration and benefit levels to social contribution, plus indexation, in many areas of welfare provision from unemployment insurance to healthcare and disability pensions. This implied a path-contingent return to pre-communist Bismarckian social insurance traditions. Related to the problem of the growing numbers of inactive citizens claiming benefits from already severely indebted social insurance funds, the reinforcement of Bismarckian social insurance, which was never completely dismantled during the communist era, was an obvious institutional choice (Cerami, 2010). Moreover, the shift to social contributions allowed for the simplification of income taxes in the direction of flat rate taxation. In the Czech Republic, there was greater differentiation between the social insurance and social assistance tiers of the welfare state, thus sharpening the divide between the more ‘deserving’ short-term unemployed, older, and regular workforce, receiving more generous benefits, and the more ‘undeserving’ long-term unemployed, younger, and marginal workers on social assistance entitlements (Duman and Scharle, 2011; Sirovátka and Hora, 2011).

The second feature relates to pension reform, in particular the privatization and the individualization of savings, strongly advocated by the World Bank, in the mid 1990s. State-socialist old-age pension systems were largely financed on a pay-as-you-go basis through transfers from state firms to the state budget; direct contributions by workers themselves were rare (Fultz and Ruck, 2001). The introduction of the mandatory second tier of old age pension schemes run by private funds, on the basis of Notional Defined Benefits, was introduced in the Czech Republic in 1998 and in Poland in 1999 (Inglot, 2008: ch. 4; Orenstein et al., 2008).

The third feature of this phase was the creeping re-familization of social services. Family and childcare policies and maternity benefits constituted prominent examples of state-socialist welfare provision in most CEE countries. Traditional forms of public support for families with children weakened considerably during the transformation period. The provision of childcare and day care was at least partially re-modified in the Czech Republic. Passive family lost their universal status in 1994 and became less generous. Family cash support dropped as well. Targeted, means-tested residual schemes were introduced in child allowances in the Czech Republic. Polish provision of public childcare is historically poor. Meanwhile, the Czech Republic held
on to substantial parental leave schemes (Szelewa and Polakowski, 2008). However, the many curtailments in family policy were accompanied by a severe decline in female employment. In terms of gender employment, most of the new Member States today are far removed from the communist-era ‘dual-breadwinner’ model. Liberal labour market and social services reform have further eroded important policy supports around pregnancy and childcare (Cerami, 2008). Consequently, birth rates have fallen dramatically, even more so than in Southern Europe. By and large, CEE governments restructured their welfare systems in market-liberalizing directions. The mid-1990s wave of retrenchment met with rather little political resistance.

The immediate years of the transition saw a worsening in the conditions for children in the Czech Republic (Förster and Tóth, 2001). Partly for this reason, the government introduced a number of means-tested benefits aimed at upholding a minimum subsistence level in the mid-1990s. In 1996, the government included these rights within a new system of non-contributory benefits providing assistance to families with children (Saxonberg and Sirovátka, 2007). The social democrats promised to create universal child benefits and improve conditions for middle class workers. Upon entering office in 1998, however, they did not follow through, partly because they could not find support for these proposals from their coalition partners. In 2004, however, the social democrats did push through a bill that allowed couples to choose common taxation if they so preferred (Saxonberg and Sirovátka, 2007).

TRANSITION PHASE THREE

Coming to the final and more complex period, Cerami’s (2010) ‘phase of recalibration’, there are strong elements of reconsideration and correction to the surge of social policy privatization of the previous period, especially relating to healthcare and pensions. Activation and active labour market and social inclusion policies gained more prominence, for instance in Poland. The early 2000s saw the establishment of several employment programmes targeting marginalized groups such as the young and the Roma population (Sissenich, 2005: 169). In addition, the Polish government introduced a disability benefit for young handicapped persons with insufficient work records. Though family benefits were cut in 1995, by the late 1990s family allowances again expanded and benefits were further increased in the 2000s (Haggard and Kaufman, 2008: 311-313; Inglot, 2008: 252-277, 303). By the early 2000s, the maternity leave programme was also fully reinstated in Poland. In terms of cost-containment, Polish employers were required by law to pay for the first thirty days of sick leave. By 2003, some of the special bonuses formerly provided for specific professional groups were removed. In the later 1990s and early 2000s, more activating ‘welfare to work’ programmes were introduced. In many Visegrad countries, especially the Czech Republic but also Hungary, we can observe a strong push towards activation in both the unemployment insurance and social assistance tiers of social security, with tightened behavioural conditions but at the same time adequate levels of minimum income, inspired also by EU recommendations from the European Employment Strategy (EES) (Zeitlin, 2003). By the mid-2000s, the Polish welfare state also moved to a more universal
model of social assistance as a stepping-stone towards the establishment of a general minimum income guarantee by 2008. Similarly in the Czech Republic, by the early 2000s, the social assistance minimum was raised, followed by the expansion of family payments in 2004 (Haggard and Kaufman, 2008: 326-330; Inglot, 2008: 238-250, 303). By 2005, the Czech government came to endorse an explicit active family policy, triggered especially by a chronically low fertility rate, at about 1.2 children born to young couples, but also programmatic initiatives embraced by the EU. Additional steps by the Christian and social democratic coalition government concern the new Labour Code, approved by parliament in 2006, committed to close the gender gap in job opportunities, wages, and other living conditions. Concurrently, measures were taken marginally to reduce incentives to retire early, but wider reforms were not legislated for until 2006 (Haggard and Kaufman, 2008: 321-326; Inglot, 2008: 226-235).

The Czech centre-left Zeman government that entered government in a minority coalition in 1998, the social democrats with the support of the Civic Democrats, placed social policy on the agenda (Potucek, 2004). However, given the context of the recent economic downturn, the shift was subtle and this government did not reverse many of the earlier reforms (Saxonberg and Sirovátka, 2009). Part of this reform-inertia is due to the fact that the social democratic party lacked strong social partners with whom to advance a reform agenda (Večerník, 2008). The changes that the government did make were largely in line with European guidelines. First, the government had promised to increase unemployment benefits and they did so, from 1.5 to 2.5 times the minimum subsistence level, though only in 2004 during accession to the EU when they had to do so to meet EU minimum standards (Saxonberg and Sirovátka, 2009). The social democrats also raised the minimum wage from 31.2 to 39.4 percent of the average wage in 2000, it also passed the New Employment Act in 2004 which increased sanctions on the unemployed for not taking up available employment (Saxonberg and Sirovátka, 2009). In 2004, large reforms aimed at decentralization and marketization (Graziano and Winkler, 2012). At the end of their term, the social democrats passed the Act on the Existence Minimum and Subsistence Minimum and the Act on Assistance in Material Needs, which further reduced the position of the unemployed and pensioners (Saxonberg and Sirovátka, 2009). Also, though sceptical of the accession process for most of the 1990s, the parliament accepted the Social Charter in 1999 (Saxonberg and Sirovátka 2009). In 2008, the conservative government allowed for ‘multi-gear’ parental leave which would provide more generous benefits for shorter periods of leave (Valentova, 2012).

DISCUSSION

Particularly characteristic of the process of welfare state transformation in CEE has been the extended role for international organizations, such as the World Bank and the IMF, but also the EU. Most CEE governments depended on IMF and World Bank loans, allowing these two organizations to promote labour and welfare reforms based on fiscal stabilization, liberalization, and privatization, especially in the area of pensions. The role of the EU in the domestic social policy agenda, in the preparation for full member-
ship of the Union, has been far more limited. However, since 2000, the EU has gained sway over social reforms through the Employment Strategy, the Lisbon Agenda, and the Social Inclusion Process (Guillén and Palier, 2004). In countries such as the Czech Republic, Bulgaria, Estonia, Poland, and Slovenia, employment policy has been increasingly modelled after the EES and Lisbon Agenda. When, in 2004, the new Member States that became full participants in the Lisbon Strategy, social policy moved to the top of the political agenda. There is also some evidence that CEE polities also borrowed widely from the diverse experiences of Western European welfare states. Probably the best example concerns the Swedish pension reform of the late 1990s that was imitated across the region, but the same applies to a lesser extent of the emulation of Dutch and Danish active labour market policies (Haggard and Kaufman, 2008: ch. 8; Inglot, 2008: ch. 4). The politics of welfare reform in the CEE regime mobilized different social groups and factions, from reconstructed communists to nouveaux- riches elites, seeking institutional advantage from the new social policies (Eyal et al., 1998). As a result, in many countries, the citizens who protested in the streets of Berlin, Prague, and Budapest, etc. in 1989 have become increasingly disappointed by the results of the economic transformation and are beginning to question the validity of normative principles of distributive justice in their newly created welfare edifices. Some academics observe a ‘backslide’ from democracy in the emergence of anti-liberal, anti-elite, ethno-nationalist and anti-European political mobilization in many new Member States (Diamond, 2008; Bunce et al., 2009). The question is if the new democracies of Central and Eastern Europe will move towards more inclusive forms of welfare governance, or if some of the new EU Member States will witness a backslide to paternalistic semi-authoritarian forms of social protection in the aftermath of the global financial crisis.

4.7 Discussion
Since we live in a world of path-dependent solutions, radical reform in Europe’s welfare states seems institutionally ruled out (Esping-Andersen et al., 2002). And our overview of the reforms since approximately 1990 up to the financial and economic crisis of 2008 of ten European welfare states from the five welfare regimes also confirms this expectation. The policy changes across are sometimes substantial, but they do not brutally depart from standing policy practices. This even applies to the CEE countries, whose revolutionary social policy transformation revealed novel layering’s of Bismarckian and egalitarian policy legacies. Most reforms took place in a sequence of cumulative policy adjustments across multiple, but adjacent policy areas, with one reform building on the success or shortcomings of previous one.

Many reforms were increasingly based on the idea of social investment. This was visible in the (normative) emphasis on gainful employment as the principal channel to achieve effective citizenship. To this end, many social insurance benefits have been lowered in terms of both spending and replacement rates. The vocabulary of ‘employability’, ‘lifelong learning’, ‘activation’, ‘insertion’, ‘make work pay’, and ‘welfare-to-work’ are indicative of this shift in ideas (see Huo, 2009). The new policy objective is no
longer to keep overt unemployment down by channelling (less productive) workers into social security programmes, but rather to maximize the rate of employment. The continental welfare regime countries, but also Denmark from the Nordic regime, made the U-turn from labour-shedding policies to strategies of maximizing employment. The activation turn across continental Europe also meant a strengthening of minimum income provisions. In addition, continental welfare provision moved beyond passive male-breadwinner family support towards family services meant to stimulate female employment and help families balance work and care.

Although many of the adjustments discussed in this chapter have been explicitly ‘regime-specific’, including path-shifting reforms and policy ‘turn-arounds’, such as in the continental welfare regime (Palier, 2010; Esping-Andersen, 2010), we are nevertheless able to observe a remarkable ‘convergence’ of employment and social policy objectives and the adoption of increasingly similar policy initiatives, encouraged by a deepening of the EU social agenda, evolving through incremental but fundamental welfare state (self-)transformation (Bouget, 2003). Perhaps these processes are best described in terms of ‘contingent convergence’, revolving around regime-specific strategies to resolve similar challenges and meet common objectives, signalling a transition from a corrective and passive welfare state to a more proactive social investment strategy, with much greater attention paid to prevention, activation, and social servicing, and learning from others (see Hay, 2004). With respect to the typical ‘old’ social policy, pensions, we show that the most important trend has been the growth of compulsory occupational and private pensions and the development of multi-pillar systems with a tighter actuarial link between benefits and contributions.

5. Social investment in jeopardy?

5.1 Introduction

This contribution to NEUJOBS set out to answer three, related, questions. First, what are the main socio-economic adaptive challenges facing European countries? Second, how do these countries perform in terms of key socio-economic outcomes that could be related to social investment policies, like education, gender-equality and unemployment? Third, to what extent have European welfare states moved in the direction of social investment in an era of rapid socio-ecological restructuring in the period up to the global financial and economic crisis?

Our descriptive analysis of OECD and Eurostat indicators showed that those countries with high(er) levels of social investment spending are better equipped to deal with the adaptive challenges, such as changing labour markets, that we discussed in chapter 2. Moreover, these countries also display better socio-economic performance in terms of unemployment, education and poverty. Still, our analysis in chapter 3 also indicates that, in general, social investment spending did not increase a lot in most countries. Also the scope and timing of a social investment turn varies considerably across countries. In general, social investment spending is highest in the Scandinavian countries, followed by the continental countries, the Anglo-Saxon ones, the Mediterran-
nean countries, and finally the CEE member states. This implies that despite their possible high returns, social investment might not be easy to achieve because of normative, political and/or institutional hindrances (Vis, 2012). The degree to which different countries face these hindrances varies.

Moreover, our analysis of welfare reform trajectories in ten European welfare states showed that most reforms took place in a sequence of cumulative policy adjustments, with one reform building on the success or shortcomings of a previous one. This implies that welfare recalibration draws on the capacity of (national) policy makers to learn from past policy (mistakes) and international experiences. Next to the uniqueness of national reform paths, we also observed a remarkable convergence of employment and social policy objectives across the countries, suggesting that policy makers may also learn across national borders. Finally, as the case studies clarified, policy failures are not necessarily the result of bad design, but can also occur because entrenched interests stand in the way of fundamental reform.

What do these findings imply for policy-making? In this final chapter, we draw four policy conclusions from our analysis of European welfare states’ in motion. Moreover, we ask what is the likely future of social investment? Will the social investment paradigm carry the day, or will it revert to marginality and be left orphaned in the new epoch of austerity?

5.2 Conclusion 1: Welfare reform is difficult, but it happens

The first conclusion that we can draw from our overview of European patterns of welfare reform is that reform is difficult, but that it happens. In fact, what we see is a highly dynamic process of welfare reform, marked not by half-hearted retrenchment efforts and political stalemate in the face of entrenched interests, as conjectured in the so-called new politics of the welfare state literature (Pierson, 1994, 2001c), but by comprehensive trajectories of welfare recalibration (cf. Hemerijck, 2013). Since the late 1980s, all welfare states of the European Union have been recasting the basic functional, normative, distributive and institutional underpinnings upon which they were based. Throughout the recalibration process, from the early 1990s to the mid 2000s, total public social spending as a proportion of GDP continued to absorb between 16 and 30 percent of GDP of EU Member States (see chapter 3). High and constant social spending is often taken as an indicator that comprehensive welfare states are largely unable to adapt to environmental change. This has led among others Pierson (1998) to characterize contemporary welfare states as immovable objects—impossible to reform because of the immense popularity of mature social programs, in an era of permanent austerity. We argue, conversely, that behind this stable government social spending, the policy repertoires of advanced European welfare states have experienced profound transformation over the past two decades.

Old age pensions are often seen as the most resilient artefacts of the post-war ‘old risk’ mitigating welfare state, and a least likely case to confront profound reform. Yet, financing problems due to population ageing and lower growth have prompted wide-
spread reform. Steps have been taken to reverse the trend towards early retirement policies, together with initiatives to promote longer and healthier working lives. A string of adjustments, however, have fundamentally altered retirement welfare over the past two decades (see chapter 4 and Bonoli and Palier, 2008; Häusermann, 2010; Ebbinghaus, 2011). A key shift has been the growth of (compulsory) occupational and private pensions and the development of multi-pillar systems, combining pay-as-you-go and fully funded methods, with relatively tight (actuarial) links between the pension benefits and contributions, with strong incentives to delay early exit from the labour market and award those working longer (Clark and Whiteside, 2003; Häusermann, 2010). Many countries have shifted from defined benefits to defined contributions. Virtually all European countries have introduced fiscal incentives to take up supplementary private pension insurance. In addition, measures to combine work and retirement, with tax allowances and partial pension benefits, have been introduced in Denmark. One of the most profound pension reforms was enacted by Sweden in the mid-1990s, introducing a small mandatory funded element and transferring an important part of the risk associated with aging onto (future) retirees, by way of indexing future benefits to the life expectancy and net wages, while at the same time ensuring a universally guaranteed pension for low-income pensioners.

In the area of labour market policy, in the 1990s the new objective became maximizing employment. Spending on active labour market policies in most OECD countries has increased considerably from the 1990s and the mid-2000s, in the context of falling unemployment rates, mobilizing women, youth, older workers, and less productive workers through early intervention, case management and conditional benefits gained sway. With respect to labour market regulation, several European countries have moved towards greater acceptance of flexible labour markets. It was the introduction of these active elements into the Danish labour market that gave rise to the ‘flexicurity’ model. In terms of social insurance and assistance, the generosity of benefits has been curtailed. There have been reductions in benefit levels and benefit duration, the eligibility criteria of social provisions have been tightened, and the coverage of benefits have been limited. Through the weakening especially of earnings-related benefit provision and by harmonizing benefits across different risk categories, social insurance benefits have become less status confirming. Clasen and Clegg (2011) observe a trend towards benefit homogenization, suggesting a reduction in variation and conditions of entitlement across different tiers of social protection, such as unemployment insurance and social assistance in countries like the UK, the Netherlands, Germany, and Denmark. At the same time, conditionality and job search requirements have been tightened practically everywhere (Goul Andersen, 2011; Sjöberg, 2011). In addition, policymakers have strengthened minimum income protection, coupled with more ‘demanding’ activation and ‘enabling’ reintegration measures, targeting labour market ‘outsiders’ like the young, female or low-skill workers.

Social services have significantly expanded, especially in the 2000s, to boost female participation though family policy (see chapters 3 and 4 and Kauto, 2002; Lewis, 2006; Mahon, 2002, 2006; Ungerson, 2004; Crompton, 2006; Orloff, 2006, 2009, 2010).
Spending on family services, childcare, education, health, and care for the elderly, as well as on training and employment services, has increased as a percentage of GDP in practically everywhere in the European Union (see chapter 3). Family policy, covering childcare, parental leave and employment regulation, and work and family life reconciliation policies, has been subject to profound change in both scope and substance over the past decade and half (idem). Traditional ‘passive’ cash measures were complemented with ‘activating’ services, such as childcare and parental leave schemes, to help reconcile work and family life, also to foster higher levels of female employment, reflecting a change in orientation towards the norm of dual earner households. A core feature concerns new provisions to resolve dilemmas associated with women’s new career preferences. The available evidence suggests that many countries have moved towards the expansion of policies to facilitate work-life reconciliation. Pioneers in such reconciliation policies include the Nordic countries, followed by the ‘path-shifters’ of Germany, the Netherlands, and the UK and finally slow reformers including Italy and Spain. Leave arrangements have been expanded, in terms of both time and scope of coverage, including the frail elderly.

A final overarching reform concerns the changes in the territorial organization of social policies and the related administrative reforms, or the ‘rescaling’ of social policies (Kazepov, 2010). Most important has been the attempt to bring social insurance and assistance and labour market policies institutionally under one roof in so-called one-stop centres, thus ending previous separation of social security and public employment administration. Many policy changes also implied important reforms in the governance structure, towards more decentralization, marketization and competition, inter-agency cooperation, and new public management (Berkel and Borghi, 2008; Berkel et al., 2011). Ideas of New Public Management and novel concepts of purchaser-provider models within public welfare services have been especially instructive with respect to the restructuring of Public Employment Services (PES), since the 1990s (Weishaupt, 2011). The general shift from income maintenance programmes to services in welfare provision, moreover, has been accompanied by individualization and customization of new public-private mixes in capacitating local social servicing, requiring high quality institutional competencies for policy administration and discretionary implementation in career guidance, (re-)training and rehabilitation services, and child and elder care provision adjusted to the specific needs and capabilities of individual clients. In short, the division of labour in welfare provision between family responsibilities, commercial market social services, and public provision has been thoroughly redrafted (Le Grand, 2007; Pollitt, 2003; Pollitt and Bouckaert, 2004; Weishaupt, 2010).

5.3 CONCLUSION 2: WE LIVE IN A WORLD OF PATH-DEPENDENT SOLUTIONS AND SETBACKS

As revealed by our comparative analysis in chapters 3 and 4, the overall scope of welfare reform across Europe varies widely. The trajectories of reform in many countries are more pro-active than is often argued in mainstream institutional analysis. Although
the drivers behind the changing European welfare states are common, internal and external challenges have manifested themselves in terms of divergent problem loads from one welfare regime to the next (see chapter 2). As a result, policy adjustment has been regime-specific, cautiously accommodating new benefits and services into existing institutional contexts. This even applies to the new EU member states, whose revolutionary social policy transformation revealed novel layerings of Bismarckian and egalitarian policy legacies, inherited, respectively, from late 19th and 20th century social insurance provision and from the state-socialist period between 1940s to the late 1980s, together with novel market-liberal advocacy inputs from the IMF and the World Bank. When the welfare regimes ran into problems of sustainability, such predicaments triggered processes of renovation and re-casting current policy legacies and institutional structures so as to achieve a better ‘fit’ with prevailing societal challenges, all this with considerable time lags and difficulties in overcoming political resistance. In hindsight, the era of relative austerity since the 1980s up to the onslaught of the global financial crisis, should reframed as an epoch of permanent and unprecedented welfare state reform. Country-specific recalibration efforts have not been guided by some grand design or carefully thought out master plan from which successful policy responses then ensued. European trajectories of welfare recalibration were paved with many contingencies, major recessions, multiple policy failures and regime-specific pathologies, political gridlock, severe coordination, implementation deficits, and also setbacks. Institutionally-bounded recalibration and innovation in the welfare state required hard-won changes, interrupted policy experiments, and both fast and slow learning processes.

Our analysis in chapter 3 indicates that aggregate socio-economic performance speaks to important accomplishments of the social investment turn. Already in the 1990s, it became evident that the more active, universal and service-oriented welfare states were in a stronger position than the more passive, selective, and transfer-oriented systems. In the new millennium, some of the most generous welfare states, with large public sectors devoted to human capital formation, active labour market policy, early childhood education and care, and work family reconciliation arrangements, clearly outperform the more passive and liberal welfare states. Especially, the Nordic countries have produced the strongest evidence base for Pareto-optimal solutions to the challenges of structural social and economic change, by matching, in the words of Sapir (2006), ‘high efficiency’ in the economy with ‘high equity’ in the distribution of life chances. Also other welfare regimes have moved to more active and service-oriented welfare provision. This holds true for the Netherlands, Germany, the UK, Ireland and Spain. All in all, we are able to discern a relative shift from the social insurance function of the welfare state towards a greater emphasis on the social promotion function of social and economic policy as an essential ingredient of resilient knowledge-based economies. We have established empirically that the social investment impetus correspond with high levels of male and female employment participation over the life cycle, high productivity, low inflation and budget surpluses, without massive hikes in inequality. Stated differently, there seem to be virtuous cycles between public policy and policy outcomes.
The performance of Sweden and Denmark is exemplary of a possible virtuous cycle. The Nordic countries were not only capable of recovering the crises of the 1980s and 1990s; they also managed to restore balanced budgets and economic dynamism while achieving the highest employment levels and low relative poverty rates. The Nordics’ universal coverage and employment-centred activation provided for effective safeguards against poverty traps, spells of exclusion, and broken career trajectories. Through a series of, largely consensual, reforms since the 1990s, the Nordic regime moved much earlier than other regimes towards dual-earner economies, with extensive public service provisions, parental leave opportunities, and activation programmes. These fortunate programmatic and political conditions allowed the Nordic regime to be re-cast in a proactive manner. Throughout this regime, competitiveness pressures, population ageing, and changing gender roles all seem to have reinforced a broad political support for the ‘work-first’ approach, supported by activation obligations, tighter benefit control, availability tests, and job guidance, emphasizing citizenship duties alongside universal rights. Structural socio-economic change did produce higher – but still comparatively low – levels of income inequality, increased poverty, and worsening living conditions for single mothers, migrants, and families with children over the 1990s. Successive economic crises and intensified competitiveness pressures also brought about reductions in benefits and tightened eligibility for social assistance. While the Nordic welfare states retained their universalism, generosity, and high-quality public servicing and expanded capacitating services, they shortened unemployment benefit duration. In the process, the influence of social partners have decreased in Denmark and Sweden (Lindvall and Rothstein, 2006; Lindvall and Sebring, 2005).

A key feature of the reform momentum across European welfare states lies in the sequential character of cumulative reforms across different areas of social and economic regulation. In a process of institutional layering, more far-reaching activation reforms were made possible by the cost-saving successes of earlier reforms. Fundamental to the latter more intrusive reforms was the cognitive redefinition of the employment problem away from managing unemployment towards the promotion of employment, on the basis of activation, active ageing, avoidance of early retirement, part-time work, lifelong learning, parental leave, gender mainstreaming, flexicurity, balancing flexibility with security, reconciling work and family life, and the generalization of minimum income protection support.

5.4 Conclusion 3: The EU helped set the social investment agenda
The European Union, and to a somewhat lesser extent also the OECD, has played an important role in the articulation of the social investment paradigm, including its basic functional, normative and institutional underpinnings. The ultimate aim, now anchored in the Lisbon Treaty, was to create a ‘social market economy’ with a clear commitment to high employment, universal social protection, and effective anti-poverty
policy. It is indeed fair to say that we have entered an era of semi-sovereign welfare states. The establishment of the internal market and the introduction of the EMU and the Stability and Growth Pact have added a new economic supranational layer to domestic social and economic policy repertoires of individual member states, which have surely constrained the political space of national (and EU) policy choices. This resulted in a multi-level polity, within which national and supranational economic and social policy makers interact more strongly than before. Intensified interdependencies between European economic integration and national welfare states have prompted many governments to reinforce recalibrations in their welfare social protection systems. The EMU entrance exam played a critical role in national social pacts in the so-called hard-currency latecomer countries, especially Italy.

The 2000 Lisbon Strategy was influenced by the social investment paradigm, as it emphasized the positive complementarities between equity and efficiency by 'investing in people and developing an active and dynamic welfare state'. Particularly the European Employment Strategy (EES), embodied in the Lisbon strategy, helped to redefine the European employment problem away from managing unemployment towards the promotion of employment, fostering the diffusion and acceptance of a new normative framework for employment policy redirection from managing unemployment to increasing labour market participation. This redirected emphasis was based on the social investment priorities of activation, active ageing/avoidance of early retirement, part-time work, lifelong learning, parental leave, gender mainstreaming, balancing labour market flexibility with social security, and reconciling work and family life. An important advantage of the agenda-setting of social investment on the EU level is that it contributed to a common language for discussing the link between economic and social development across the 27 member state of the EU. Social investment policy can be contextualized to different national contexts, applicable to countries at different levels of prosperity, and also to various welfare regime architectures, ranging from highly-developed universal welfare systems to less developed, more family and voluntary systems, which are now faced with a need to build more robust and equitable systems to mitigate old and new social risks. Throughout, the social investment perspective plays close attention to link between economic, social and family development across the life course, and asks that close attention be paid to specific economic structures and specific social deficits in each country. In each case, this will involve a different combination of, integrated, policy reform in income support, social services and public regulation to address new needs. Over the Lisbon term, employment rates in Europe have indeed risen by an impressive 8 per cent, while this obviously is not only attributable to social investment policies. The Danish arrangement of easy hiring and firing, generous unemployment benefits and active labour market policy, was hailed by the European Employment Strategy (EES) as an example par excellence for simultaneously enhancing flexibility and security in the labour market, reconciling employers’ need for a flexible work force with workers’ preference for employment security.

For all of the EU’s institutional weight, the nation state remains of vital importance. European citizens are politically not ready to renounce their national identities in
favour of a stronger EU social policy space (Berger, 2009). On the contrary, the prevailing narrative of welfare paradise lost, rhetorically poised in contrast to the perceived present-day heartless world of global competition, has negatively framed the sentiments of national publics to EU policymaking - a sentiment that has been reinforced by the 2010 sovereign debt and 2011 currency crisis and its political mismanagement.

5.5 Conclusion 4: There is a need for an EU social investment pact

Against the backdrop of the global financial crisis, European welfare states have entered a new era of social and economic policy adjustment. What can we say about social investment futures across Europe’s highly diverse welfare regimes? Will the social investment paradigm carry the day, or revert to marginality because of the calls for immediate deficit and debt reduction and balanced budgets? The years ahead will differ markedly from the past two decades when the social investment paradigm was launched. In 2009 and 2010, Keynesian crisis management, in combination with short-term work or temporary lay-off schemes and some human capital initiatives, were largely consistent with social investment priorities. Thereafter, the tide of pre-emptive austerity, and declining popular support for a solution that includes the institutions of the European Union all seem to work against social investment policies.

However, the fundamental societal trends that call for a social investment perspective seem as relevant and important today as ten years ago (Vandenbroucke et al., 2011). Perhaps such a perspective is even more important today, because of adverse demography and skill-biased socio-economic change. With fewer active persons supporting ever more dependents, low labour market participation is no longer affordable. While a social investment strategy may generate trade-offs between various social policy preferences in the short term, it is important to stress that social investment is a long-term strategy par excellence. It can potentially lead to high rates of economic growth and social rewards in an era where human capital is swiftly becoming a scarce resource. There is great potential for employment and productivity growth if people are skilled for the new jobs and families are supported by good quality childcare and work-life reconciliation arrangements. High lifetime labour force participation at high levels of productivity is the single most important macroeconomic prerequisite for maintaining living standards while sustaining inclusive welfare states, and thereby citizen well-being. The task of employment and social policy systems should therefore be geared towards the support the development of human capital, with measures tailored to people’s capabilities and needs, so that they can reach their full potential. The key challenge is to devise policy portfolios that not only address ‘new’ and ‘old’ social risks adequately, but also to connect such an endeavour fully with the dynamic knowledge-based economy.

Creating virtuous circles of participation and productivity, prevention, inclusion and emancipation requires social investment policies to be mutually consistent and sufficiently ambitious. The social investment perspective is based on a life-course
perspective, suggesting that policies can be effective only if the whole chain is maintained, from early childhood education and care to lifelong training and active ageing. Partial implementation may at best deliver partial success. High unemployment benefits of short duration, coupled to strong activation incentives and training obligations, if supported by vigorous active labour market policy services, are the most successful route to lowering unemployment and raising productivity. The disincentive effects of high replacement rates cannot be considered in isolation from employment protection legislation. Expanding childcare without taking into reconsideration labour market barriers to female employment can be extremely expensive. By the same token, raising the retirement age without opening up the job market for second careers and improving employment relations, is likely to generate few savings. Working mothers cannot profit from inclusive family services in dualized labour markets. Good practice policy mixes, moreover, are to be found in countries where lifelong learning, welfare-to-work programs, activation and other social services, are provided by highly competent, client-friendly, and professional frontline personnel. Institutional capacities matter significantly in the shift towards more service-oriented welfare states. There are no magic bullets. The devil of social investment effectiveness in fairness is in the details of concrete policy complementarities.

The fundamental insight that (re-)emerged from the global financial crisis is that economic markets are not self-regulating, self-stabilising, and self-legitimising (Rodrik, 2011). While this important lesson is certainly not new, a whole generation of policymakers and private economic actors seem have forgotten the basic truth that the benefits of global economic interdependence rely heavily on robust and equitable social and political institutions. In the larger context of macroeconomic global and intra-European imbalances, social investment cannot substitute growth-supporting macroeconomic governance and prudential financial regulation, because social investment largely serves the supply side of the economy. Any social investment strategy must therefore be embedded in a macroeconomic policy framework that supports durable and inclusive growth. The key EU economic governance challenge in the wake of sovereign debt and currency crisis, therefore, is to make long-term social investments and short-term fiscal consolidation mutually supportive. As macroeconomic policy largely falls within the jurisdiction of the EU, the EU has a critical role to play in making social investment durable and sustainable. This is the argument of Vandenbroucke and colleagues (2011) when they issued their call for an ‘EU social investment pact’. In terms of EU economic governance, the financial crisis has fundamentally exposed the limits of institutional decoupling rules-based single market and monetary integration from domestic social and labour market reform under the ill-fated subsidiarity principle. Over the 1980s and 1990s, an EU social space has emerged that can cushion single market infringements. Rather, it is the EU’s economic space that has not been able to catch up with the incremental maturation of the EU’s social policy space and evolving internal euro zone macro-imbalances. In hindsight, extremely low interests rates allowed ineffective bureaucracies, especially in Greece, to postpone necessary welfare reforms to better address the pressures of economic competitiveness, demographic ageing,
gender and family change, and labour market shifts in the knowledge-based service economy. To add insult to injury, the December 2011 ‘fiscal compact’, with its overriding emphasis on collective austerity and wage-cost competitiveness, is pressing all euro zone economies to adopt welfare retrenchments, which in distressed economies seems result in self-defeating permanent depressions. In their cognitive bias to perfect the internal market and the monetary union, EU economic policymakers have not taken seriously enough Lisbon Strategy’s importance in terms of ‘productivity-enhancing’, ‘participation-raising’, ‘employability-friendly’, ‘family-capacitating’ social and labour market reforms for the macro-economic performance. The policy conundrum is complex. Walking the fine line between protecting domestic social policy (sems-)sovereignty, while supporting supranational market integration, is difficult. In the years ahead, intensifying fiscal pressures will lead many finance ministers to demand uncompromising scrutiny on public spending. In both employment and social policy, there will be strong pressures to do more with fewer resources. Moreover, short-term fiscal pressures will be intensified by the extent to which long-run societal change, ranging from population ageing, the feminization of the work force, immigration, and shifts in labour supply and demand, have not been adequately dealt with prior to the crisis. At the same time, the aftermath of the crisis will surely reinforce the need for human capital investment and the importance of poverty relief and social insurance. The (social investment) quality of spending under constrained public budgets is crucial.

Vandenbroucke et al. (2011) call for an EU social investment pact that also includes (macro)economic governance and hence goes beyond the social investment pact that the European Commission (2013) has just adopted. Vandenbroucke et al.’s proposal aims to better align euro zone stability and domestic welfare state reform in the direction of social investment. Their proposal consists of three elements. First, they argue that the issuing of so-called ‘Eurobonds’ is necessary to remedy the systemic fragility of the euro zone. Although the joint issue of Eurobonds is a controversial idea, the argument put forward by De Grauwe (2011) and Pisani-Ferry (2012) and many other economists and policy makers is forceful: it would allow all members of the euro zone to find themselves in a much better equilibrium, significantly decreasing the interest burden on their budgets, and reduce a collective risk with which the whole euro zone is confronted, whilst taking on board concerns regarding moral hazard.

Beyond Eurobonds for effectively stabilizing the currency union, making existing policy portfolios more supportive of social investment policies requires additional policy measures. To this effect, and this the second element of Vandenbroucke et al.’s (2011) proposal, the European Structural Funds, the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD) could also become more supportive of specific social investment policies. Eurobonds could also be issued to fund specific European projects in the realm of social investment, from which member states that pursue credible social investment policies may benefit. In this way, the EU could substantiate a real ‘deal’ between countries which are in better budgetary shape and have pursued social investment strategies more consistently in the past, and
Consistent delivery of the social investment objectives requires, as this is the third element of Vandenbroucke et al.’s (2011) proposal, that they be embedded in the reinforced Stability Pact macroeconomic and budgetary surveillance of the EU. Thus far the Stability Pact has declined to distinguish between public investments with estimates of real returns and consumption expenditures. Most available evidence suggests that investment in childcare and education will, in the long-run, so to speak pay for themselves. Also family services, building life-long learning opportunities, and activation programmes may pay for themselves. Spending on child welfare has a high potential pay-off in terms of financial security and preventing child poverty (Esping-Andersen, 2009). The central idea behind social investment is that policies which serve to raise participation and productivity should not be seen as a drain on the public purse but as productive factors which can contribute to economic progress. This makes a strong case for distinguishing between current and capital accounts in welfare state spending, just as private companies do. As Esping-Andersen (2006) has advocated before, a new system of EU public finance surveillance is needed that would allow finance ministers to 1) identify real public investments, and 2) examine the joint expenditure trends in markets and governments alike. For this, the EU could establish a new social investment in national accounting to separate investments for future and current expenditure, including differentiation between both types of expenditures in macro-economic surveillance. It could then be possible to exempt social investment from the constraints of fiscal austerity. To the extent that economic returns from social investment will lead to higher participation and productivity, in turn, reducing the need for corrective social insurance, this would justify raising social investment expenditures even when public finances are tight.

It is important to emphasize that the proposal of Vandenbroucke et al. (2011) strengthens an institutional dynamic whereby all governments pursue budgetary discipline and social investment policies, and are supported therein in tangible ways by the EU. Such a reform-oriented, forward-looking deal may contribute to creating a real sense of ‘reciprocity’ in the EU. Reciprocity presupposes a balance between discipline and assistance, between strict conditionality and perspective on progress, or, to put it in yet other terminology, between ‘stick’ and ‘carrot’. Investment in human capital, life time employment and productivity are perhaps the most important factors to EU-wide macroeconomic stability and growth in the longer term. The worst performing countries are those struggling most in the current situation, and they are unable to invest additional money into training, education, and skills. The EU should consider how to help the worst performers as human capital is the single most important growth factor. Low labour market participation is no longer affordable with the demographic changes taking place, and it has to be addressed as a matter of urgency. ‘Helping’ means, in this context, putting in place a productive combined macroeconomic and budgetary surveillance and social investment policies. Delivering on the above priorities offers a far
more convincing response to stabilize financial markets than the one-size-fits-all collective austerity, which only reinforces recessionary pressures.

The more political role of EU cannot be limited to punitive fiscal discipline. To the extent that enhanced euro zone political integration is inevitable, a more political EU must rise to become a reliable defender of the genuine interests on the part of European citizens in a ‘caring’ EU. Social investment would be a credible candidate for such a narrative. Surveys reveal that the wider European publics aspire to live in harmonious societies, where income and wealth is distributed fairly, with the well off payer high taxes to help governments fight poverty. But they also understand that a well-functioning economy is the foundation on which well-being hinges, and that as public debt rises, social security, pensions and health care commitments should fall under augmented scrutiny. As a consequence, large majorities prefer available public expenditures to be devoted to employment, as employment participation is not only a sine qua non for economic security, health and learning, but also for psychological health and social cohesion. Finally, when asked to prioritize welfare spending, most respondents choose universal and affordable access to public services, especially in education, as a first priority (EPC, 2011). These findings are consistent with the normative core of the social investment perspective.

In the current tide of fiscal austerity, it is very tempting to increase negative work incentives through welfare retrenchment and intensified labour market deregulation. We believe that such temptations should be resisted. Social investment is an effective – and actually not that expensive – policy strategy which outperforms the deregulation-retrenchment policy strategy. Welfare state retrenchment and deregulation alone do not lead to higher levels of employment. On the low-end of the wage distribution, reducing the reservation wage fails to consider the real alternative of labour market exit for workers, especially women, with unpaid care responsibilities. On the high end, the promise of higher wages and career options does not fully address the needs of working parents for flexible working arrangements. Using purely punitive measures to encourage employment is likely a destructive strategy since skills decay if not used. Moreover, also politically a neoliberal deregulatory agenda is likely to raise significant counter-mobilization, more likely to end up in half-baked retrenchment, without real growth, employment and equity gains. Politically, it is important to re-iterate that the social investment perspective is rooted in an argument that a strong economy requires a strong state. Saving social investment from ill-conceived pre-emptive retrenchment in the near future will continue to be an uphill political battle of injecting common sense into the current economic and political debates. Time is perhaps the scarcest resource here. Policymakers and larger publics need time to see the aftershock repercussions of the sovereign debt and currency crisis and the most appropriate policy responses in a different light and to adapt their ideas and policies. Both the welfare state and EU, have at critical times been able to reinvent themselves, showing the ingenuity, dynamism, flexibility and the stamina and resilience needed to overcome the challenges and institutional contingencies they faced up to – although not always been in sync with another. Given time and courage, together with ample policy intelligence and creativ-
ity, based on the empirical record of positive social investment performance, we should therefore be able to turn the current tide of inward-looking pessimism about welfare state futures into renewed political efforts at forward-looking ‘social pragmatism’.

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About NEUJOBS

“Creating and adapting jobs in Europe in the context of a socio-ecological transition”

NEUJOBS is a research project financed by the European Commission under the 7th Framework Programme. Its objective is to analyse likely future developments in the European labour market(s), in view of four major transitions that will impact employment - particularly certain sectors of the labour force and the economy - and European societies in general. What are these transitions? The first is the socio-ecological transition: a comprehensive change in the patterns of social organisation and culture, production and consumption that will drive humanity beyond the current industrial model towards a more sustainable future. The second is the societal transition, produced by a combination of population ageing, low fertility rates, changing family structures, urbanisation and growing female employment. The third transition concerns new territorial dynamics and the balance between agglomeration and dispersion forces. The fourth is a skills (upgrading) transition and its likely consequences for employment and (in)equality.

Research Areas

NEUJOBS consists of 23 work packages organised in six groups:

- **Group 1** provides a conceptualisation of the socio-ecological transition that constitutes the basis for the other work-packages.
- **Group 2** considers in detail the main drivers for change and the resulting relevant policies. Regarding the drivers we analyse the discourse on job quality, educational needs, changes in the organisation of production and in the employment structure. Regarding relevant policies, research in this group assesses the impact of changes in family composition, the effect of labour relations and the issue of financing transition in an era of budget constraints. The regional dimension is taken into account, also in relation to migration flows.
- **Group 3** models economic and employment development on the basis of the inputs provided in the previous work packages.
- **Group 4** examines possible employment trends in key sectors of the economy in the light of the transition processes: energy, health care and goods/services for the ageing population, care services, housing and transport.
- **Group 5** focuses on impact groups, namely those vital for employment growth in the EU: women, the elderly, immigrants and Roma.
- **Group 6** is composed of transversal work packages: implications NEUJOBS findings for EU policy-making, dissemination, management and coordination.

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