Social Policy in the Smaller European Union States

Studies in Contemporary European History

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PREFACE

In recent decades, public social, educational, and health services have been among the most highly contested aspects of social policy in the European Union member states. Governments have had to respond to rising public demands for accountability, local community control, lower tax burdens, and greater freedom of individual choice. The forces of economic globalization have buffeted the existing welfare systems and the underpinning corporatist understandings. In the meantime, the growing regulatory functions of the EU have created pressures for more uniformity in social policies, and the EU expects more stringent controls on state budgets than when the welfare states were first built between the late 1940s and the 1970s. Working in the opposite direction, though, the 1992 Maastricht Treaty enshrined the principle of subsidiarity to ensure that public decisions are taken as closely as possible to the level of the individual citizen and with constant checks to assure that public action is justified in light of the available possibilities.

Much has changed in European social policy during the last twenty-five years, but as the essays in this volume demonstrate, the changes have been more complex and subtle than one might initially suppose. Despite the pressures for a retreat from the traditions of the European welfare state, there has been more change and adaptation of social insurance programs and social services than the simple reduction or termination of programs. The smaller member states of the European Union offer particularly interesting laboratories for studying the dynamics of social policy, and, as will be seen, some of the smaller states have pioneered major innovations in social policy, such as "flexicurity" in Denmark and the concept of the "social investment state" in several of the Nordic countries.

The essays in this volume represent revised and expanded versions of a selection of papers from the international conference, "Social Policy in the New Europe: The Experience of Austria and the Smaller EU Members,"

held at the University of Minnesota, Twin Cities. The University of Minnesota Center for Austrian Studies and the European Studies Consortium organized the conference, and the College of Arts and Sciences Scholarly Events Fund, the Government of Finland/Speer Fund, the Humphrey Institute of Public Affairs, the Center for the Study of Politics and Governance, the Center for German and European Studies, the School of Social Work, the Department of Sociology, and the Department of Political Science generously supported the event as cosponsors. The Austrian Federal Ministry of Science and Research graciously provided travel support for several of the Austrian participants. The editors are particularly grateful to the graduate research assistants at the Center for Austrian Studies, Lisa Peschel, Mollie Madden, Eric Roubinek, and Edward Snyder, for their patient and dedicated efforts in preparing the manuscript for publication. We are also grateful to Konrad Jarausch and Henry Rousso for accepting this volume for publication in the series they edit, "Contemporary European History," and to Marion Berghahn and her colleagues at Berghahn Books for their continuing commitment to publish a wide range of scholarship in European studies.

INTRODUCTION

Social Policy in the Smaller EU States

Gary B. Cohen, Ben W. Ansell, Robert Henry Cox, and Jane Gingrich

In Europe and around the world in recent years, political, economic, and social changes have placed increasing pressure on social policy and welfare services. The integrative forces of globalization have strained long-standing national social policies and institutions. Ever-growing flows of goods and capital around the world have seemingly threatened the ability of governments to guarantee both the corporatist agreements protecting job security and the welfare entitlements that developed in many countries after World War II. International market integration has strengthened neoliberal ideological arguments, which have called ever more insistently since the 1970s for retrenchment in welfare guarantees and services. Neoliberal initiatives, in turn, have provoked efforts by supporters of the welfare state to defend and improve the social safety net, disseminating new models of "social investment" that claim to combine extensive social protection with support for economic growth. Just as Europe was a leader in the development of the welfare state and the supportive structures of corporatist politics from the 1920s onward, in recent decades it has been a bellwether for the particular stresses from globalization.

While many popular analyses over the last twenty years have talked about the end of the European welfare state and of the corporatist concept of social partnership, academic literature traces a reality of more complex change and adaptation in social insurance and social services in most

European countries. The aging of native populations, the arrival of new waves of immigrants, the changing roles of women in the workforce, and the structural economic changes connected to deindustrialization have created urgent needs for new educational and social services. Growing demands for accountability, community control, lower taxes, and individual choice have forced legislators and governmental agencies to decentralize or partially privatize the administration of many social services, but, on balance, educational and social services of all types have continued to grow in most countries. Social policy in Europe has displayed both resiliency and adaptation under the stresses of globalization and neoliberal reform.

Yet those who follow these developments seldom provide systematic attention to the smaller European countries. Debates in the United Kingdom, Germany, France, and sometimes Italy over basic issues of political economy often attract wide international attention. Attention to the smaller countries—Belgium, Denmark, Austria, or Finland—emerges in single case studies or as illustrative examples of change, but rarely as part of a systematic analysis. Because the smaller countries are more sensitive to shifts in the global economy, they are seemingly forced to respond to demographic and economic changes earlier than are the bigger countries. Yet the experience of the smaller countries is highly varied. Sometimes they serve as models for reform, undertaking experiments that only later gain the attention of stymied reformers in the larger countries. However, at other times these countries fail to enact significant change, despite substantial economic and political pressure to do so. Taken together, these varied experiences can shed much light on the politics of welfare-state reform.

The chapters of this volume analyze the hotly debated issues of change in social policies and the welfare state in a number of the smaller countries of Europe. They focus attention on a range of reforms: those that cut back entitlements; those that aim to maintain them; and those that claim to "modernize" welfare states. In so doing, they draw out the reasons some work and others fail, engaging in broader debates about the nature and causes of policy change. Together, these chapters make three basic points about the politics of change in advanced welfare states. First, they demonstrate that new ideas often provide a "coordination point" around which agreements for reform are reached. Second, new ideas about social policy may emerge, but they require political support coalitions to implement them and, equally, can be derailed by oppositional coalitions. Third, the success of reform also depends on the institutional and historical legacies within countries; where subnational veto players or preexisting policy frameworks exist, even a powerful political coalition may be unable to enact any policy ideas, however ostensibly appealing. The book will draw out these themes. For the remainder of this introduction, we seek to highlight the theoretical and practical significance of the smaller countries. The following chapters will then draw out these lessons.

Why the Smaller European Countries Matter

What are the stakes of examining the smaller countries of Europe? Why might we expect them to behave differently than the larger states, which have traditionally captured academic interest? We argue that the smaller countries of Europe have both substantive and analytical significance that ought not be neglected. Most simply, the smaller countries are only "small" in individual terms: in aggregate, their population actually accounts for almost 60 percent of Europe's population. In that sense, the citizens of smaller countries are a European majority. Moreover, such countries can be substantively important policy innovators. Ideas from "flexicurity" to mass public higher education to flat-rate income taxation have originated in Europe's smaller countries. Analytically, these countries are important because they are at once more dependent on large structural forces like globalization than are the larger countries but also display a broad degree of variation in responses. Hence these countries have long been seen by at least some scholars as analytically intriguing.

Both academic observers and the popular press have long noted several crucial features that draw Europe's smaller states together, distinguishing them from the larger countries. First, Europe's small states have more open economies (Katzenstein 1985; Garrett 1998). In order to compensate for small domestic markets, these countries have historically traded extensively with other countries, with exports plus imports typically amounting to well over half their national income. This approach has not only generated wealth, but also income volatility. Second, most of Europe's small states have developed consensual political systems. Political scientists and historians studying the Nordic countries and the low countries of the Netherlands, Belgium, and Luxembourg, as well as Austria, Ireland, and non-EU member states such as Switzerland and Norway have long noted their tendency to employ power-sharing arrangements within government and across social actors in the economy (Lijphart 1968; Powell 1982). Third, many of these countries developed large welfare states in the postwar period. Like high trade dependence and consensual political systems, large welfare states are not exclusive to the small countries, but the small countries do tend to spend more on social policies and have developed extensive systems of social protection (Hicks and Swank 1992).

In 1985 Peter Katzenstein published a classic book on international trade and political economy in small states. *Small States in World Markets* argued that the conjunction of open economies, consensual political systems, and large welfare states in Europe's small countries was no accident. Europe's small countries' dependence on global markets exposed citizens to the vagaries of the world economy. This vulnerability and its political consequences led both market actors and governments to cooperate to mitigate the consequences. The result was that small countries developed systems of social protection and labor market institutions that protected workers, alongside systems of corporatist bargaining that provided mechanisms for resolving social tensions.

The world, though, has changed since Katzenstein first wrote. Small countries have always traded extensively, but since the mid-1980s, flows of foreign investment among countries have exploded, as have the options for multinational production. Moreover, the nature of production has radically shifted, as all countries have moved away from manufacturing and toward a service-based economy with lower rates of growth. Furthermore, since the mid-1980s the European Union (EU) has expanded its regulation of economic affairs both in and between member states. While small states remain relatively wealthy, the combination of growing global economic openness, slower domestic growth rates, and the rise of global governance structures has put new pressures on their systems of social protection. The exact nature of these pressures, though, is hotly debated.

One line of reasoning in recent scholarship portrays social policy in small states as in "big trouble" (Schwartz 1994). Proponents of this argument point to the twin pressures of globalization and Europeanization as posing a particular challenge to the welfare state in small countries. The combination of growing capital mobility with a longstanding dependence on international trade means that these countries' economic health is increasingly linked to that of global capital. As firms and investors find it easier to locate in regions where tax rates and labor costs are lower, welfare states that guard workers against the vagaries of the market become untenable. These processes are at play everywhere, but they emerge most vigorously in the highly globalized economies of Europe's small states, which simply cannot afford to ignore the demands of global capital. These market pressures combine with those emanating from the EU. Unlike the larger countries, small states have less direct influence on the rules issued by the EU, and they lack the ability to ignore its dictates. Globalization and Europeanization thus reduce the autonomy of small states and push them in the direction of market-conforming policies.

While the above argument emphasizes the changing global environment as forcing convergence among small countries, a second line of thinking emphasizes the crucial role of domestic institutions in preventing change. Many observers argue that small countries' consensual political systems and corporatist economic governance, which created a framework for social accommodation during the postwar era, make change difficult in the current era. Governance systems that involve corporate actors—such as unions, employers, and social groups—in the policy process have many "veto points" over policy and give voice to those wishing to block change. These institutions not only empower those who wish to defend the status quo, but they also bestow particular advantages on existing strategies. Small states have often developed particular economic production niches, such as high-value goods, which rely on specific labor market and welfare institutions (Streeck 1991). As different actors coordinate around these strategies, existing structures may exhibit an "increasing returns" logic, which makes change more difficult over time (Pierson 2000). While proponents of this view debate whether these processes constitute positive resilience in the face of global pressures or create sclerotic environments that leave small states unable to adjust to the demands of the global economy, they uniformly predict that change itself is unlikely.

A third line of scholarly thinking presents small states as nimble innovators on the forefront of reform that neither replaces nor simply replicates existing structures of social protection. This work builds on Katzenstein's original insights, emphasizing the link between global economic demands and the need for compensatory domestic policies. It suggests that social protection in the small counties remains alive and well and, in fact, is a necessary consequence of both their historical trajectory and their position in the global economy. However, as the needs of the global economy change, so, too, must the systems of social protection. Instead of protecting workers from unemployment caused by changes in global demand, governments must facilitate the conditions of employment by ensuring that workers possess competitive skills (Boix 1998) and do not face barriers to economic participation, such as insufficient child care (Estevez-Abe 2006). Recognizing these shifts, small countries have innovated, developing more flexible labor markets while also emphasizing active labor-market policy, investment in human capital and skills, and programs to address the needs of women, immigrants, and other groups with historically lower rates of labor-market participation. Academic observers hold up the successes of Denmark, the Netherlands, Finland, Ireland, and other small countries as a model for Europe, demonstrating that an emphasis on "social investment" in skills can in fact create a "win-win-win" situation that combines high growth, global competitiveness, and social inclusion (Iversen 2005).

These different theoretical approaches share one commonality: they all presume that "smallness" has a more or less uniform effect on policies. Global forces drive all small countries toward consensual politics and extensive welfare provision; all small countries are at risk from globalization and Europeanization and hence are in "big trouble"; or all small countries are nimble innovators. Despite these uniform expectations, these arguments often draw on regionally and historically specific case studies. Nordic countries, accordingly, are often the inspiration for studies of leaders and innovators, whereas Southern European small states are considered to be "laggards" and stuck with poor-performing states particularly vulnerable to cutbacks. The small continental countries fall between these stereotypes: neither basket cases nor pathbreakers but exemplars of a consensual, albeit stagnating, government.

This volume, in examining small countries from each of these groups—the Nordic countries, continental Europe, and Southern Europe—shows that the variation within groups of small countries, and among small countries more generally, is extensive. Sometimes Southern European states are innovators—as in the case of Portugal's labor-market reform. Some continental countries adopt radical reforms, whereas in others, reform withers on the vine. It is crucial then, that we take a new look at the experience of the smaller European countries, asking both what unites them analytically but also what explains the very real differences in social policy reform among them.

In understanding varying paths to social policy reform among the smaller countries of Europe, we need to ask what kinds of reforms have been on the agenda. This volume shows that two strands of policy types have emerged on the agenda of European states since the early 1990s: "market liberalization" and "social investment." The first idea, "market liberalization," marks an array of policies, building on the privatizations of the 1980s, which extend markets into the public sector itself. Examples include the creation of internal markets among public hospitals, school choice, vouchers for elderly care, and other implementations of market incentives in public services. The concept of "social investment," by contrast, sees a much more extensive role for an active state. It marks a turn away from government spending that supports consumption and aggregate demand management—for example pensions, unemployment insurance, and public ownership of industry—to public spending that supports individuals in entering and succeeding in the private sector. Investment in human capital and active labor-market policies, moving beyond passive income transfers and toward benefits that aim to help individuals be more competitive in the changing labor market, are the hallmarks of this strategy. Typical policies include education spending, child-care spending, and parental leave. This marked a recalibration of strategies for center-left parties—as global and electoral pressures prevented widespread government intervention with market *outcomes,* these parties turned toward policies that impacted market *opportunities.* Though these two sets of reforms appear antagonistic, both diffused widely among European countries during the 1990s and the first decade of the twenty-first century.

The articles in this volume thus examine the adoption, or lack thereof, of both social investment and market-liberalization reforms among the smaller European countries. Previous research on small countries has tended to focus on "social consumption" policies like pensions and redistributive spending, and where it has analyzed market reforms, it has done so in terms of regulation of the private sector. Instead, the analyses in this volume examine a distinct set of policy areas. In terms of social investment, various chapters examine education investment, active labor-market policy, child care, maternity policies, and public health. In terms of market liberalization, chapters examine the introduction of markets in health care, university financing, and labor-market deregulation. Thus, this volume moves the analysis of social reform in the smaller countries of Europe to a contemporary set of reforms quite distinct from those that motivated the writings of Katzenstein.

In both examining a broader set of smaller countries and a broader range of policies than much of the literature on welfare reform, this volume provides a unique window onto the broader theoretical debates around the fate of the welfare state and the politics of reform.

Ideas, Institutions, and Coalitions: A Theory of Constrained Innovation

The articles in this volume not only examine the development of "social investment" and "market liberalization" policies but also situate them in the broader context of the diffusion of ideas about social policy. In recent years there has been a resurgence of scholarly interest in the role of ideas in guiding economic and social reforms. Broadly, scholars agree that ideas can be usefully conceptualized as "focal points" around which political actors can coordinate their understandings of policy problems, share potential solutions, and develop support coalitions that enable policy enactment (Béland 2009; Culpepper 2008; Weyland 2008). The emergence of ideas about social investment and market liberalization provides a lens into the process of policy emergence and diffusion. Innovative policies commonly emerge in response to perceived failures of the existing policy framework. In the European case, both the "social investment" and "market liberalization" policy agendas originated in response to the diagnosis of "Euro-sclerosis" as European states experienced both stagnant growth and high unemployment through the 1980s and 1990s. These agendas were packages of ideas, from respectively left and right, about how government might best respond—offering policymakers a common understanding of the problems facing the country and a set of policies that promised particular distributional and economic outcomes that actors could coordinate around. The diffusion of these ideas through transnational communications between bureaucrats, scholars, business leaders, and think tanks and the process of learning from early adopters help to explain the eventual adoption of new social policy reforms.

Together the articles show that ideas like "social investment" and, conversely, "market liberalization" have often been first created by or diffused to the smaller European countries. Smallness can be a virtue in terms of policy innovation. Whereas larger countries have commensurately larger bureaucracies or several federal subunits with high degrees of independence, many smaller countries are able to enact major policy changes driven by central policy makers much more rapidly. Sensitivity to international trade and Europeanization also provides a demand from these countries for policy innovations that enable them to maintain social policies under increasing global economic pressure. However, social policy reforms do not emerge fully formed like Athena from Zeus's head. They are the product of prevailing ideas about viable social policies that are themselves prior to any actual reforms.

The process of idea diffusion is not frictionless, however. Two important constraints affect both how these ideas diffused and whether they diffuse at all. First, policy ideas can only be implemented if they have the support of a large enough coalition of political and private actors. Sometimes ideas like social investment find interest in a dominant center-left party and a business community seeking workers with more productive or flexible skills. Sometimes, however, no such demand exists and the idea withers on the vine. Second, preexisting political and policy institutions determine whether an idea can be effectively implemented. Where policies must pass a blockade of veto players, policy makers may struggle to implement popular policy ideas. Similarly, when a policy idea meets preexisting policy institutions that are incompatible, the idea may not take root. Simply put, the diffusion of social policy ideas, even among the smaller countries, is dependent on the existence of permissive political coalitions and institutions.

Lessons from the Smaller Countries: Chapter Outline

The chapters of this book show that policy reforms in the smaller countries of Europe demonstrate more complex outcomes than existing arguments would suggest. Collectively, the authors show that the experience of European—and non-European—small countries is highly varied. In no case, even in the face of what appear to be extensive reforms conforming to market pressures, has social protection disappeared or even been dramatically eroded. Equally, though, the small countries have hardly been immune to change. While some chapters do suggest "path-dependent" effects, with change largely replicating existing structures, others demonstrate more substantial shifts. The changes, however, do not uniformly move toward a "social investment" model or to "market liberalization." While these ideas have been powerful focal points, political coalitions and institutions have proved to be important mediating forces and constraints to change.

The chapters in this volume set out this story in three parts. We begin with a set of analyses of one particularly important policy idea, the "social investment" model, with four chapters that set out the extent to which the model has been widely adopted, employing both statistical analysis and focused cross-country historical comparison. The second section of the volume examines the important role of political coalitions in either facilitating or blocking change toward social policy ideas. The final section of the volume examines how preexisting policy institutions and historical legacies constrained the kinds of reforms that could emerge.

Robert Cox starts the first section of the book, on the "social investment" model, contrasting social policy reform in the Netherlands, Denmark, and Belgium. Cox sets out the evolution of the idea of a social-investment state, showing how in places that it took hold as an alternative model for social provision, policy makers were able to make substantial changes. In Belgium, where it failed to take hold, by contrast, policy makers continued to engage in a more path-dependent and incremental reform process.

Robin Stryker, Scott Eliason, Eric Tranby, and William Hamilton examine the *implications* of the emerging social investment model. They argue that while increasing women's education has, to an extent, promoted employment, the effects have not been as far-reaching as other measures. Although, rhetorically many small countries have discussed introducing more flexible labor markets, lower transfer payments, and more investment in education, the reform efforts and outcomes are more complex.

Juho Saari's chapter sheds light on the mechanisms behind the adoption of an idea. He shows that policy makers enacted dramatic changes to the Finnish welfare state that reduced entitlements to pensions and unemployment benefits while expanding entitlements for those facing new risks, such as single mothers, children, and the long-term unemployed. Change along these lines was possible precisely because reformers across the political spectrum were attracted to the concept of a "social investment state" and rapidly coordinated around it during a period of crisis, with the promise to redirect social benefits in ways that addressed new risks while also making the labor force more competitive and gaining support across the political spectrum.

Jorma Sipilä's work further shows the social-investment model has been more limited than many analyses suppose. Sipilä argues that there has been no uniform movement across either large or small countries toward investment in education, child care, or active labor-market policies over traditional spending on pensions, unemployment insurance, or other passive benefits. Social investment has been a crucial idea for reform in some, but certainly not all, contexts.

The second section of the book goes "under the hood" of the process of reform, examining both the ideas of "social investment" and "market liberalization," and showing that the emergence of new ideas does not end the importance of distributive coalitions. Indeed, this section shows that distributive battles emerge both to prevent and shape the adoption of ideas. Although ideas frequently provided a common frame for action, both social investment reforms and market liberalization depend crucially on what Sara Watson calls the conditions for "political exchange."

Jane Gingrich begins this analysis through the case of market reforms of health and elderly care in Sweden. The introduction of market forces offered a common frame to policy makers who wished to address shortcomings in the public sector status quo, but political actors on the Left and the Right maintained and pursued different forms of market reforms. The Left used markets strategically in order to improve the legitimacy of the welfare state, while the Right used them in precisely the opposite way: to support private actors. A single idea provided fodder for varying distributive aims.

By contrast, Reinhard Heinisch argues that in Austria the lack of a common frame of action inhibited change. Despite growing economic stress during the last two decades, and Austria's long famed system of political accommodation and coordination, actors could not agree on either social-investment or market-liberalization strategies. Here partisan political actors, perceiving the distributive implications of change, moved to block it despite strong pressures to engage in reform. Instead of rallying around a common frame providing an alternative logic to justify social protection, domestic actors resisted reform.

Sara Watson's chapter bridges both findings, comparing the case of Portugal, where market liberalization took hold, to that of Spain, where it did not. Watson shows that reformers in Spain and Portugal pursued similar legislative strategies aimed at liberalizing the labor market by decentralizing collective bargaining to the firm level, but that the impact of these reforms varied dramatically across countries based on the way existing actors used them. In Spain, employers encountered a rigid labor market with numerous pathologies, and unions built on these problems to exact concessions from employers, bartering away changes in some areas for protections in others. By contrast, in Portugal, the more decentralized starting point limited the scope for unions to exact further concessions from employers, allowing employers more space to follow their preferences and coordinate around the idea of markets.

The third section follows up on these differences, looking at how institutional and historical legacies also condition the adoption of both social investment and market liberalization. The chapter by Kieke Okma and her colleagues reviews the experience of seven small countries that introduced both expanded benefits and modified forms of markets into their health-care systems. While in each case expanding coverage and expanding marketlike reforms within the publicly financed system offered a common reform frame, these countries introduced markets in dramatically different ways that preserved or extended existing diversity.

Ben Ansell's chapter develops these claims in the area of social investment, showing how existing institutions can modify or block the adoption of particular ideas. While the expansion of higher education aimed at producing skilled generalists has occurred in some European states, there has been little change in higher-education systems in many continental European countries, which still cater largely to elite students. In Germany, Austria, and Switzerland a variety of subnational veto players have been able to restrict expansion of higher education, often against the wishes of those in national government wishing to promote a social-investment model. Consequently, higher education expansion has typically only occurred under "grand coalitions." In political systems where actors can easily block radical reforms, enacting change of the welfare state requires widespread agreement among actors on an alternative model of action to the status quo.

A similar finding emerges from Paulette Kurzer's study of the regulation of public health. Kurzer shows dramatically different responses in Austria to smoking bans and genetically modified food, with the Austrians taking early and decisive action on limiting the introduction of GMOs (Genetically Modified Organisms) into the food chain while being one of the last countries in Europe to address smoking. In holding the larger Austrian political context constant, Kurzer shows that shared beliefs about the dangers to the food supply provided stimulus to rapid action with respect to GMOs, but, in the case of smoking, the historical legacy of Nazi control of public health limited reform. Commonly held ideas mattered for reform, but existing institutions and historical legacies shaped how they emerged.

Conclusion

The experience of the small countries, then, provides a number of clues about the future of the welfare state in Europe and abroad. Pressures from outside, the weight of past institutions, and the need for compensation do not obviate politics. Indeed, the authors show that both the extent and character of change—and nonchange—was politically driven in crucial ways. Change emerged more extensively where policy makers accepted an alternative set of ideas about the logic and purpose of the welfare state. However, ongoing bargaining among partisan and economic actors within this common framework typically shaped the specific character and implications of reform. These findings about the political dynamics of efforts to change social policy in the smaller EU member states suggest important lessons for policy makers in larger states, which may also face pressure to engage in far-reaching social policy reform.

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Section I

The Social Investment Agenda

From Ideas to Policy?

Chapter 1

How Globalization and the European Union Are Changing European Welfare States

Robert Henry Cox

Globalization and Europeanization are often described as forces that compel states to adopt neoliberal reforms to their welfare states. At the same time, these forces intensify the conflict over social policy by encouraging contending political parties to dig into their positions. Change in social policy, therefore, would seem to demand a fundamental reordering of the balance of political forces, with its attendant disruption and conflict. Although there has been a great deal of conflict around the politics of welfare reform in Europe, the countries with the most acerbic welfare debates have reached stalemates in the reform process, whereas the countries that have gone the farthest to change their welfare states have done so with a comparatively greater degree of social peace.

In the laggard countries, the politics of social policy continue to be characterized as a win-or-lose struggle between Left and Right, or labor and capital. For the Left, and especially for labor, globalization and Europeanization threaten to deprive labor of the hard-fought gains that welfare states represent. The Right, by contrast, sees adaptation to globalization as an imperative for dramatic change with grave consequences for failure. But in those countries where reform has gone the farthest and been most effective, this struggle did not lead to the type of entrenched struggles that one might expect. How is it that reform and consensus could have accompanied one another, indeed reinforced one another, to produce a "virtuous cycle" (Levy 1999) of reform?

The answer, suggested in this chapter, is that reform happened where political actors engaged in a root-and-branch reconsideration of the purpose of the welfare state and forged a consensus around a new set of principles that made reform possible. Moreover, this new consensus embraced the challenges Europeanization and globalization posed and actually led to policy changes that were designed to work with these forces rather than oppose them. To put it in stark terms, where the postwar development of welfare states could be described as a struggle of "Politics Against Markets" (Esping-Andersen 1990), the recent wave of reform sees social policy as a crucial part of the package of economic adjustment rather than as a bulwark of security against the market.

This chapter examines three small European countries, two of which stand out as leaders in welfare reform (Denmark and the Netherlands), while the third has become the archetype of welfare stalemate (Belgium). As these three cases demonstrate, the welfare reformers have engaged in a root-and-branch reconsideration of the purpose of their welfare state. The welfare laggard, by contrast, is not adapting because political positions are still mired in the old politics of the welfare state, largely because Belgium has been caught in a linguistic conflict that has overshadowed all political issues.

The Newest Politics of the Welfare State

Globalization exposes national economies to increased competitive pressures, and this compels them to trim levels of social spending, reduce nonwage labor costs, and create a more flexible labor force. Europeanization is the integration and harmonization of practices among the countries that are members of the European Union (EU). Europeanization often produces effects similar to globalization due to what Fritz Scharpf (2002) calls the "constitutional asymmetry" between the single market and social policy. Because the European Union was designed to promote economic integration—and its treaty agreements underscore this—its instruments of compulsion are directly related to efforts to create and expand the European single market. When social policy interferes with the operation of the single market, the EU has strong instruments to compel states to adjust social policy in favor of it. To date, EU treaties have not articulated a commitment to social policy on par with the status of the single market (Daly 2006). Consequently, efforts to build and enhance the social dimension of Europe can only operate via soft mechanisms of coordination. The bias for the single market, therefore, has similar effects to that of globalization, stating a preference for the market over social policy.

Furthermore, under the EU system of multilevel governance, social policy is the competence of nation-states. Yet at the national level, path-dependent forces, specifically the impact of "lock-in effects" and "increasing returns" (Pierson 2000) built into both the politics and the programs of the welfare state, make it difficult to introduce change. At the political level, welfare states are part of the postwar settlement between labor and capital, which created lock-in effects—strong incentives that deter either side from vigorously renegotiating the terms of the settlement. At the program level, specific aspects of program design, such as PAYGO methods of funding public pensions, create increasing returns, making it difficult to consider a different formulation of the program that might be more fiscally durable. These path-dependent elements of welfare states tend to reinforce the political status quo and leave the political space essentially unchanged since the beginning of welfare expansion. On the Left are advocates of welfare expansion who act on behalf of those adversely affected by unfettered market forces. On the Right are liberals who favor market solutions and strive to limit the encroachment of social policy on markets, as well as conservatives who believe that social policy has eroded social obligations.

In this sclerotic environment, most efforts to reform social programs have been minor and incremental. As characterized by Paul Pierson (1996), the popularity of welfare states has led political leaders to adopt strategies of "blame avoidance" by not reforming major programs, instead focusing their reform energies on programs that have few beneficiaries or by devising reforms that are technical and not easily understood by the general public. In addition, there is a credibility gap between Left and Right in the reform process. The public is suspicious of calls for reform when they come from the political right, whereas, when similar suggestions come from the Left, they tend to be taken more seriously (Ross 2000). Essentially, in the "new politics" of the welfare state, the traditional lines of political cleavage have not changed. The political equilibrium of the postwar settlement is intact, pitting Left and Right in the roles they have embraced for half a century. Also, the basic understanding of the scope and purpose of the welfare state remains unchallenged and unchanged. Welfare reform is incremental, piecemeal, and modest.

In some European countries, however, the "newest" politics of the welfare state take a step beyond incremental adjustment. In these countries the original purpose and scope of welfare programs is under fundamental reconsideration, and this has reconfigured the political coalitions. Whether the welfare state continues is no longer the issue that divides. Instead, the questions center on where the welfare state fits in relation to other economic and social concerns. In these innovative countries, parties on the

Left recognize the need to maintain a globally competitive workforce, not simply protect jobs in sheltered industries. These parties know that creating new jobs for a new economy is the way to boost employment and that protecting jobs in declining industries is only postponing the pain. Parties on the Right recognize that social policy plays a crucial part in keeping a workforce technologically advanced and adaptable to changing circumstances (Schmidt 2002).

Both of these concerns come together in a few important new principles that drive welfare reform. First, the newest vision of social policy places more emphasis on programs that boost employment rather than those that protect income. The result of this has been to develop and expand active labor market programs and to expand the responsibilities of individuals to save for retirement and insure themselves against employment disruptions. The point here is not that active labor market programs have replaced workers' rights with a more stingy system but that it is crucial to keep people in the workforce, contributing to their own and the collective well-being.

Second, in a rapidly changing global economy, a competitive workforce needs to have the skills to embrace new technology. Continental European welfare states were based on an old industrial model whereby people trained for a job they would hold the rest of their lives. Today in Europe, people entering the workforce are likely to hold many jobs over their lifetimes, and policies designed to encourage "lifelong learning" are intended to help them adjust to employment transitions (Griffin 1999). In addition, flexibility, not only in the labor market but also in regulations that govern how one accrues credits for pensions and other social insurance benefits, is needed to take into account the more varied work histories of a flexible labor force.

Third, notions of entitlement have changed. The greatest achievement of the postwar expansion of welfare states was the institutionalization of the idea of social citizenship (Marshall 1949; Mishra 1990). Social welfare came to be seen as a right, and this produced another lock-in effect whereby rights could only expand, not contract. The newest politics of the welfare state change the foundation on which the welfare state is legitimated by emphasizing the reciprocity between rights and duties. This is an important shift that addresses three normative criticisms about European welfare states: that welfare programs do not provide enough incentives for citizens to contribute to their societies; that within the single market, welfare programs are a magnet to draw migrants from other EU countries; and that welfare programs are an obstacle to the integration of immigrants from outside Europe.