

1. Introduction: the changing welfare state

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The traditional welfare system involves the reallocation of resources from those in society who are doing relatively well to those who are in difficulty, usually so that the standard and quality of their life can be brought up to some level which society feels is the minimum acceptable. Determining such transfers and the taxation required to achieve them lies at the heart of the democratic system. However, as time passed the concept of the welfare system became more sophisticated, more pervasive and much more linked to the development of society as a whole rather than just to alleviating the worst individual circumstances. There is thus a close interaction between social policy and the process of achieving faster economic growth. The idea that welfare and growth were somehow antithetical has now largely disappeared with the shift from an emphasis on the state's role of correcting market failures to a human development perspective which instead recognizes social policy as an investment factor. In that perspective, improved health, education, housing and employment all contribute to factors that underlie sustainable economic growth. However the process of taxing one group in society for the greater good and the benefit of others still remains deeply politically contentious, particularly in view of the argument over incentives. A badly structured system demotivates the richer in society from increasing their efforts as they are seen to be 'losing' too much of the product of that effort to others, while those receiving may feel that there is no great benefit from work and effort as the financial gain is negligible and the loss of time substantial.

These contending aspects of welfare state systems are inherent to the distribution of wealth in society and throughout history the weight accorded to different elements pertaining to management of society's resources has varied between countries. In Europe, different perceptions of an appropriate balance between the market and society are at the origin of the emergence of distinct welfare systems shaped by the

interplay between economic, social and political factors, and underlying values, norms and traditions. Modern social models therefore reflect decades of political struggle over scarce resources, sometimes referred to as the 'power-resources mobilization paradigm' (Arts and Gelissen, 2002, p. 154) and are firmly anchored in national norms concerning social justice, equality, and the role of the state. As the 'national state cannot easily escape its historical inheritance' (Arts and Gelissen, 2002, p. 154) institutional inertia and path dependence are mechanisms that explain why welfare states tend to change only slowly and incrementally. Historically grounded societal norms explain the persistence of quite distinct popular attitudes towards taxes, the role of the state in dealing with societal risks and the development of civic and social rights.

The aim of this book is to explore a number of recent themes in the evolution of welfare policy in Europe and its impact on democratic governance at the European and national levels. It addresses the implications of policy reforms in Europe with the wider questions surrounding governance in a multilevel polity and perceptions of legitimacy. It has been written with the ambition of highlighting under-researched aspects of European welfare systems as they emerge after two decades of change in the global economic environment and, more recently, in the wake of the global economic and financial crisis. In this period, national welfare systems have seen major reforms to the structure, content and delivery of social policy provisions on the national level at the same time as European economic and monetary integration has resulted in deeper interdependence and vulnerability of national structures.

The book addresses the crucial question of the wider implications for democratic government brought about by these developments. It offers a wide perspective of changes to European welfare states in covering countries in both Western and Eastern Europe while it provides depth to the analysis through a number of detailed studies in different dimensions of welfare. Moreover, it introduces important points of comparison by analysing and contrasting social and economic developments in Europe with those of the US, New Zealand and Australia. The following chapters build on the classical literature on welfare models to which they bring a deeper and wider perspective by focusing on instances of innovative policy developments in a comparative perspective and discussing issues that arise from the complex mix of integration and coordination among the member states of the European Union (EU).

The individual chapters in this book address questions such as:

- How are different EU member states responding to the challenges of meeting the rising costs of welfare provision? What are the implications of growing inequality between and within countries in Europe?
- What new hybrid forms of welfare system are emerging as a result of increasing public-private initiatives? What is the implication of a rising fragmentation in the social policy mix?
- What are the new ways in which coordination of European welfare policies is conducted? Do they engage authorities and political institutions in the member states or are new European governance models a challenge to established patterns of national policy-making?
- What are the implications of these changing systems of welfare provision for democratic legitimacy and perceptions of accountability of the public actor on local, national and European levels?

BUILDING AND COMPARING WELFARE MODELS IN EUROPE

Analysing national economic and social structures and categorizing them into social models has been recognized in academic literature as a useful avenue for theorizing about differences between welfare states and factors that influence their composition. It has enabled the construction of typologies that make comparative research possible. The comparative approach was suggested in *Three Worlds of Welfare Capitalism* by the Danish sociologist Gøsta Esping-Andersen, who wrote that ‘only comparative empirical research will adequately disclose the fundamental properties that unite or divide modern welfare states’ (1990, p. 3). In that book, Esping-Andersen makes the now classical distinction between three types of welfare states: a liberal regime encompassing Anglo-Saxon countries, a conservative regime encompassing Continental and Mediterranean countries and a social democratic regime encompassing the Nordic countries. The ‘fit’ of these typologies with existing welfare regimes was, however, disputed from the start and led to reappraisals and refinements of the initial categorization by both Esping-Andersen himself and others. For instance, the Mediterranean countries were not treated separately in Esping-Andersen’s first account of welfare state models but have been considered as constituting a separate category in later works. In works by Liebfried (1992), Ferrera (1996) and Bonoli (1997) the Mediterranean countries are treated separately from the Continental

regime, organized in a distinct category which emphasizes these countries' more fragmented welfare state regimes, characterized by a lack of articulated minimum social protection (but with certain rights linked to citizenship), low social expenditure as a percentage of GDP and a high level of familialism. In a similar vein, scholars who focus on the performance of national labour market regimes and competitiveness also emphasize the existence of a Mediterranean model which in this context distinguishes itself by 'employment protection and early retirement provisions which exempt segments of the population from participation in the labour market' (Sapir, 2006, p. 376).

Besides these four standard classifications of western welfare state regimes, other atypical regimes have been identified. One often-cited regime encompasses the antipodean countries (Australia and New Zealand) which, according to Castles (1998), warrant classification in a separate category as their social regimes incorporate distinct solutions to redistribution and social inclusion/protection often by having recourse to regulation in lieu of social transfers. Finally, some countries are referred to as 'hybrid' cases. Such countries, for instance the Netherlands, defy classification in any specific model. The Netherlands has been classified as belonging variously to the Scandinavian, social-democratic regime (Esping-Andersen, 1990) or the Anglo-Saxon, liberal regime (Korpi and Palme, 1998) whereas most scholars put the country in the Continental regime (Arts and Gelissen, 2002, p. 151).

Organizing the countries in Central and Eastern Europe, which in the last 20 years underwent a profound transformation from the authoritarian command economy to the democratic market economy, into a specific welfare regime category is more difficult. Early on in the reform process these countries decided to pursue economic, social and democratic reforms in parallel to preparing for their accession to the EU, thereby conditioning their domestic reforms to the regulatory framework of the EU. As it turns out, some of the more disputed domestic reforms concerned areas of social policy where the EU has not developed any regulatory regime and holds little in terms of regulatory power. Therefore, in some Central and Eastern European countries pre-Communist social regimes were revived while other countries opted for market-based liberal reforms upon independence, in some cases under strong influence of the advice of international financial institutions, such as the World Bank. The picture that emerges is a rather mixed one. The countries in Central and Eastern Europe display important differences in relative wealth and economic development as well as the design and structure of their welfare institutions, and level of spending on social programmes. Despite these differences, some scholars have argued for treating the

Central and Eastern European countries as belonging to a new, fifth, welfare state model. Nonetheless, the similarities displayed in their social models are 'mainly of an institutional character, resulting from their similar past and the similar challenges they face regarding their transformation to democracy and market economy' (Żukowski, 2009, p. 29).

As welfare state models have made empirical comparison possible, scholarly debate has moved on to consider the classification of individual countries, the explanatory value of welfare state typologies and the validity of the theoretical premises of these concepts (Arts and Gelissen 2002, p. 155). Typologies underscore the fact that different types of welfare state exist and that these welfare states have indeed developed different solutions to similar problems. It is hard, however, to disentangle the factors that condition change or inertia in different models as well as those underlying the relative effectiveness of existing welfare systems. Comparative scholars are faced with the task of determining the role played by endogenous versus exogenous factors, such as investigating the influences of international policy coordination processes (Hartlapp, 2009). Welfare models have been instrumental in analysing the impact of the European policy coordination processes on national welfare systems by comparing how different models have reacted to transnational learning and policy diffusion and whether indeed such processes have resulted in convergence of regulatory regimes or not.

In their turn, the policy coordination processes on the European level have further encouraged comparative analysis across types of welfare states which not only clarify 'ideal' types of social models but have also led to evaluation of the performance of specific social policies and the effectiveness of specific welfare state models (Sapir, 2006). As European economies have become increasingly interdependent and EU member states have come under regulatory and statutory obligations to follow rules pertaining to the internal market and the EU's economic and monetary regime, comparisons of the performance of national social regimes have become increasingly pertinent as witnessed in the elaborate systems of monitoring of the Stability and Growth Pact (SGP), the Macro-Economic Imbalances Procedure and the Europe 2020 Strategy brought together in 2011 in the European semester. In view of the increasing economic and social diversity among EU member states in the wake of the economic and financial crisis, the EU is bound to devise increasingly sophisticated approaches to deal with the tensions of an economic, social and political nature.

UNDERLYING CHANGES TO EUROPEAN WELFARE REGIMES AND ORIENTATION OF SOCIAL POLICY REFORM

Economic and demographic conditions, history and tradition along with normative and value-driven aspects have shaped the existing welfare state models. These have come to differ in the type and scale of social provisions offered and in the nature and scope of institutional arrangements. Studies suggest that over time the articulation of social policy goals, their normative justification and contextualization as well as their regulatory content have taken on similar features in mature welfare states. Behind this convergence, however, lurk more profound challenges, as western societies face similar challenges to national welfare state regimes. These challenges stem from the profound changes that globalization has brought to economic, social and political interaction in the world and from changes within societies in terms of rapid ageing of the population and individualization of lifestyles and choice. External and internal challenges drive fundamental transformations to the basic dialectic relationships in social policy: the boundary between public and private spheres; the place of the individual in relation to the collective; and the respective roles of the state and the market. The recognition of common challenges has enabled further comparative research into the actual reforms carried out and opened an opportunity to justify public action on the European level with the purpose of identifying, diagnosing and devising policy reform advice.

Deep-lying challenges have exposed the vulnerability of national welfare states in the state's capacity to devise, organize and administer social welfare provisions as well as ensuring the financing of welfare systems. Even before the financial and economic crisis imposed a regime of fiscal consolidation, the necessity of long-term financial sustainability of welfare systems had changed the orientation of social policy towards a social investment perspective where social services are seen as investments into the productive (social) forces in society. The social investment perspective brought about a reorientation of social policy which in the decade before the financial and economic crisis led to a seemingly contradictory development. Actual policy changes pointed towards path-dependence and maintenance of levels of public spending while steps towards decreasing the generosity of benefits, reinforced regimes of conditionality and recipients' obligations bore witness to retrenchment. In a parallel trend, the private sector was given a greater role, either through private institutions or the voluntary sector. The reduction of the scope

and, in certain cases, generosity of welfare thus predates the current era of austerity but was dramatically intensified by the financial and economic crisis of 2008, in particular in countries experiencing sovereign debt problems where retrenchment became an unavoidable means to restore public finance deficits.

The notions of expansion and retrenchment which underlie many studies of welfare policy change have been referred to as belonging to a quantitative approach that concentrates on the transformation of old social policies and consequently fails to detect the complexity of social reforms underway (Bonoli and Natali, 2012). These reforms contain both elements of safeguarding policies of replacement of income through benefits and pensions as well as new social policies which cater for new risks and previously excluded groups (Häusermann, 2012). Active labour market policy is a good example of this mixed approach being built on the activation of job-seekers through re-skilling, stepped-up placement services and conditionality as well as the provision of new services such as child care. Activation of job-seekers, combined with social security into the concept of flexicurity, represents one of the most widely implemented policy reforms in European countries in the last decade, but amounts to neither retrenchment of overall social provisions, nor retention of the protection of established workers; it rather constitutes a reorientation of labour market services to adapt to rapidly changing societies. Active labour policy is often linked to the 'commodification' of workers leading to increasing income differentials as the overall competitiveness of the economic is at stake. In Denmark and Sweden measures to increase the employability of workers through life-long learning, re-skilling and subsidized employment in the public sector are part of the activation policy and demand sizeable public funding which is reflected in these countries' maintenance of high levels of social policy expenditure. But the logic of retrenchment can also be observed when active labour market policies address people with low skills through different kinds of conditionality linked to unemployment benefits with the aim of lowering the cost of labour and employing various measures to 'make work pay' such as tax reductions.

The expansion of choice as a fundamental aspect of welfare service provision whether in education, health or care is generally seen as a flexible response to individualization in terms of lifestyles, tastes and the emergence of new needs arising as a result of changing family patterns. The marketization of these services has enabled private institutions to play an increasingly dominant role in areas such as health care, education, social care and labour market policy. Again, the entry of private players did not necessarily result in reduced costs and increasingly the

realization of efficiency gains and recipients' satisfaction are also being questioned (Hartman, 2011). The decentralization and marketization of services assume an active and informed role being played by local and regional authorities and consumers, which in the case of under-resourced or vulnerable consumer groups, such as the old and sickly, they may not be able to play in full. Moreover complex contractual arrangements between public authorities and private operators intended to increase efficiency and off-load costs from the public balance sheet may actually result in a loss of transparency and increased fragmentation of the supply of services.

The marketization of social services is not only prominent in the health, elderly and child care sectors and education but also in the area of pensions where supplementary pensions have become obligatory in most European countries and fuelled the expansion of capital markets through investment in private pensions. Ageing populations constitute one of the greatest challenges to the sustainability of national welfare systems as actual and future pension liabilities weigh heavily on public finances, as well as taking up the bulk of health and care budgets. Pension system reform is one of the main themes of the EU's policy coordination processes and certainly in the case of the countries in the euro area is treated as a matter of common concern.

The governance of welfare state reform has become a prominent theme in social policy literature (Bonoli and Natali, 2012; van Berkel, de Graaf and Sirovátka, 2011; Graziano, Jacquot and Palier, 2011). The literature deals with the perspective of the European dimension in reforms undertaken on the national level in Western Europe. The European dimension has contributed to an awareness of common challenges but also encouraged convergence, sometimes implicitly, at other times explicitly, towards similar types of reforms. This convergence of governance is visible in the nature and orientation of reforms based on the approach of New Public Management. The European Commission, inspired in the 1990s by the work of international organizations, such as the OECD, the World Bank and the IMF, converged on the New Public Management principles as they correspond more easily to the output legitimacy which underpins transnational public policy than concepts linked to republican notions of democratic government based on public administrations being closely linked to the national state and citizens as bearers of constitutional and political rights. The prominence of the market, the increasing fuzziness of the dividing lines between the public and the private and the individualization of choice underpinned by the notion of individuals as consumers rather than citizens reinforce the perception of governance as a 'management' tool rather than a principle of democratic government.

EUROPEAN SOCIAL POLICY

In recent decades, the existence of a European social model is increasingly contested. Social policy as a counter-balance to the market forces released by the creation of the Internal Market was part of the constituting debates in the 1950s and 1960s when the policies of the European Community (EC) were gradually being forged. The setting-up of a fully-fledged social policy was, however, never seriously considered and the most significant step taken was the drafting of an article explicitly setting down the equality between female and male workers inserted into the Treaty of Rome at the insistence of the French government. The absence of political consensus regarding the social dimension of European integration is noticeable from the perspective of the relative similarity of the welfare systems of the six founding members of the EC. Scharpf (2002) discusses the decisions of the governments at the time not to adopt social policy as a necessary element of the Internal Market as an example of a 'road not taken', as this period with hindsight represents a time when national systems could conceivably have converged towards a single model had the member states so wished. From this point of time (mid 1950s) onwards, the EU has through a series of accessions come to include states with national welfare systems displaying diverse characteristics.

Notwithstanding the impossibility of developing welfare state characteristics, the EU has not been devoid of action in the social field. With the development of the four freedoms of the Internal Market, the freedom of movement of workers was strengthened by a number of rights in the form of EU directives touching primarily on working conditions, including health and safety, equality between men and women (later enlarged to include all forms of discrimination), and the protection of migrant workers and their families. By 2009, the EU's social regulation was composed of approximately 80 binding provisions (Falkner, 2009) and in addition to regulation the EU had set up a number of structural funds, notably the Regional Development Fund, European Social Fund, the Cohesion Fund and the European Agricultural Guidance and Guarantee Fund whose objectives are to fund activities which improve social cohesion in Europe.

Even so, the focus on the cross-border implications of economic integration linked to migrant workers has been the dominant approach to social regulation in the EU as welfare state provisions have remained solidly in the realm of the nation state. Scharpf (2002) pointed to what he defines as a 'constitutional asymmetry' within the EU, in that the Treaties

transferred extensive regulatory competence to supranational institutions in the area of the Internal Market while in the area of social policy little regulatory power has been granted. According to Scharpf, the constitutional 'supremacy' of the market is at the origin of the activism of the European Court of Justice (ECJ) in extending free market principles, as seen for instance in the rulings on Vaxholm/Laval and the Viking cases. Another aspect of the asymmetry is the Commission's status as European competition authority which has empowered it to pursue member states' governments for granting state aids and to order the break-up of national monopolies. As state aids, among other things, are part of a government's arsenal to bolster economic activities in depressed areas and sectors deemed important for social cohesion, whereas national monopolies are at times used for retaining or increasing employment for social purposes, national resentment has been great when the Commission or the ECJ have ruled against the conformity of national measures to EU competition rules. Individual member states have increasingly taken exception to the Court's rulings on the primacy of the principle of market integration over national social norms and regulation, be it in the labour market or in the health sector.

The deepening of the constitutional asymmetry is visible in the setting up of EMU with a supranational monetary policy, a common currency and binding rules on budget deficits and national debt in the SGP.¹ At the time when EMU was agreed, a consensus among member states' governments on how the economy operates made it conceivable to centralize monetary policy without simultaneously centralizing economic policy. Price stability was the overriding concern and therefore attention was focused on the fiscal policies of the then-to-be euro countries followed by the development of binding rules on national debt and budget deficits. The issue of coordination of national policy in economic and social areas was addressed by convergence based on soft instruments, such as benchmarking, sharing of experience and naming-and-shaming (Schäfer, 2004). This meant that the constitutional asymmetry was perpetuated in the policy framework surrounding the EMU: full transfer of sovereignty of monetary policy to the ECB rendering national governments' recourse to competitive devaluation of the national currency impossible and binding rules to prevent national indebtedness and budget deficits over certain limits while 'the overall policy-mix was to be achieved by soft coordination of national policies' (Schäfer, 2004, p. 6).

Given the problem in many European economies with high unemployment, including high long-term unemployment, the first policy area where national policy coordination was undertaken was the labour market. Some academics have pointed to the market logic behind the

choice of a 'commodification' of workers (Schäfer, 2004; Flear, 2009) and the problem of competitiveness of European economies, due in part to the inflexibility of labour markets. Others have rather emphasized the choice of labour market policy as a consequence of micro-economic logic in the White Book on Growth, Competitiveness and Employment of 1993 and the work in the area of cohesion policy to bolster employment in economically depressed or disadvantaged regions, in particular the local employment pacts. The European Employment Strategy (EES) got off the ground in 1994 and was codified in the Amsterdam Treaty in 1997. Arguably, the negotiations leading up to the Amsterdam Treaty constitute a second 'road not taken' in that the Treaty did not grant competences for a Community social policy, referring only to the possibility of adopting directives that stipulate minimum rules in a few policy areas, predominately related to labour market policy, whereas it explicitly avoids measures with financial, administrative or legal implications (TFEU, art. 153).

Although already practised in the SGP and the EES, coordination of national policies and soft governance was formally introduced as a new mode of governance in the first half of 2000, shepherded by the Portuguese government then holding the presidency of the EU. The declaration of the European Council at the summit of March 2000 launching the Lisbon Strategy with the aim of turning the EU into the world's most competitive knowledge economy with a high level of employment and social cohesion also contained a section designating the Open Method of Coordination (OMC), the method of choice for implementing the goals of the Lisbon Strategy (European Council, 2000).

It is conceivable that national policy coordination under the OMC was designed with the purpose of maintaining the constitutional status quo between the liberal market impetus of the treaties and the limited regulatory power granted to social policy on the European level. For various reasons member states had no interest (or lacked political will) in raising the constitutional status of social policy. The OMC was seen as a governance instrument that would not violate the principle of subsidiarity, i.e. national competence in the area of social policy, as coordination of national social policy would not amount to introducing elements of Keynesian fiscal policy on the European level which was feared since it would imply a fundamental appraisal of the fiscal rules of the SGP. Because the OMC relies on national coordination and voluntary convergence, the EU institutions were not mandated to survey member states' compliance to common rules nor summoned to rule on breaches of EU legislation.

UNRESOLVED ISSUES IN WELFARE STATE GOVERNANCE

One of the major issues in modern government has been how to pursue greater efficiency in the delivery of public services on the one hand, and how to take that delivery beyond the bounds of direct political influence so that the service can meet longer term aims and somehow be above the short term concerns of those who need to seek regular re-election. One of the most obvious areas where this applies is in health care. The decision about how large the health care budget that is publicly financed should be, is clearly political, as is the decision as to how that finance is to be raised – how much from taxation, how much from insurance contributions and how much from user charges. However, how a health centre or a hospital is to be run to achieve the maximum benefit for its customers raises issues of medical decision making and business efficiency over which elected politicians may have little expertise. The tendency therefore is to delegate authority to professional agencies, which have clear terms of reference and operate under actual or effective contracts to provide services, often against quality criteria. However, it is difficult to specify such contracts clearly or set them out in a way which is readily divorced from politics. In cases such as central banks it has been possible to define objectives clearly in a way that the large majority in parliaments can agree and hence run a stabilizing policy over a much longer time period than the life of an individual government. Some welfare services can fall in the same bracket, such as public libraries and national parks, but even with universities ministers can find it difficult to set out a framework that captures what society in general wants. What they can do is set out relatively objective means of determining standards and assessing performance against standards. This normally involves setting up a second agency which acts as a monitor. In recent years European states have realized that it is difficult to put forward fiscal programmes that are sustainable. Thus having an independent agency that investigates governments' plans and expresses an opinion on their validity is a help not just to the domestic democratic process but to the European level one as well, where countries are heavily inter-dependent.

In the same way that members of parliament and local councils typically do not have the qualifications to run a large business, so they do not have the qualifications to assess service quality. What they can do, however, is read the reports from those who can and hence make a decision on the way forward – whether an agency needs improved objectives, whether it should change its approach or indeed whether it

should have the task taken away from it for poor performance. The area is fraught with difficulty. One of the best arbiters of quality will be the consumer. However, if they do not have a choice, which is often the case outside cities, it is difficult to observe the consequences. Even with schools and doctors it has proven difficult to administer such regimes and to apply appropriate incentives. One result can be to polarize resources, where good schools attract richer parents, who can contribute resources to the schools, which makes them even better. Hence in many respects, as Vibert (2007) suggests, the rise of independent agencies may actually improve democratic accountability, since their operations have to be much more transparent in order to permit the independent assessment. Issues such as a lack of local involvement can form part of the requirements of the agency. Thus consultation with consumers may be extensive.

Competition Among Areas

One of the problems for public sector provision of services is that it often tends to be a local monopoly. Thus it does not make much sense to have competing water supply systems and sewerage disposal systems, multiple sets of wires to deliver electricity, pipes to deliver gas etc.² Hence it becomes more difficult to offer people any realistic choice within an area. If they do not like the social provision in one area then they have to move to another. The drawback about this tendency is that areas may become more polarized. At a local level, parents may be very concerned about the schools their children can go to, but the same problem occurs at the national level. Someone facing services that do not meet their need in one member state may factor that in when thinking about moving elsewhere. To pick the example chosen by Mayes and Thomson (2013), the provision of child care varies considerably across member states. People who are keen for both parents to be able to work might prefer the Nordic countries because they have both greater provision of nurseries, kindergartens and pre-schools than elsewhere and a high level of state support. Those who wish to spend more time with their children might consider the Netherlands, where part-time jobs are much more prevalent and not such an inhibition to returning to a good career once the children can go to school. Clearly child care provision is a second order determinant.

However, the child care example raises another feature of the problem which inhibits mobility, namely that much child care is provided informally, either by family members or by friends and acquaintances through voluntary links or more formal clubs. Money or tokens may exchange

hands but there is no requirement for qualifications. This social infrastructure and the degree to which one is included in society are extremely important to the quality of life.

A Broader Approach to Insurance

The new member states have in the main had to construct new welfare systems as the means of financing and supporting the previous ones has disappeared. On top of that substantial inflation eroded the value of such benefits that did exist so many became ineffective. They thus faced the problem of having a substantial proportion of society that was unable to cope in present circumstances and was unable to obtain work in order to try to build up their own resources. The retired were particularly vulnerable. The state industry for which they had worked was no longer there to provide their pensions. As a result many of the states have constructed a three tier welfare system. The first and basic tier caters for those who have no or little capacity to build up a means of payment for themselves. They have to be financed by the contributions of others, usually through the general tax system, although it is possible to do something through family responsibility. The second and main part of the system is to build up insurance through workers' contributions (some of which usually come from the employer). Thus an employee slowly builds up a fund from which they can draw for health care, education, unemployment and eventually a pension. While such funds will obviously have a strong element of insurance in that they can draw much more than their contributions in the event of serious difficulty, the pension element will tend to be much more directly contribution based, so that those with higher paying jobs will get larger pensions. This system therefore grows with the contributors and as people have longer in work so their ability to have better pensions grows. The third tier is voluntary and enables those on higher incomes to decide whether they want more than the other tiers offer, say in the form of private health treatment.

The advantage of this structure is that ordinary tax rates can remain quite low and indeed several of the countries have gone for flat rate systems. It is usually argued that low tax rates provide a very considerable incentive for people to work more or to seek slightly better paying jobs because they get much of the benefit of the extra income. The lower level of transfers also means that other tax rates can be relatively low, such as corporate taxation, which will enable these member states to be quite attractive to inward investment. The key is that take home pay after making the insurance contributions will still be as low as in other

countries but because people feel that they are contributing to their own future welfare needs they feel much more comfortable about it even if the financial consequences are relatively similar.

Involvement of the Private and Voluntary Sectors

The limits to resources have led to innovation by the public sector in trying to get involvement by the private sector in the achievement of its welfare goals. The idea of public-private partnerships, used quite extensively in the UK, has inherent appeal. Take the case of hospitals. Only the public sector has sufficient command over resources to create the large scale hospitals that are necessary to be able to provide the full range of modern medical procedures. Many wealthier or busier people would however like to buy extra services and 'jump the queue' for treatment. By charging them appropriately this can give the opportunity to plough back funds for the treatment of the poorer. Similarly, the best staff, who could command high salaries in private facilities, can get that opportunity if they also use the same facilities to help patients through the publicly provided system. Thus there are real as well as financial benefits from such cooperation. This cooperation can become very disadvantageous for the public sector if the participation is largely financial and if the arrangement is not well managed. The private sector is adept at extracting the short-term rents and leaving the public sector with the longer-term liabilities. There is also a *prima facie* conflict between the objective of the firm, which is to maximize the return to its shareholders, and the duty of the welfare state which is to enhance the well-being of its citizens. This can be mitigated where there is a separate agency that has to address the setting of prices or investigate evidence that the consumer has been exploited. Clearly ombudsmen can also be used to ensure that individuals are fairly treated by such organizations.

One other idea, which has also been used in the United States, is to get local businesses to refurbish the area in which they are situated and to provide a range of local services. However, the key feature which affects the democratic nature of these agreements is that once agreement is reached then all businesses are required to participate – at least financially. If this were not done then there would be ample opportunity for free riding. However, since it is business which is deciding on the form of the regeneration, although of course this needs to be approved by the appropriate local authority, it may turn out to be different from what the local population would like to see. Since businesses will finance 'voluntarily' only what they perceive to be in their own interests, this makes popular objection difficult as the alternative may be no contribution.

Voluntary participation also poses some conundrums. Those who contribute either financially or in time or kind do so not just because of what they feel they wish to support but also because of what they enjoy doing. Thus it may be much easier to get people to plant trees or clear up rubbish from the shoreline in summer than to get them to work at night in a hostel for the homeless in the middle of winter. People do not necessarily volunteer for what society at large thinks is more important. Secondly, voluntary contributions may be made where gaps are perceived in public services, e.g. in fire services in rural areas, life-saving or emergency helicopters. However, where the gaps are can become endogenous. If the authorities find that they can get public support for a service they may reduce their own support. Thus voluntary funds that are raised to improve a service may end up simply keeping it going if taxpayer funding is then reduced. There is no contract between the donors and what the public authority decides to do with its own funding.

Indeed this forms part of a wider problem of both moral hazard and adverse selection. As we have noted, people who think they may be a claim on an insurance system will take out insurance and indeed may move to where the insurance system is the most generous. In so far as insurance is available then there is less pressure on the individual to reduce the risks they take. In part adverse selection can be reduced by making contribution compulsory. In the same way the moral hazard can be reduced by requiring a degree of contribution by the insured whenever there is a claim. This works particularly well where the first loss is borne by the insured and only when it is large enough does it get met by the insurer. Both may be addressed to some extent by having risk-weighted contributions. However, these incentives still do not work if society is not prepared to face the hardship that may come from those who refuse to insure. This applies particularly to areas such as child poverty or care for the aged.

IMPLICATIONS FOR MULTILEVEL GOVERNANCE IN THE EU

Economic systems are inherently asymmetric. Those in difficulty have no choice but to adjust while those who are relatively better off do not have to do so. Thus countries running a balance of payments surplus can build up reserves, whereas those running deficits will eventually find that they cannot borrow further – although this may take a very long time. Of course one might query why countries would want to hold such reserves rather than increasing consumption and allowing themselves to become

richer by revaluing. At the individual level, those who lose their jobs have to cut back on their spending as they erode their savings, while those who retain them or indeed get an increase in pay have no need to adjust their pattern of consumption if they do not wish to do so. Nevertheless, in addition to the indebtedness of the more troubled euro area countries there has been a running up of private sector obligations, where claims of the banks in the stronger countries on those in the weaker has also built up.³

While the closer association of the European countries allows much more effective policy learning than has been the case earlier or elsewhere, it imposes its own pressures, as countries might feel obliged to change their systems as a result of the pressures of economic competition, not because of any change in domestic social views. Higher social charges may be a component in labour costs and hence as other layers of protection are removed, this may encourage 'social dumping', where employment shifts to low social cost locations. Up until the enlargements of the EU of the last decade this worry had not turned out to be much of a reality (Chassard, 2001). Even then the dominant concern lay with emigration from the new member states to the others. The irony behind these concerns is that the migration of persons and production is itself part of the operation of a successful social policy, contributing to a reduction in inequality in the EU as a whole. The principal difficulty has been that social policy has been largely national and the extent of transfers from richer to poorer countries in the EU has been strictly limited. Without such fiscal transfers, not only is it much more difficult for the less well-off member states to address their social difficulties but any asymmetric shocks within the euro area become hugely difficult to address, especially for a highly indebted country.

The EU is not alone in facing these problems and their democratic consequences. Indeed because of the fundamentally national responsibility for welfare systems this is scarcely surprising. However, what we do notice is that the pressures on the euro area from sovereign debt problems in some member states and the subsequent severe inequalities and unfairness that result are leading to a rethink of where the democratic boundary to national responsibility should lie. With the implementation of the 'six-pack' and 'two-pack' measures in 2012–13, the member states' range of choice is reduced, and albeit reluctantly the degree of cross-border assistance is increasing. Furthermore, despite the process of harmonization and development being voluntary under the OMC, it is clear that policy learning in the field of social welfare has been rapid over the last 15 years or more.

CHANGING WELFARE STATES IN PERSPECTIVE

The continuing integration in Europe, particularly within the EU, has heightened the debate on European welfare models. There is considerable variety in how one can address welfare problems, in part reflecting the relative importance one attaches to improved income, employment or full inclusion in society as captured in the welfare triangle (Chapter 2, Figure 2.1). This variety runs right across Europe from the greater focus on employment among the Nordic countries, through the greater emphasis on market mechanisms and the direct importance of relieving poverty in the ‘Anglo-Saxon’ countries to the significance of the family and community in the solution which pervades the ‘Mediterranean’ approach. In this volume, we have chosen to raise a number of challenges and trends that are common to European welfare states and that constitute the backcloth against which the drastic changes in welfare state provisions were brought in in the wake of the financial crisis and the sovereign debt crisis. More specifically we discuss the relevance of conceptualizing the development of social and economic regimes in terms of welfare models given the strong influence of change brought about through a deep-rooted transformation of social values and lifestyles as well as the impact of globalization on terms of trade, production patterns and factor price levels influencing states’ international competitiveness. We also address policy coordination on the European level which has become the established mode of governance in the EU in areas with a direct influence on national welfare systems and the practices of democratic government.

Patterns of Welfare States in Central and Eastern Europe

In Chapter 2, David Mayes and Zaidah Mustaffa explore the ways in which the changes that occurred in the last decade have altered the structure of European welfare systems. It takes as its point of departure the classical description of European welfare states in four general categories: the Anglo-Saxon; the Continental; the Scandinavian; and the Southern. The neatness of this categorization is now being disturbed by three developments: the enlargement of the EU to twelve new members drawn primarily from central and eastern Europe; the forces of globalization; and growing heterogeneity among and within welfare states. The authors argue that these factors have complicated categorization of welfare state regimes as there is simply no single model. Dissimilarities appear not only between states but also within states among different policies, and to complicate the picture further, single policies often display different logics, for instance in education or health. Nevertheless,

the authors find that the forces of globalization and the process of policy transfer on the European level have resulted in convergence. But this convergence is not directed towards uniformity as European states have adopted aspects of all four general models. The new member states of the EU contribute to a blurring of the four general models through the extreme financial pressure they sustained when reforming their welfare systems, which led them to adopt truly specific solutions that confound the traditional welfare state patterns.

Changing Conditions for Social Insurance in Europe

The changing nature of social insurance in the EU is examined by Katherine Lyons and Christine Cheyne in Chapter 3. The authors argue that, following the sovereign debt crisis in Europe, the EU faces the urgent task of rebuilding economic prosperity for all. The recently adopted fiscal compact and accompanying sanctions represent a significant step in responding to the crisis through stimulating growth, creating jobs (especially for young people), addressing overspending, and restoring confidence in the euro area's common currency. According to Lyons and Cheyne the historical emphasis on social insurance based protection and solidarity (and the more recent associated focus on the social investment welfare state model) must be maintained as part of the project of deepening political integration and democratic governance. In examining the governance of social insurance in the EU, they find support for two models of EU democracy: (con)federal, with decisions being made supranationally, and unitary, with member states making their own decisions, and argue that, in addressing the causes and effects of the sovereign debt crisis, democratic governance and risk-pooling should not be compromised.

Active Labour Market Policies and the Human Development Perspective

The chapter by Mark Thomson takes as its point of departure Amartya Sen's capability approach which looks at inclusion as meaning raising effective freedoms by involving people in decisions through more participatory forms of democracy. In the case studies of three 'active' welfare states (Denmark, the UK and the Netherlands), the author investigates how reforms in both formal activation policies as well as in the governance of activation affect both the quality of democracy as experienced by those being 'activated' and its future form. One example of change is in multilevel governance structures in Denmark which have

undergone a shift of responsibility for social provisions away from the regional to the local level accompanied by an increased emphasis on behalf of the state on management-by-objectives. The chapter critically assesses the European Employment Strategy and its concern with creating more and better jobs through the combination of flexibility and security.

Inequality, Decentralization and Voluntarism

The aim of Tess Altman and David Mayes in Chapter 5 is to explore three related trends which contribute to important changes in the way social welfare and democratic decision making interact. These trends are: growing inequality, an increasing devolution of powers to local authorities and institutions, and a rise in voluntary provision and contributions. The overarching concern is with the effects of localization and voluntarism on equitable and democratic welfare provision. Equality of access, opportunity and treatment is held as one of the defining characteristics of a socially inclusive democracy. However, the current global climate is instead one of increasing polarization and growing inequalities as the 'good' sides of globalization tend to benefit only certain localities while disparities occur both between countries and within countries, with the rich tier of society becoming richer at the expense of the poorer tier. These inequalities have been exacerbated by the recent global financial crisis. Overall, the authors question how far competition among areas is realistic in Europe in the way suggested by Tiebout (1956) concerning the US. In that model, polarization is sufficient for electors to reinforce their own position. Thus a richer community that values low density housing and has little need for publicly provided services can manage to operate a low tax regime. Not only are its demands on the public system low but the tax take per head of population is high hence permitting the lower rates. This may also affect the region's competitiveness since post tax incomes can be higher even if pre-tax incomes are lower than elsewhere.

The Growing Role of Social Service Solutions Outside the Public Sector

In Chapter 6, Tess Altman and Cris Shore explore the role of the private and voluntary sectors in filling the gaps in public sector social welfare provision and consider the extent to which this augments or weakens the democratic process. While the public sector has tended to be the major provider in European social welfare systems, since the late 1980s there

has been a notable shift towards privately provided support and grey services as governments have sought solutions outside the state system. This trend has been fuelled by an increasing emphasis on measures that encourage efficiency, productivity and competitiveness as well as pressures on the sustainability of welfare systems further exacerbated by the global financial crisis. The chapter's empirical focus is on case studies from Britain, the US and New Zealand on the Private Finance Initiative, Asset-Based Community Development and new contractualism. The findings of the case studies are used to analyse the contradictions between the goals of social protection and regulation that underpin European social policy and the demands for increased flexibilization and privatization promoted by the European Single Market and the rulings of the European Court of Justice.

The Rise of the Unelected

In Chapter 7, David Mayes and Zaidah Mustaffa explore the implications of replacing direct government provision of welfare services by expert technical organizations which provide a multitude of services for government departments under the terms of performance contract. The existence of these organizations breaks the direct link between the citizen *cum* customer as a participant in the democratic system and the state as the provider. These organizations display a huge variety in forms and tasks and operate according to controversial processes where major objections include a lack of accountability and a less-than-expected cost-efficiency. In some countries this has generated considerable mistrust. The authors investigate the case of the health service in the UK where there are some one thousand quangos. It explores their variety, how they operate and the assessments of their performance that have been made. Using this experience, Mayes and Mustaffa draw conclusions for the implications for democratic arrangements in the EU.

European Governance: the Case of Advanced Policy Coordination

In Chapter 8, Anna Michalski traces the significance of the diversity among national welfare states for the search for a common system of governance in Europe. In view of the substantial degree of the heterogeneity among national economic and social conditions as well as the structures and aims of national welfare models, the EU has opted for soft governance in the area of welfare in the form of the OMC. Over time, however, the OMC has become increasingly criticized for being deficient in terms of democratic policy making. The criticism focuses on the

de-politicization of the governance process, the dominance of national executives and the technocratic nature of policy making that the method has resulted in. Despite the method's claim to safeguard national sovereignty, empirical evidence indicates that soft governance has implications for the legitimacy of the EU and the democratic processes and institutions of the member states in a subtle, but still significant, way. As a result of the EU having opted for a decentralized approach to European social welfare coordination, considerable strain has been put on the traditional roles of national and subnational democratic institutions, national parliaments and local and regional authorities.

NOTES

1. The ability of the Commission to enforce the rules of the SGP was doubted from the inception of the EMU as the Maastricht Treaty did not include coercive instruments. The SGP was built on an iterative process of monitoring and assessment of national economies followed by recommendations proposed by the Commission and sanctioned by the Council. As the decision to fine a country breaking the SGP rules had to be unanimous, the targeted state could block the decision. Already the Lisbon Treaty changed this provision and such decisions no longer required consensus (TFEU articles 121–122). The so-called six-pack legislative package further reinforced the governance by applying a reversed majority implying that a majority of the member states has to vote against the recommendation of the Commission to punish a member state in breach of the rules of the SGP.
2. Of course in the case of electricity, gas or even railways, one can distinguish between the provider of the network, which is a monopoly activity, and those who provide services through it. Thus a variety of generators and even retailers can provide electricity through a given grid. Different companies can run trains on the same tracks. This feature is less common for social services, although technically possible through shared use of buildings, for example.
3. The debate on these balances, built up under Target 2, has been particularly strong in Germany: see CESifo (2012).