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**RESEARCH ON
SOCIAL SCIENCES AND HUMANITIES**

**Welfare Reform and the Management
of societal Change**

**EUROPEAN COMMISSION
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Foreword

Under the Fifth Framework Programme of the European Union for Research and Technological Development (RTD), the Key Action *"Improving the socio-economic knowledge base"* set broad and ambitious objectives: first, to improve our understanding of the structural changes taking place in European society, second, to identify ways of managing these changes and to promote the active involvement of European citizens in shaping their own futures.

A further important aim was to mobilise the research communities in the social sciences and humanities at the European level and to provide scientific support to policies at various levels, with particular attention to EU policy fields.

Since the launch of the Key Action in 1999 more than 1600 research teams coming from 38 countries have been mobilised. Although most important collaborative efforts are undertaken at the EU level, the participation of accession countries is already considerable with 189 teams out of 1676 teams coming from these countries.

Socio-economic research requires an effective dissemination strategy and the development of such a strategy is a top priority. It should be recognised that there is a broad range of potential users of this type of research apart from the research community, policy makers at various levels and civil society, the citizens of Europe constitute an integral target group.

Different users require different types and levels of information with respect to the results arising out of EU socio-economic research. While the research community may be interested in "raw" results of many of the +/- 200 research projects supported to date, some other users require more analytical information. The latter audience is targeted by our Publication Series at the level of State of the Art Reports. These represent reports normally produced by the Projects in their first year of implementation and they reflect the current state of the art of the specific topic of research to be dealt by each individual project.

The present report was prepared in the frame of the project ***"Welfare reform and the management of societal change"***, ***led by Peter Taylor-Gooby*** and funded by the second call for proposals of the Key Action "Improving the Socio-economic Knowledge Base". The overall objective of the project is to improve understanding of the process of policy reform in order to comprehend better the likely future direction of reform and the potential for the EU to give a lead in specific areas.

Specific objectives include:

1. Providing a detailed analysis of recent policy changes in relation to pension reform, long-term care, provision for unemployed people, women's labour market participation, policies for low-paid people, the impact of the EU on national policy and the way in which welfare is financed.
2. Setting this analysis in the context of the different national policy-making mechanisms and the institutional and constitutional contexts in which they operate, in order to identify the factors that facilitate or obstruct reform.

The current report produces a comparative background review of theoretical approaches to policy-making and analyses the policy-making process in the selected countries in relation to the key policy areas chosen. The research on this topic draws on a range of approaches that have emerged in recent debates about the politics of welfare reform.

Key themes to emerge from the review are:

- In the area of labour market policy, reform has involved a substantial shift towards re Commodification, while in social care and health it has been towards cost-containment,. In pensions the shift has been towards cost-containment, plus recalibration, and in family policy the intention has been for recalibration to update provision to meet new needs.
- Reform takes place in a general climate of concern to constrain spending and in which EU interventions, both directly in relation to specific policies and indirectly through fiscal, labour-market, monetary and competition policy, are exerting an increasingly important influence.

Welfare Reform and the Management of Societal Change

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The New Context of Welfare:

State of the Art Paper for the FPV project: Welfare Reform and the Management of Societal Change

Peter Taylor-Gooby with Anne Daguerre

The purpose of this paper is to provide a brief review of comparative research on welfare reform in Europe and to justify the approach taken in the WRAMSOC project.

BACKGROUND: REVIEW OF RELEVANT COMPARATIVE RESEARCH

Three questions are of central importance in comparative welfare state studies: what is welfare in a capitalist society? How do you study it? and how do you understand welfare state change? - object, method and process. The first two questions received most attention during the early development of the area of study, for the simple reason that welfare states seemed to be developing on a smooth trajectory of growth. In recent years the obvious challenges to welfare states have generated interest in understanding change, and focused attention more on the third - what are the factors causing welfare states to change and how do they operate?.

The post-war trajectory of welfare state studies started out with simpler approaches to both object and method that steadily grew more sophisticated, aided by improvements in the quality and availability of data. Welfare was defined initially in terms of state spending on defined services or 'welfare effort' (Wilensky and Lebeaux, 1958). Over time this notion broadened to include output and outcome measures in terms of recipients of services and benefits and impact on issues such as inequality or labour market participation. The information used initially relied on official data on spending, but later expanded to include a range of measures of economic, political and social activity (growth rates, participation of business, unions and other groups in politics, impact on family and household structure). A wider range of methods including more sophisticated statistical techniques and, later, qualitative approaches from political science and sociology were used. One outcome of growing complexity was that researchers began to move away from unidimensional approaches to understanding welfare systems and to realise that politics (both party politics and 'power resources'), institutional structure, different varieties of capitalism and differences in social structure make a difference to the operation of welfare systems. The problem that now arises is that so many disparate issues have become relevant to the understanding of welfare policies that research is extremely difficult to conduct successfully.

Regime Theory

The innovation of 'regime theory' provided a useful and widely applied heuristic tool for dealing with the complexity inherent in the study of welfare states. Regimes link together political, economic and social aspects of society, understood as clustered in particular constellations that are *differentiated* into a relatively small number of families or groups and are *relatively stable* over time. Stability is reinforced by the fact that welfare policies do not function as a simple addition to an existing structure but are both generated by and help to support the pattern of interests within society. Thus current policy 'feeds back' into the sustenance of future policy (Skocpol and Amenta, 1986). The advantages of this perspective are that the range of welfare states is simplified into three or four types whose development

can be traced. However, the approach tends to stress inertia, precisely because it stresses mechanisms of stability, such as policy feed-back and path dependency, which are the necessary processes that bind welfare systems together so that they can be studied as a small number of distinct regime types.

Variants of Regime Theory

Esping-Andersen's path-breaking work (1990) provided the impetus for the widespread adoption of this approach. It requires a clear account of what welfare states do (in other words what counts as 'welfare' in a capitalist society) which cuts across the economic, political and social spheres that are bound together in regime theory. The initial answer was 'decommodification' - the extent to which welfare systems, generated by a political process, liberated individuals from the economic compulsions of the market with social consequences in terms of the advantaging of particular groups in systems of stratification, which generates patterns of interest, which immediately feedback into the political process of sustaining the system. The great merit of this approach was not only that it linked together a broad range of aspects of society into a regime, but that it also provided a technique to operationalise division into regimes through measures of outcome similar to those used in unidimensional work (although Esping-Andersen's own database has not been published, a number of similar databases have been developed by scholars building on his work). Outcomes can be defined as the long-term results of certain institutional arrangements: for instance, the three models of welfare identified by Esping-Andersen produce different outcomes (long-term results) in terms of interest formation and welfare rights. Outputs can be defined as the immediate or short-term results of a particular programme (for instance, more generous levels of benefit provision will immediately increase the replacement rate of say, the basic state pension in the UK).

The regime typology provided the basis for a great deal of work that sought to identify a broader range of regime types (for example, Mitchell and Castles, 1990, Ferrera 1996 - see Abrahamson, 1993 and 1999 for a review). All these approaches essentially concur with Esping-Andersen on object and method - welfare states are to be understood in terms of output and (sometimes) outcome measures, in relation to the rights that individuals receive to income from state benefits. The range of activity built on it reveals a further reason for the fruitfulness of the concept: the notion of regime is sufficiently plastic to slide between the status of ideal type as the Platonic forms into which welfare states in the world more or less fit, or as empirically based categories; Esping-Andersen's methodology which uses judgement in relation to indices which draw together information on individual rights in relation to benefits when various contingencies affect earning-power, does not absolutely rule out either approach. In this context, regime theory provided a useful and much needed heuristic device for understanding welfare developments in a rigorous and yet flexible manner. This accounts for its continuing popularity amongst students of the welfare state. Like all good theories, it provides a useful simplification of reality.

The most significant and sustained critiques of regime theory comes from feminist scholars. Two variants are important, both concerned with the object of study and the method. First a number of writers point out that women's access to welfare depends not only on relationship to the wage-labour market and to cash benefits from the state, but also on women's particular role in relation to family obligations and on the various forms of discrimination on grounds of gender (see Lewis, 1993, Orloff, 1993, O'Connor, Shaver and Orloff, 1999, Pateman, 1989).

The response has been to develop a notion of de-familialisation parallel to decommodification to capture the extent to which state welfare allows women opportunities to pursue plans of life independent from family responsibilities (Esping-Andersen, 1999). This operates in a logically similar way, based on political processes that lead to welfare provision that impacts on economic opportunity and thus on social relations and interests and thus on politics. Korpi's recent analysis of women's independence (2000) draws on parallel notions, operationalised through eclectic measures of the opportunities in education, employment and family life-style available to women. Thus this response seeks to expand both the object of study (welfare includes defamilialisation as well as decommodification) and the method to take account of the way in which state provision interacts with areas of family life (social and child care) often outside the market.

The regime approach as developed by Esping-Andersen and others provides a useful way of drawing together economic, political and social factors in its account of the welfare state and thus captures their complexity as institutions, but tends to conceive of them primarily as mechanisms for allocating resources in response to the material interests of different groups, determined by labour market or family participation. As welfare states continue to develop and to face the pressures listed in the Appendix, interest in approaches which focus more on processes of policy change and policy reform has grown.

The most important approaches have combined political economy and political sociology in their accounts of the development and interaction of interests in policy-making. More recently researchers have become more interested in the institutional frameworks within which policies are developed and have drawn directly on political science. Other streams of research have drawn on political economy, which can be also considered as part of political science, while others locate themselves centrally in political sociology.

Paying More Attention to Social and Political Factors

Scholars from a variety of disciplines expressed concern at the relative lack of importance accorded to social and political factors and in particular to working-class politics in approaches such as that of Wilensky (which focused on demographic structure and economic growth: Wilensky and Lebeaux, 1958) and sought to demonstrate that 'politics matters' in the development of the welfare state. Both political economy and sociology are concerned with the distribution of power in society. Political sociology focuses on political actors and the way they understand their interests and how institutions mediate their action and interaction. Pure political economy is concerned primarily with the way economic forces generate material interests, which are seen as the dominant factor in politics. In welfare state studies there has been considerable interplay between the two perspectives, to the extent that the distinction between the two approaches may appear artificial but is still needed, in our opinion, for the sake of analytical clarity.

Analysis of the role of politics on welfare state development was strongly influenced by Marxist political economy that saw class struggle based on material interests as the primary force behind the development of capitalist welfare states. The conflict of interest between classes is played out through party politics at the parliamentary level and through trade union struggles. Working class interests may succeed in gaining provision that serves their interest within a capitalist system, to a greater or a lesser degree. At the same time, capital is under strong pressure to provide welfare services in order to legitimate the inequalities and make the world safe for the exploitation of labour power (O'Connor, 1973; Gough, 1979).

Stephens also criticises Wilensky's measures of corporatism and of the role of politics (Stephens, 1980, p. 94-6) from a Marxist perspective. Using far more detailed analyses of developments in a smaller number of countries he is able to show that:

'The level of labour organisation and the strength of the socialist parties influenced welfare state development in the post-war period. The terms of the compromise between capital and organised labour varied substantially according to the strength of labour and of the socialist parties with the result that the character of the political economies has diverged too, some countries moving towards a corporate collectivist pattern, others towards democratic socialism' (Stephens, 1980, pp. 195-7).

Korpi, writing mainly about the development of welfare in Sweden in the context of comparative analysis, argues that the development of policy is to be understood in terms of the 'power resources' available to the bourgeoisie and to labour in 'democratic class struggle'. These include degree of organisation, relationship to the mass media and expression through political parties (1978, pp. 317-9; 1983, pp. 208-11). A subsequent study of eighteen nations study, directed in collaboration with Esping-Andersen, concludes 'cross national comparisons indicate that the balance of political power is closely related to the extent to which the boundaries of social citizenship have been expanded' (Esping-Andersen and Korpi, 1984, p. 202).

These variants of regime theory remain materially-based and heavily influenced by political economy, since they emphasise the importance of class struggles for allocating scarce resources in a divided society. Contrary to the dominant approaches in political science, these explanations attach little importance to political institution *per se*. From a political economy perspective, the influence of political sociology is to suggest that institutions and policy-making mechanisms may mediate social conflicts, but they remain subordinated to the unequal distribution of power between classes (or, to put it differently, between social actors) and these are to be understood essentially in terms of economic position. Policy actors and institutions have little autonomy and cannot be considered as primary explanatory independent variables for understanding the dependent variable, e. g., the evolution of the welfare state.

A variant of this approach has drawn more on political sociology. It also conceives of interests as materially-based and as dominated by material changes in the labour market and in globalisation (rather than in the affective relations of the family or in shifts away from ideological support for state welfare among some social groups), but pays much more attention to the mediating role of institutions. It attempts to answer simultaneously two questions: how do institutions evolve in response to individual incentives and choices, and how do institutions affect the performance of political and economic system? Sharpf and Schmidt's (2000), Rhodes and Ferrera (2000) and to a lesser extent Pierson (2001a, 2001 b) belong to this school of thought, since they try to explain how institutions affect the allocation of resources between interest coalitions. However, the focus is not on how policy actors perceive their role and formulate decisions, but rather on the institutional capacities of each welfare regime to cope with a series of challenges, in particular globalisation and various post-industrial transformations.

Other writers have emphasised the significance of political processes and interactions more directly. In an influential - and combative - series of papers, Castles locates the argument that the development of welfare states can be understood entirely in terms of economic expansion and the development of technical institutional structures firmly within post-war convergence

theory and provides a thorough-going refutation of the approach in analysis of data relevant to the nineteen most developed OECD nation. The thrust of this work is to demonstrate that politics does matter, alongside other factors, and that the most significant political issues are the political complexion of the parties in and out of government and the degree of concentration of government power (Castles and McKinlay, 1979a, 1979b). This tradition makes an important contribution to the development of the understanding of welfare state reform. Regime theory sets party politics in the context of the other factors which influence policy change and policy outcomes.

An important contribution is by Kitschelt (2001, p 282). He shows that party contribution to policy change in circumstances of retrenchment is often influenced by the whole make-up of the party system. For example, social democratic parties may in fact find it easier to cut welfare spending than right parties if there are no credible welfare state protectors for their supporters to defect to. The examination of political leadership can help us understand why New Labour chose to implement policies of cost-containment and re-commodification in various areas of welfare provision when endogenous pressures for change were arguably less pressing in the UK than in Continental Europe. This brings us back to the independent variables examined by various political science approaches: policy-making processes, political institutions, structures of interest representation (interest groups organised in a pluralist or corporatist fashion) and political leadership.

The Contribution of Political Science

One can identify three broad stages in the evolution of political science approaches in this field during the past 15 years. First, in reaction to rational choice theories that emphasised the role of “bargaining” between essentially well-informed and rational actors who sought to maximise their interests in the context of institutional constraints (March and Olsen, 1984), there had been a renewed interest in political institutions as independent variables that shape policy outcomes and human behaviour. The discussion among political theorists in the United States about ‘Bringing the state back in’ (Evans, Rueschemeyer and Skocpol, 1985; Almond, 1988) can be seen as one of the precursors of historical institutionalism (Peters, 1999). Historical institutionalists emphasise the role of institutional choices made early in the development of policy areas. Even if subsequent changes are made, the initial choices have an enduring impact. Authors such as Ashford (1986), Skocpol (1992) and King (1995) make a compelling argument for the prevalence of institutional ‘stickiness’ - the tendency for institutional factors themselves to act as a ‘brake’ on change, independent from the objectives of political actors. Moreover, one of the major contributions of historical institutionalism is that the state is no longer seen as a single entity but rather as an aggregation of organisations and institutions, each with its own interests. Policies can then be explained by the ideas and interests of those institutional actors within a differentiated public sector (see Hall, 1986).

Secondly, and alongside historical institutionalism, the political processes whereby particular approaches reflecting the values of powerful groups come to occupy and to retain a dominant position in policy also demands attention. Structural institutionalism, drawing on the work of Lijphart (1984), Weaver and Rockman (1993), examines the ways in which different forms of democracy operate, and essentially contrasts majoritarian with consensus governmental systems. This provides a fruitful way of examining the processes that generate welfare states and has been extensively developed (see Bonoli and Palier 1996 and 1998, Bonoli 1997 and 2001). A more general version of the structural approach to institutions discusses those entities as a collection of veto points (Immergut, 1992). Essentially, fragmented governments find it more difficult than centralised, unitary states to implement radical reforms due to the

multiplication of veto points. Pierson's work (1994, 1996, 2001a, 2001 b) is indebted to both historical institutionalism and structural institutionalism since he uses the idea of the historical legacy of past choices and the existence of veto points in his account of the politics of blame avoidance in an era of permanent austerity. The problem with new institutionalist approaches is that they tend to emphasise institutional inertia, or, rather, incremental change, to the extent that the possibility of radical policy change is denied. Pierson's powerful synthesis does not entirely escape this criticism. Yet, policy change does occur through a process of learning and succession of trials, failures and successes.

This leads us to the third stage of policy analysis that examines the role of ideas, policy discourses and political leadership as an additional explanation of the process of policy change. A particularly successful approach to the analysis of reforms distinguishes different levels of policy. Thus Hall (1993: 278) identifies three orders of reform: first-order changes involve routinized, incremental decision-making processes that leave policy instruments and goals intact while second-order changes use new policy instruments to achieve old goals. The common feature about first and second order changes is that they can be seen as a case of normal policy-making, 'namely a process that adjusts policy without challenging the overall terms of a given policy paradigm' (Hall: 279). By contrast, third-order changes shift policy in fundamentally new directions by 'changing the hierarchy of goals behind policy'. This draws on the Kuhnian distinction between the processes in science which develop knowledge within an existing paradigm ('normal science') from those which propose and establish a new approach to understanding nature ('scientific revolution').

This distinction is essentially reflected in Pierson's division between programmatic and systemic policy change (1994). The value of this approach is that it allows us to pick out the more fundamental policy changes from the large number of changes taking place under any government. However, it is not always easy to identify third order changes, particularly since these are not always publicised by reformers who wish to avoid blame for welfare cutbacks, and often operate in a subterranean manner to shift policy directions over time. An analytical framework which links together goals and policies, is helpful in identifying when shifts in goals take place. One way to do this is through the idea of policy discourses (see for example, Schmidt, 2001). Policy discourses are coherent systems of ideas that link normative judgements about policy goals to practical accounts of the policies likely to reach them. Such discourses may legitimate particular policy directions to the extent that they reflect widely held values. If regimes are analysed simply in terms of output or outcome, there is a risk that this aspect may receive less attention.

In addition, analyses of institutional structure may include, as well as formal politics, the role of unions, employers, citizen's groups, religious bodies, the media and other agencies in civil society and possibly the dominant currents in ideology and cultural values also. The account of welfare policy-making is in terms of the decisions made by political actors (individuals or collective bodies) in the context of a particular institutional framework and methods that include qualitative approaches and analysis of discourse have become important.

Alongside the combinations of political economy and political sociology which have been most important in recent work, there is a purer political economy approach and also a sociological approach which both merit attention, because they have exerted influence from time to time on research in the field.

Political Economy

Pure political economy without a political sociology or political science dimension, has been less influential in explanations of welfare state development. A number of theories, often discussed as *regulation theories* argue that changes within the capitalist system, involving the introduction of new technology and management techniques (a change in the means of production) have led to the expansion of service sector work, decline of the manufacturing sector, and the gender balance of the work-force (a change in relations of production) which has profound social effects in relation to government welfare policy and to gender relations and family patterns. Jessop (1994, 2000) defines these in terms of a shift from Keynesian Welfare to Schumpeterian Workfare States, but this may over-stress the aspects of reform concerned to discipline and control the labour-force, rather than investments to encourage flexibility and promote a high level of human capital. Thus welfare policy-making is understood as dependent on developments within the economic base of society.

The *varieties of capitalism* approach (Soskice, 1999, Wood, 1994) understands welfare states as systems of labour-market regulation which fit particular politico-economic arrangements. They also acknowledge that other factors, especially institutional and political factors, need to be taken into consideration to grasp the complexity of existing welfare regimes. The key difference is between liberal market economies (the US or the UK) which have weakly developed labour unions and in which labour markets operate essentially through market forces with little direct intervention from government, and the more heavily regulated and co-ordinated systems identified in continental Europe and Scandinavia which rely on a much higher degree of interaction between state, employers and employees, achieved either through a politically led tripartitism (Scandinavia) or through local negotiations between employers, financial institutions and labour (for example, Germany). The operation of labour markets has various implications for social security entitlements, training tax and social insurance policy. The machinery of labour markets also shapes the nature of the divisions between those with secure labour market attachment and more marginal labour market outsiders.

Sociological Theories

A number of accounts that focus centrally on *social and cultural change* exist - post-materialism (Inglehart, 1990), transition to risk society (Beck, 1986, 1994), collapse of welfare culture (Rosanvallon, 1995) - as well as more general accounts of the shift from modern to post-modern (Lyotard, 1995) or high modern (Giddens, 1990), society. Two general points emerge: first it is typically claimed that individuals are more inclined to be proactive and individualist and that the bases of ideologies of solidarity is under threat. In various ways these writers suggest that the ideological basis of the welfare state is under threat. This leads to the second point, the argument that new kinds of political response, understand as a 'Third Way' (Blair, Schroeder, etc), as a politics of avoidance of 'bads' rather than pursuit of collective 'goods, a move beyond interest in redistribution to self-actualisation (Inglehart, 1990), or as a moral rebasing of social welfare, is appropriate. The key features of the new politics are that it must be concerned with the multiplicity of divisions of interest that (it is argued) characterise current society and not on the simple class divisions that were seen as the central issue in the political divisions of the long boom. Thus the stress is no longer on collective services for the core working class led by the manufacturing sector paid for by progressive taxes and social contributions, but more on meeting a wide range of risks and uncertainties (unemployment for lower-skilled groups, environmental issues, gender and regional politics and so on). This is accompanied by evidence of declining trust in politicians and the state which is used to support arguments for a contraction of the welfare state.

A further value shift is in relation to *gender and family life*. The proportion of women in paid employment in most Europe countries is approaching that of men, with important implications for social care, traditionally carried out through the unwaged work of women in the home, and for welfare policies designed to encourage women friendly employment and child care and social security policies, meeting the needs of those with interrupted work records. Other cultural changes relate to the position of other groups such as those defined by sexual orientation (the gay and lesbian movements) or lifestyles (travellers, new age groups).

Analyses of cultural shifts also draw attention to weaknesses in political economy approaches. The second critique raises more deep-seated issues. A number of studies stress the over-riding importance of cultural values in relation to the operation of welfare states. Thus Duncan and Edwards argue for a theory of 'gendered moral rationalities' (1999). The argument is that some groups of women understand family obligations as taking on over-riding importance in relation to their lives under some circumstances. This may conflict with opportunities for release from such obligations through state provision. For example, some women may not wish to take up such services as child care if they believe that a mother should be the primary carer for her children. More significantly, if state policy is based on a programme such as the UK's Welfare to Work which imposes penalties on those who do not take such opportunities, commitment to different values from those that underlie policy may result in reduced access to benefits. Thus what is counted as defamilialisation leading to an improvement in welfare for women from one perspective, may in fact create a diminution in welfare for some groups, because it contradicts their values (Lewis, 2001). This approach expands issues of stratification in relation to class structure to the whole range of cross-cutting divisions of interest that may be identified in modern societies. Some of these divisions operate at the level of cultural and value differences and a political economy approach, based on divisions of material interest is inadequate to capture them.

The various approaches we have reviewed explain the development of welfare states in terms of economic structures, political forces or cultural frameworks. Recent trends have shifted the focus in comparative discussion of the welfare state from accounts concerned to identify different patterns of welfare policy to accounts of how welfare states change in response to pressures.

The upshot of this discussion is to argue that analyses of welfare state reform must always involve a complex notion of the object - the welfare state (since it involves political, social, cultural and economic aspects), but that this object is tackled in different ways. A basic division may be made between approaches that focus primarily on the welfare system as structured through the interaction of various material interests (a *political economy* approach), or as also strongly influenced by the values and perceptions of interests and of welfare state issues by social and political actors (a *political sociology* approach).

In practice, most researchers have drawn on both schools of thought but have tended to locate themselves closer to one or the other. The most important development in recent theory-building has been a move away from the political economy of material interests that is the most important contribution to regime theory, in the direction of approaches which draw more on political sociology perspectives. This has happened as a result of two developments: as existing welfare state settlements came under increasing pressure and reform moved higher onto the agenda, political science approaches that drew attentions to the importance of political institutions and to the discourses through which political actors understand the world and communicate about it attracted more attention. At the same time, analyses of welfare

issues from a sociological perspective demonstrate that values and culture also have an influence on how people behave in relation to welfare policies as well as material interests and this is relevant to understanding reform processes. We now turn to recent developments in research on welfare state reform, paying attention to findings rather than methods.

The Problem: Too Many Explanatory Factors?

The welfare state is a complex object, whose development is theorised in different ways by different academic traditions and which faces a multiplicity of pressures. Analysis of current reforms faces the classic problem of too many explanations and not enough cases. Not surprisingly, there has been an explosion of academic interest of empirical work across Europe (Castles, 1998; Ferrera and Rhodes, 2000; Huber and Stephens; Kuhnle, 2000; Scharpf and Schmidt, 2001; Pierson; Taylor-Gooby et al, 2001). The main currents in the literature reflect the problems identified earlier in relation to regime theory. Regime theory is enormously successful in integrating the different factors involved in the complexity of welfare states - political, economic and social, but because it is based on a political economy perspective, it encounters difficulties in analysing the role of the social and political level in reform. All the recent work combines political economy and political sociology, but some is more oriented towards the former, and stresses the role of welfare systems in relation to labour markets, production and taxation and spending, highlighting issues 4 to 7 on the list in the Appendix). Some draws more on political science and sociology, pays more attention to the politics of state welfare reform and focuses more on issues of consumption in relation to ageing populations and the family (issues 1 to 3). EU-level developments (8) contribute to both areas.

Much of the literature argues essentially that the character of different regimes influences which pressures are most important and the response to them by various social actors. This simplifies our list of explanatory factors by suggesting that different factors are important in different contexts. Here we review some of the main arguments:

Political Economy-Oriented Perspectives

An important recent study from this perspective focuses on the response of welfare states to pressures associated with globalisation (Scharpf and Schmidt, 2000). It concludes that economic changes have a profound impact on welfare states, but do not render state welfare obsolete:

‘Welfare states remain internationally viable only if their systems of taxation and regulation do not reduce the competitiveness of their economies in open product and capital markets - which implies that, by and large, redistribution must be achieved through public expenditures rather than through the regulation of employment relations, and that the costs of the welfare state have to be collected from the non-capital incomes and consumption expenditures of the non-mobile populations’ (Scharpf and Schmidt, 2000, p. 336).

At first sight this might imply a lurch towards Anglo-Saxon liberal systems, which traditionally favour weakly regulated flexible labour markets and relatively low spending. However, the extensive empirical work in this project indicates that rather than a simple ‘race to the bottom’, different welfare regimes reflect the pressures in different ways and identify problems which they manage with more or less success (see similar conclusions from Alber and Standing’s study, 2000).

The main conclusions from Scharpf and Schmidt's contribution runs as follows. Nordic countries provide expensive universal welfare. Large state sectors are essential to maintain employment and provide a disproportionately large number of good quality jobs for women. The problem of globalisation resolves itself into one of whether 'non-mobile tax-payers' (the vast majority of citizens) will pay to finance public sector employment and transfers, and whether (assuming state service sector employment has now reached its ceiling), it is possible to expand the private service sector which at the same time maintaining the commitment to universal welfare and ensuring that the private sector jobs are of adequate quality (Scharpf, p.91; see also Iversen and Wren,1998).

In continental Europe, where Bismarckian approaches base welfare on a relatively high degree of equality in earnings and well-paid jobs, with a focus on insiders (core segments of the labour force) to the detriment of outsiders, the real problem is how to maintain levels of employment in the face of international competition. One strategy is to modify the previously 'sacrosanct' social insurance systems to reduce labour market costs, another is to foster the growth of private service sector employment. Both these approaches lead to conflicts with entrenched union interests and threaten the stability of the balance between workers, business and government which had sustained the existing settlement (Scharpf, p. 111).

Liberal countries of which the UK is the most important example in Western Europe, operate the most flexible labour markets and produce most unequal outcomes. These countries are essentially prone to the efficiency-inequality dilemma. The political problem of response to more open international markets becomes one of how to mobilise support for meeting the needs of the poor (Scharpf pp. 100-2). This resolves itself into conflicts over taxation and leads to pressure for highly targeted policies built around workfare.

Esping-Andersen (1996, pp. 10-20), who pursues slightly different issues, to do with the way in which different countries manage welfare during de-industrialisation, offers a substantially similar analysis. In Nordic countries, the challenge is to maintain social solidarity as it becomes necessary to expand private sector employment and provide more benefits and training programmes for unemployed people, with some means-tested targeting for young unemployed people.

In corporatist continental Europe, the key challenge is to do with labour market rigidity and the problem lies in the division of interest between the insiders with secure employment and access to good social insurance welfare and outsiders (short-term or part-time workers, migrants) which gives these systems their peculiar inertia. Neo-liberal countries face the challenges of inequality and poverty as the result of the combination of various factors such as wage deregulation and weak unions, increased international competition (especially in manufactured goods) and political pressures to cut taxes and welfare programmes.

In a nutshell, these analyses agree that different issues emerge in different regimes depending on their institutional characteristics and the historical legacy of welfare commitments. In Nordic countries the main problem lies in the balance between continuing expansion of state service sector jobs, essential to the maintenance of social solidarity and the political sustainability of increased taxation. In continental corporatist countries, the problem consists in reducing the impact of social insurance on labour costs, especially on low-wage, low-skilled paid employment and expanding private sector jobs. In the meantime Continental countries find it particularly difficult to implement much-needed change due to the existence of welfare constituencies that oppose reform (e.g., radicalised corporatism in the French case,

Levy, 2000). In the liberal world the issue is provision for the most vulnerable, which resolves itself politically into constructing support for redistributive welfare in an inimical setting.

Perspectives which Combine Political Economy with Political Sociology

Paul Pierson's magisterial *New Politics of the Welfare State* sums up much of the current debate from a political sociology perspective in the final chapter (2001b). The context of reform is seen as shaped by two factors - the overall 'stickiness' (or resistance to change) of the welfare settlement and the electoral popularity of state welfare (p.411). These factors may not prevent reform but they certainly slow it down and limit its scope. Stickiness involves the existence of formal and informal veto points and path dependency. Popularity results from the fact that, as time goes on, there are simply more recipients of more programmes and (Pierson claims) a psychological 'negativity bias' (Kahnemann and Tversky, 1979) which weighs the concentrated losses of particular programmes more strongly than the equivalent but diffuse gains of tax reduction. Following Scharpf and Schmidt, he argues that globalisation is not in itself of major significance: it doesn't undermine the possibility on the welfare state, but simply affects the way in which it operates. The real challenges result from endogenous developments, such as population ageing, pressures on mature welfare states and the secular trend to declining productivity growth that reduces the capacity to finance popular but costly welfare programmes. The irresistible forces playing upon unmoveable objects (the welfare states) are in fact domestic forces; globalisation renders the adjustment more unavoidable and at the same time more painful, but, had globalisation not taken place, unpopular welfare state adaptation in an era of permanent austerity would have still occurred.

Three distinct processes are identified (pp419-28): **recommodification** (the imposition of greater market discipline through welfare policies such as workfare); **cost containment** (policies to retrench spending) and **re-calibration** ('reforms to make the welfare state more consistent with contemporary goals and demands for social provision' - p.425). The last-named involves both **rationalising** existing provision, perhaps through internal markets and the **updating** of services to meet emerging needs, perhaps most important the care needs of increasing numbers of very old people and the needs associated with the family-labour market interface, in countries which did not previously have well-developed child care services and relevant employment rights.

Policy developments vary both by policy domains and by regimes. Thus labour market reform is mainly recommodification (as advocated by the OECD 'jobs plan' and in workfare and similar strategies) and recalibration to do mainly with the shift to more women-friendly employment. In health and social care the keynote is cost-containment (through budget limits, internal markets and similar strategies, plus some recalibration (to link social insurance pensions to the interrupted patterns of employment, or establish stronger public health programmes). Family policy reforms mainly involve updating to meet the new needs of changes in family life.

When regimes are examined, Pierson's analysis follows some features of the political economy approach, but also adds further points. In relation to the social democratic Nordic countries, reforms involve cost-containment, with relatively little recalibration and recommodification (although there is noticeably more means-testing for groups such as young unemployed people), because they are already highly sophisticated and have adapted to needs that are only now being addressed elsewhere (p.440). Pierson rejects the political division between state and private sector workers identified by the political economy approach for two reasons:

- There is little empirical evidence to support it (see for example Timonen, 2001; Taylor-Gooby, 2001b).
- The fault lines of social divisions and interactions are more complex: the two groups often sleep together, because state sector workers may well have private sector partners. In any case, the foundations of solidarity are able to manage these differences.

In relation to the continental corporatist group, Pierson concurs with other commentators that the political conflicts surrounding reform are strongest and the reform process most protracted (p.446). The conflicts between insider and outsider interests are real but more complex than the political economy approach allows, because of the social relationships of the two groups. Reforms typically involve cost-containment in social insurance and the expansion of employment opportunities in relatively low-paid service sector work through recommodification and, at times, updating, especially in Italy. The way forward is through the emergence of coalitions of political forces that can transcend the insider/outsider opposition and this has been achieved by the formation of new centre or 'neue mitte' in the most successful countries. The most successful countries are Austria and the Netherlands; Italy finds itself in an intermediary position while France and Germany until recently were pictured as typically frozen landscapes (Palier, 2000, 2001).

Reforms in the liberal group are again characterised by recommodification and cost-containment (p.432) in an analysis which perhaps does not do justice to attempts to introduce recalibration/updating through new employment rights and training programmes in third way liberal countries such as the UK, although few commentators see this as a decisive break with the liberal tradition (but see Hills et al, 2002). Reforms have been aided by the first-past-the-post electoral system which gives the opportunity for governments with strong parliamentary majorities to introduce radical change, in the context of traditionally weak support for state welfare and weak union movements. It might also be added that arguments for the expansion of welfare are firmly grounded in claims that a better educated and supported workforce will be even more flexible at a level of higher value-added output and thus sustain competitive performance. Thus reform is at the same times more rapid and less strongly opposed than elsewhere in Europe.

In general, the political sociology-oriented approach allows a more complex and detailed analysis of reform processes and of the politics that surrounds them than does political economy. It points out that reform may involve rather different activities in different sectors of welfare and that the political coalitions involved in policy direction may be more complex than those that can be read off from a simple account of the interests of different social groups.

Points From Recent Work on Welfare State Responses to the Challenges Identified Above

In general, the findings of the recent analyses of welfare state reform may be summarised as five main points:

- European welfare systems have proved resilient and have not reduced spending or engaged in a 'race to the bottom' as some commentators predicted. In fact welfare spending has continued to increase although not at the speed of the 1970s. It is noteworthy that the relative position of Scandinavian, Corporatist and Liberal governments remains broadly unchanged, while the Mediterranean regimes have

increased spending and overtaken the liberal regimes in welfare state input, at least in the period covered in the published OECD data (Table 2).

- The new context of welfare does however, imply strong new restrictions on what governments can do (see for example, Scharpf and Schmidt on the impact of globalisation; Palier on impact of Europeanisation; Pierson on growth slowdown etc); the traditional Keynesian approach, which implied substantial state investment and intervention, increasing taxes and state borrowing to reflate economies in order to maintain full employment or produce popular benefit improvements carries such heavy costs that it is very unlikely to be pursued.
- Within these constraints, welfare states have also been adaptive, despite the concerns expressed a decade ago about the tendency to inertia of the dominant welfare regimes. They have pursued more or less successful policies of cost-containment and responsive adaptation - both policies designed to contain spending and the development of new kinds of services. Developments in the former area are often concerned to reduce future spending commitments, introduce efficiency savings often through innovative mechanisms of service delivery such as internal markets and promote the transfer of some obligations to the private or voluntary sector or to families and services to meet new and emerging needs.
- In the latter area are: active labour market policies; the recognition of unwaged work; support services that substitute for family care to realism women for waged employment; new policies to improve service sector productivity. Changes are not simply directed at constraint. There is some evidence that different regime types pursue different trajectories of reform. Paul Pierson, for example, argues that, while cost containment is common to all regimes, liberal welfare states tend toward recommodification through increased targeting of the state sector and a greater role for private services; Nordic countries tend to pursue a rationalising re-calibration aided by strong popular support for welfare and an institutional structure that permits negotiation between the various interests, and the Continental systems pursue recalibration at a slower pace, impeded by the division of interests between labour market insiders and outsiders and the greater number of opportunities for veto in their governmental systems (Pierson, 2001b, p.455).
- As a result of these differences in reform paths, there has (so far) been little obvious convergence in overall welfare state types. The different identified regime categories remain recognisable despite the impact of the factors reviewed above. The strong pattern of divergence within Europe enables us to retain welfare regime theory as a starting point of analysis. In part this is due to the fact that similar pressures emerge in different ways in different systems (thus a universalist Scandinavian welfare state may respond to employment pressures through further investment in active labour market measures and retraining, while a liberal one may tend to stress the work incentives and sanctions; Corporatist social insurance pensions may moderate spending by readjusting formulae and retirement rights. Whether this state of affairs will continue, or whether institutional frameworks will change over time is unclear. The previous project ('European welfare states under pressure') argued that in a number of cases (particularly France, Finland and Sweden) changes in the welfare systems and the apparatus of policy-making that surrounds them are likely to lead to new developments (in Hall's language, 'third-order changes') in the near future. Similarly a number of commentators argue that recent developments in the UK constitute a shift

from liberalism to a more institutionalised competitive welfare state, although it is at present hard to judge.

These issues point to three main conclusions for our research:

1. Reform debates and processes differ between different policy areas. Particular differences may be identified between the areas of the labour market, social care and health, pensions and family policy. It is thus important to include provision from all four areas in any analysis.
2. The national analyses show that trajectories of reform cannot be read off directly from party positions or the party complexion of government. As Kitschelt demonstrates, left parties may find it easier to introduce retrenchment measures when the electorate is divided on social and economic issues than when there is consensus, because there is no credible alternative welfare state protector to benefit from voters' defection (2001). Thus it is important to analyse the processes whereby political actors interact and the contexts in which they do so.
3. In Nordic countries conflict over reforms is less marked, and the main direction of change is cost-containment; in continental countries, cost-containment is again the keynote (with some moves towards recommodification), but this is because policy making over the key issues of the reform of social insurance and the expansion of a less secure private service sector is surrounded by nearly intractable conflicts, while for liberal countries, reform is substantial involving recommodification and cost-containment but less conflictual, because state welfare is relatively weakly defended. There are clear divisions in the extent to which defenders of the status quo are entrenched in different constitutional and institutional systems. However, because the divisions in conflicts are in practice less clearly drawn than analyses which look simply at interests would imply, it is possible to conceive of developments which will allow reform to take place. In Nordic countries, reforms have been achieved through consensual negotiation, in continental countries by the formation of new coalitions cutting across the previous divisions and in liberal countries it has been through attempts to develop an agenda that permits a lean welfare state, strictly as a means to the improvement of market achievement, in the 'Third Way'.

The implication for our analysis is that the political economy approach directs attention to interests and how they interact, and the political sociology/political science approaches place the way issues are identified and responded to by political actors at centre stage. This implies that analysis must also take account of such issues, which we pursue through analysis of discourse.

The Research: where do we go from here?

This discussion has covered a range of developments in brief. It argues that comparative welfare state theory developed through stages which stressed the importance of explanatory variables such as economic and demographic factors as argued by *functionalists* such as Wilensky, social interests (the *power resources* model), and then institutions (*new institutionalism and path dependency*). It was increasingly recognised that a wide range of economic, political and social factors were relevant to the development of welfare states. This culminated in the production of regime theories, which group these factors together into a typology, each regime type consolidated through processes of policy feedback that advantage the more powerful groups within it. Regime theory is, however, rooted in a political economy approach and finds it difficult to accommodate an understanding of the way

interests are identified by different social and political actors. This leads to an analysis of welfare politics as the simple collision of interests based on the access to resources that enables independence, rather than as a complex process mediated through social and political institutions. The importance of integrating value change and political process into analysis becomes more pressing as European societies become more plural and as demands for welfare reform become more pressing .

As noted earlier, the problem with institutional approaches is that they tend to focus on stability rather than policy reform at a time when the welfare state, although resilient, is also rapidly changing. An institutional analysis of policy reform processes can prove useful, provided it is not linear and mechanical. As the British case makes it clear, the politics of conviction may also play an important role in shaping the agenda for welfare reform. Therefore some attention should be devoted to ideas, values and political leadership, even though these variables may not given as much weight for explaining reform processes as other independent variables such as the constellation of interests and the complex interaction between endogenous and exogenous challenges. However, to take into account the 'sandwiching' of policy actors between institutional constraints and structural necessities does not tell the whole story. It is in this context that some scholars have stressed the need for analysing the way in which policy discourses and political leadership shape reform agenda (Levy, 2001, Ross, 2000, Schmidt, 2001). Building on the work of these researchers, this paper argues that it is useful to chart policy discourses in order to trace the way in which ideas about policy reform develop and are accepted or rejected by different groups. Discourses can indicate the success of particular political groups in establishing a consensus (or at least a plurality) for the policy direction they wish to pursue, particularly in multi-actor systems, or the extent of opposition to reforms, particularly in single actor-systems.

Analysis of the identification of and responses to these issues involves describing the subjective perception of different political actors and how these relate to action. One solution is to focus on discourse. Discourse is closely related to culture, understood for our purposes as 'coherent and persisting system or systems of social values, which (in this context) define how people ought to live and what the role of government, other agencies and citizens in providing welfare resources to them should be'. It is more clearly defined in terms of its political role, and may be characterised, following Schmidt (2001), as including ideational and interactive components (see also Jobert, 1991): the first concerns how social issues are to be understood and what the goals of policy in relation to them should be (thus it includes cognitive and normative elements); the second concerns the role of these accounts in facilitating or failing to facilitate co-ordination between policy actors, and in communicating to the public. The later role includes both explanation of policy issues and legitimation of policy. It can be seen that discourses link with values both among policy actors and among the mass public, but are more precisely defined in terms of the role of ideas in permitting negotiation between groups and in achieving the consent of the electorate.

Explicit attention to discourse in our analysis, which has so far focused mainly on institutional differences, with cultural values in a subsidiary role, will have the following advantages:

- a) While there is no cogent argument about what out of institutions, interests, values and discourse has causal efficacy, and it is always possible to construct arguments that will explain developments in terms of particular subsets of these factors, discourse approaches are useful in distinguishing between policy developments that operate within an existing pattern of policy instruments and their modification and those which are concerned with more fundamental re-ordering of the goals of policy,

between Hall's first and second and third orders of policy reform. This distinction is of importance in dealing with the question of whether European welfare states are changing direction in relation to the pressures they currently face. However, important changes are not necessarily announced through a shift in policy-makers and politician's discourse. It is thus important to distinguish policies that appear to lead towards different goals than those prioritised in the discourse. There may well be a hidden agenda behind policy discourses: for instance, globalisation has been understood as a policy discourse (Palier and Sykes, 2001) which provided the main rationale for implementing cost-containment and retrenchment strategies. Had governments not been able to use globalisation as the main rationale for reform, they would have encountered much more difficulties in justifying the shift towards monetarist policies and fiscal austerity. Likewise, the need to reduce budget deficits in order to meet the Maastricht criteria was an objective exogenous pressure, but also enabled governments to rationalise social spending, especially in France and Italy.

- b) Particular discourse of relevance to current policy debates may be identified. The EU is seeking to promote a distinctive social policy discourse, which rests on competitive agendas and approaches to welfare, and discourse approaches may be particularly useful in disentangling EU policy from national policies. There is also a tension between the willingness to maintain social cohesion and social justice (the classic Titmuss approach) and the emphasis on individual rights and responsibilities (individualisation of social risks).
- c) Examining discourse enables us to sum up changes in politics both within institutions of policy-making and between those institutions and the mass of the citizens.
- d) Attention to discourse enables us to deal with the issue of values discussed in relation to Esping-Andersen's regime theory earlier, if we develop an idea of 'popular discourse' alongside the discourse of policy actors. Popular discourse may be less precise and well-articulated but none the less serves to link understanding of issues to value-judgements about what should be done about them and also facilitates the recognition of shared interests between different groups in the population in the same way as higher-level policy-actor discourse does. One important issue is the extent to which higher-level discourse engages or fails to engage with popular discourse.

How should we examine discourses? A first step is to seek to identify the discourses about welfare across the various areas we are dealing with held by the policy actors (parties, employers organisations, unions etc.) we have discussed. To some extent this is formalising what we do anyway. It is likely to be a less formidable task than it sounds, since there will be considerable overlap between the different areas of policy and across some groups of actors. Then we can identify whether there is a specific range of discourses across different countries and whether the discourses operate differently in policy debate in different countries. This approach does not commit us to following Schmidt's analysis which sometimes seems to chart the relationship between discourse and reform as linear and mechanical, so that a particular discourse produces a particular policy. Hall in his account of the breakdown of the Keynesian paradigm among UK government policy-makers, analyses the process as more complex and as the result of a series of policy failures which convinced people of the necessity for a new approach.

Welfare states now face challenges from several directions, which demand responses. New institutionalist approaches, which emphasise the way particular policy-making frameworks

operate in facilitating particular kinds of reforms and obstruction others, provide the most successful accounts of how the response has developed, and in particular how the recognisable outlines of the different European regimes remain, despite the fact that they are responding to broadly similar pressures. These approaches do not explain the existence and persistence of the policy-making frameworks, nor the extent to which they are themselves amenable to change. Thus the explanation of the current reform process in the European welfare state require both examination of the way issues emerge and are dealt with and also accounts of how institutional structure influences the response. This must also consider the way in which institutions are themselves changed or not, and how this influences the scope for future welfare developments. A key question will be whether the institutional structures, which guide policy-making, remain distinct, along the lines of the regime framework, or whether changes occur that cut across this pattern. The WRAMSOC project will investigate these issues. Evidence on shifts in and the existence of a range of discourses about welfare will make a useful contribution to identifying changes in policy direction.

Thus we examine a range of areas in which policy developments have differed. The recent research reviewed earlier shows that:

- I. In labour markets, reform has involved a substantial shift towards recommodification,
- II. In social care and health it is towards cost-containment,
- III. In pensions towards cost-containment, plus recalibration,
- IV. In family policy recalibration intended to update provision to meet new needs',
- V. The reform process has balanced changes in these policy areas in different ways in the contexts of different welfare state regimes, and
- VI. In addition, reform takes place in a general climate of concern to constrain spending and in which EU interventions, both directly in relation to specific policies and indirectly through fiscal, labour-market, monetary and competition policy are exerting an increasingly important influence.

The six areas chosen for the project enable us to cover issues across all these areas: means-tested social assistance schemes and activation policies for unemployed people relate to I above, long-term care to II, pension reform to III and women's labour market participation to IV. The finance of welfare relates to the overall concern with cost-containment and the impact of the EU on national policy also cuts across all policy areas and relates to an additional level of political discourse and policy-making.

The project will also provide detailed accounts of the policy-making process, understood both in terms of institutional and constitutional frameworks and how these shape policy-making and in terms of the discourses through which various policy actors identify and respond to the issues that face national systems. These areas will be covered in the first year in background papers and in the second year through interview research. Thus the project will draw on a range of approaches that have emerged in recent debates about the politics of welfare reform.

Table 1: Growth and productivity, 1960-2000**Growth**

Country	1960-73	1973-83	1989-95	1995-00
US	2.9	2.2	1.0	4.9
Canada	3.2	2.8	-0.4	3.5
UK	2.7	1.1	0.4	2.8
Germany	3.7	1.6	1.7	1.8
France	4.3	2.3	0.9	2.4
Italy	4.6	2.7	1.4	2.1
Japan	8.8	3.2	1.8	1.4
EU		1.9	2.0	2.6

Productivity

Country	1960-73	1973-83	1989-95	1995-00	2001 (first 9 months)
US	1.4		0.3	2.4	2.0
Canada	1.5		-0.6	1.3	
UK	1.8		-1.4	1.6	1.9**&
Germany	2.5		-0.1	5.2*+	-1.0*
France	2.1		-0.5	1.3	
Italy	3.8		-0.1	1.3	
Japan	6.4		0.2	2.0	-4.6
EU					

*mfg only; + 1997-00 data only; & first two quarters only.

Sources: Jorgensen and Yip (1999) 'Whatever happened to productivity, investment and growth in the G-7?' Bank of Japan Institute for Monetary and Economic Studies, discussion paper 99-E-11, May; Calderon, C., (2001) Productivity in the OECD Countries: a critical appraisal of the evidence, Working paper no WP/01/99, IMF; OECD, Economic Statistics, Table 1 (annex), July, 2001. Source for recent productivity data: HM Treasury: Pocket book of indicators, website, 30.11.01.

Table 2: Social Spending Increases as % GDP, 1984-1997

	Total state spending			Social spending			Unemployment benefits			Pensions		
	1984	1997	increase	1984	1997	increase	1984	1997	increase	1984	1997	increase
<i>Liberal</i>												
Australia	36.40	33.20	-3.20	13.8	18.1	4.3	1.37	1.17	-.20	3.28	4.38	1.10
Canada	45.30	42.40	-2.90	16.2	16.9	0.7	2.03	1.04	-.99	3.35	4.40	1.05
Ireland	47.70	33.20	-14.50	17.9	17.9	0.0	3.52	2.22	-1.30	4.50	2.89	-1.61
UK	47.10	40.90	-6.20	21.1	21.6	0.5	1.78	.48	-1.30	5.74	6.43	.69
USA	33.10	31.40	-1.70	14.1	16.0	1.9	.49	.28	-.21	5.75	5.60	-.15
<i>Average</i>	41.9	36.2	-5.7	16.6	18.1	1.5	1.8	1.0	-.8	4.5	4.7	.2
<i>Nordic</i>												
Denmark	62.60	56.80	-5.80	28.9	30.5	1.6	4.95	3.81	-1.14	5.85	6.92	1.07
Finland	40.20	51.80	11.60	22.3	29.3	7.0	.90	3.19	2.29	6.42	7.55	1.13
Norway	42.10	44.10	2.00	19.7*	25.4	5.7	.48*	.70	.22	4.77*	5.58	.81
Sweden	59.20	59.00	-.20	30.0	33.3	3.3	.94	2.20	1.26	7.20	8.05	.85
<i>Average</i>	51.0	52.9	1.9	25.2	29.6	4.4	1.8	2.5	.7	6.1	7.0	1.0
<i>Corporatist</i>												
Austria	49.30	49.80	.50	24.3*	25.4	1.1	.84*	.92	.08	9.47*	10.11	.64
Belgium	60.70	51.40	-9.30	26.7	23.6	-3.1	3.62	2.67	-.95	6.84	7.44	.60
France	51.50	52.60	1.10	26.4	29.6	3.2	2.34	1.85	-.49	8.66	10.73	2.07
Germany	47.40	48.10	.70	23.6	26.6	3.0	1.05	1.49	.44	10.18	10.49	.31
Netherlands	49.40	50.00	.60	30.2	25.1	-5.1	3.98	3.30	-.68	6.81	6.58	-.23
<i>Average</i>	52.5	49.3	-3.2	26.2	26.1	-.2	2.4	2.0	-.3	8.4	9.1	.7
<i>Mediterranean</i>												
Greece	53.80	44.60	-9.20	16.9	22.2	5.3	.35	.50	.15	7.70	9.39	1.69
Italy	43.10	50.40	7.30	21.0	26.8	5.8	1.39	.79	-.60	8.90	13.24	4.34
Portugal	41.10	43.50	2.40	11.4	18.7	7.3	.27	.87	.60	3.78	6.54	2.76
Spain	35.20	39.90	4.70	17.8	20.9	3.1	2.25	1.89	-.36	5.81	8.60	2.79
<i>Average</i>	42.2	46.0	3.8	16.8	22.2	5.4	1.1	1.0	-.1	6.5	9.4	2.9
<i>South-East Asian</i>												
Japan	32.30	35.00	2.70	11.4	14.4	3.0	.52	.54	.02	3.65	5.50	1.85
<i>Average</i>	46.2	45.2	-1.00	20.7	23.3	2.6	1.7	1.6	-.2	6.2	7.4	1.1

Note: *1985 data: 1984 unavailable Source: cols. 2-7: Castles, 2001, updated by OECD 2001; cols. 8-13, OECD 2001. Countries are divided up into a conventional regime categorisation. Some countries do not fit neatly into regime-type. For example, Italy displays some Corporatist and the Netherlands some Social democratic characteristics. Categorisation for Southeast Asian countries is at present under development.

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APPENDIX: PRESSURES ON THE WELFARE STATE

It is a common place that the welfare state settlement that developed in most European countries during the *Trente Glorieuses* is currently under pressure. The main challenge for theoretically based research in the field is to give an account of the responses.

The empirical development that have been seen as relevant take place in a large number of areas, which may be loosely grouped under seven headings: Globalisation and Economic Relations; Endogenous Changes; Family and Household Change; Changes in the Position of Women; Labour Market Changes; Political and Social Changes; and the Development of European Union. Developments in all these areas interact (as regime theory would anticipate), and links between the first two are closest, due to family and care obligations which affect women most nearly.

1) *Family and Household Change*

- a) Demographic shifts that increase the proportion of older people in the population, thus requiring more resources to be directed to sustaining pensions, health and social care;
- b) Demographic shifts that increase the proportion of younger people in education, increasing costs in this sector;
- c) Social changes which increase the numbers of people living in single-person households, who are more likely not to have access to social care from kin;
- d) Social changes which increase the numbers of single parents who may require state support;
- e) Changes in family structure (divorce, separation, and remarriage) which may complicate lines of kin obligation to provide care for older relatives.

2) *Changes in the Role of Women*

- a) Social changes which involve larger numbers of women entering the labour market;
- b) Social changes involving moves to equal treatment and gender equality in training, education pay promotion and conditions of employment.

3) *Political and Social Factors*

- a) Party politics has traditionally been seen as important in reform, because parties of left and right display commitment at different levels to different aspects of state welfare in their policy platforms. From this perspective, the dominance of right or centre-right governments in Europe in the early to mid 1990s might be seen as relevant to cut-backs, although the relationship of party politics to policy change is far more complex as Kitschelt demonstrates (2001, p302).
- b) Political shifts that lead citizens to be more critical and challenging of the solutions offered by authorities and governments, sometimes understood as Anglo-Saxon scholars as a shift to a 'risk society', often seen in the context of the debates about post-materialism and industrialisation and other value changes discussed earlier;
- c) The higher general education standards resulting from welfare spending which feed into the development of a more critical citizenry;
- d) The experience of both rising standards of welfare and, perhaps more important, rising standards in marketed services outside the state welfare arena, which generates rising expectations;
- e) A growing inequality that divorces the interests of richer and poorer groups and presents the risk of a political threat to solidarity; and
- f) Increases in migration both by asylum seekers and economic migrants, which may impose short-term pressures on welfare systems.

Note: the impact of the first two issues is highly controversial. While there is a considerable body of literature on risk society, the third way and related issues, there is relatively little empirical work on the extent to which citizen attitudes and expectations have in fact changed in the way described.

4) Globalisation and Economic Relation

- a) Economic globalisation which increases competitive pressures on industries in the cross-nationally traded sector and hence on jobs and pay in some sectors of the labour-market;
- b) The associated problem that jobs in some sectors may follow comparative advantage to markets where labour costs are lower;
- c) An enhanced level of international speculation which increases pressures on national governments to demonstrate financial probity to ensure that their currency is not destabilised.

Note: the main current to emerge from recent research in this area is that the main impact of globalisation on European economies (which after all carry out most of their trade with each other) is in denying European countries the opportunity to take their traditional large share in an expanding areas of the world economy rather than in direct inroads into employment and production in Europe. Most empirical studies fail to find a link between measures of globalisation (typically operationalised as the ration between imports + exports and GDP) and growth or welfare state activity (Huber and Stephens, 1999, Iversen and Wren, 1998, Castles, 1979, 1998, Scharpf and Schmidt, 2000, Alber and Standing, 2000).

5) Labour Market Changes

- a) Shifts in the availability of jobs, driven mainly by technological changes but also due to globalisation, especially low-skilled manual work in the manufacturing sector, which leads to unemployment concentrated among particular groups.
- b) New groups entering the labour market (some groups of women, migrants and other atypical workers).
- c) The trend to shorter working lives, more evident in some countries than in others.
- d) The expansion of 'atypical jobs' (which do not offer the rewards or advantages of employment in the 'male bread-winner' jobs that characterised the era of industrial expansions. These jobs are usually relatively insecure, low-paid and more weakly protected by employment rights and are disproportionately occupied by women and migrant workers. The outcome is not only a cutback in protection for these groups from employment-related benefits, but also a decline in revenues especially in social insurance systems.

6) Socio-Economic Change

- a) The problem is that efficiency gains in the service sector tend to be slower than in the manufactured sector, so that the former gains productivity slower than the later and resources must be transferred to it over time (Baumol cost-disease, 1967); this is of especial relevance to state sector services in education, health and social care;
- b) As Sylkes and Palier summarise, "The low productivity associated with service employment means that such economies have a fundamental and growing fiscal problem in paying for welfare (Sylkes and Palier, 2000; 6). This trend constitutes the cornerstone of Pierson's permanent austerity approach.

Note: The arguments about the employment expansion of the service sector and the trend to slower growth are often closely linked as in Iversen and Wren's elegant formulation of the

'trilemma' of the service economy in which the three goals of full employment, wage equality and budgetary constraint cannot be achieved simultaneously without damaging growth prospects (Iversen and Wren, 1998). It may be pointed out that the shift to the service sector presumably reflect real demand for the relevant quantity of services as society grows richer and that this phenomenon may be seen as one of the ways in which society at large takes the benefits of the period of rapid manufacturing led growth. The secular trend to slower growth finds some support in analysis of growth rates between the 1960s and the more recent past (see Table 1). However, there is some indication of a revival between 1995 and 2000, followed by recession in recent months. These rates track productivity changes, so far as data is available (see Rowthorne, Economic Issues paper 10 - IMF, 1997). The trend to a decline in growth is not as smooth as the theory would imply and some commentators point out that some areas of the service sector are able to generate substantial productivity gains as a result of the introduction of new technology and new management techniques. The point that emerges is that these issues are at heart political rather than inexorable economic issues. If growth rates fall at a time when demand rises, the option of transferring to those in need without obviously damaging other interests is more difficult to resolve, so that political struggles over the allocation of productivity gains concentrated in the manufacturing sector becomes more intractable.

Moreover, as Palier and Sylkes argue, 'services are not always associated with low or no productivity growth. As Alan Greenspan himself recognises, the USA's new economy which is largely composed of services has recently experienced unprecedented growth' (Sylkes and Palier, 2000:7).

7) *Endogenous Shifts*

- a) The maturing of welfare state programmes such as pensions so that past commitments result in increased costs now and in the immediate future.
- b) The welfare state as a cause of some problems as well as a solution to others, in terms of crowding out productive investment, pre-empting skilled labour, damaging work incentives, creating poverty and employment traps and undermining the family ethic.

8) *The Development of the EU*

- a) The impact of European economic union in enhancing competitive pressures on employment by removing trade barriers across Europe;
- b) Economic union effectively preventing deficit financing of welfare improvements, so that higher spending must imply higher taxes or contributions;
- c) Europeanisation adding competition from accession states;
- d) The existence of the EC as a political forum which permits collective decision-making.

Note: the EC's ambitious in relation to social policy are discussed at length elsewhere (e.g. Geyer, 2000, Kleinman, 2001). Early ambitions to develop a direct European social policy framework have proved unsuccessful, although policy directives have been developed in labour-market related areas, concerning equal treatment, health and safety and conditions of work. Current processes of 'bench-marking' may have a longer-term influence on policy rapprochement. The indirect effect of economic policy changes in reinforcing competitive pressures and in removing the possibility of deficit financing is much more significant as witnessed by the range of developments in relation to the Maastricht treaty and the cost constraint measures introduced in a number of countries at the time that the Stability Pact measures had to be met (Palier, 2001).

The above discussion has tried to show that we are now confronted with a plurality of approaches drawing on several disciplines.

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