

1 THE ADAPTIVE CAPACITY OF THE SEMI-SOVEREIGN WELFARE STATE

The striking intensity and the comprehensive character of welfare reform across the majority of the Member State of the European Union since the 1990s, is very much at odds with the prevalent image of a 'frozen welfare landscape' in the academic literature. Most important, the substantive extent of welfare redirection across a large number of Member States of the European Union (EU) adds up to a momentum of system change which goes far beyond the popular concepts of "retrenchment", "roll-back", "retreat" and "demise". To say that European welfare states are far from sclerotic is not to say that they are in good shape. With 20 million citizens out of work and 90 million people otherwise inactive, there certainly is no room for complacency.

Welfare reform is surely not a smooth process. Corrective measures are difficult, but in the face of protracted policy failures they are enacted and implemented through the competitive political process. While reform experience over the past two decades was primarily built on processes of domestic (crisis induced) lesson drawing, more recently, cross-national social learning in the context of the European Union is taken up. In short, welfare reform is a highly reflexive and knowledge-intensive political process. From this perspective, it follows, that the welfare state is best understood as an 'evolutionary' system, whose goals, aims, functions, institutions change over time, however slowly and imperfectly.

Today, an increasing number of academic observers advocate a new welfare repertoire, based on consistent normative principles, coherent causal understandings, (re-)distributive concerns, and institutional practices, comparable in generality to that of the male-breadwinner Keynesian welfare state of the post-1945 decades. They share in a diagnosis that the current imperative of recasting the welfare state is very much rooted in the incongruence between new "post-industrial" social risks and diverse family and labour market needs, on the one hand, and institutional resilience of male-breadwinner social policy provisions, on the other. In terms of policy solutions, these authors prioritize high levels of employment for both men and women as the key policy objective, while combining elements of flexibility and security, facilitating men and especially women to accommodate work and family life, managed by new forms of governance and based on subtle combinations of public, private, and individual efforts and resources (Esping-Andersen, 2002 et al; Esping-Andersen, 2005; Jenson/Saint-Martin, 2003; Taylor-

Gooby, 2004). By adopting a life course perspective, the advocates of the “new” welfare architecture of the 21st century seek to identify the inter-connectedness of social risks and needs over the life course, on the basis of they are able to draft a “social investment” policy agenda. The Keynesian emphasis on “effective demand” management hereby shifts towards an emphasis on “effective supply”, with the implication of taking out social barriers for labor market entry, discouraging early exit, making labor market transitions less precarious, and providing gender equality and equality of opportunity throughout the life cycle in response to the drastic changes of the world of work and welfare. (OECD, 1999; Giddens, 1999; 2001; Ferrera/Hemerijck/Rhodes, 2000; Esping-Andersen et al, 2002; Kenworthy, 2004; NESC, 2005).

My argument is built up as follows. First, Section 2 qualifies the underspecified use of the concepts of the alleged “European social model” in the face of the three-pronged challenge of economic internationalisation, post-industrial differentiation, and permanent austerity. Next, Section 3 renders an inventory of a number of substantive changes in the make up of Europe’s mature welfare states over the final quarter of the 20th century. Section 4 captures the current effort to recast the architecture of the post-war social contract in terms of the concept of welfare recalibration for heuristic and prescriptive purposes. Next, Section 5 highlights the constraints and opportunities for EU engagement in ongoing processes of recalibrating Europe’s welfare states. Domestic issues of work and welfare have since the mid-1980s become ever more intertwined with processes of European political and economic integration. In this respect, it is fair to say that in the EU we have entered an era of *semi-sovereign welfare states* (Leibfried/Pierson, 2000). The final Section 6, in conclusion, addresses the political imperative for a “social investment centred” welfare agenda in the early 21st century. It is my contention that with a little more policy creativity, we should be able to turn to current tide of inward- looking pessimism about the sustainability of the “European social model” into a renewed political effort in forward and outward looking “social pragmatism”.

2 CAVEATS AND CHALLENGES TO THE “EUROPEAN SOCIAL MODEL”

In the heated debate over the future of the European Union, the expression of a distinctly “European social model” is increasingly used in policy discussions and political debate. Although European welfare states share a number of features that set them apart from other geo-political regions in the world, like North-America and South-East Asia, it is important at the outset to

make a number of qualifying reservations against the underspecified use of the notion of “European social model”. My most important caveat is that the notion of a European social “model”-concept is inherently *static*. While the architects of the post-war welfare state, John Maynard Keynes and William Beveridge, could assume stable male-breadwinner families and expanding industrial labour markets, this picture of economy and society no longer holds. Since the late 1970s, consecutive changes in the world economy, labour markets, and family structures, have disturbed the once sovereign and stable welfare ‘equilibria’ of employment-friendly macroeconomic policy, collective wage bargaining, progressive taxation, broad social security coverage, and protective labour market regulation. As a consequence, all the developed welfare states of the European Union have been recasting the basic policy mix upon which their national systems of social protection were built after 1945 (Hemerijck/Schludi, 2000). Couching policy discussions terms of competing “models” moreover easily triggers ideological strife, a battle between warring alternatives, separating antagonistic advocacy coalitions. A casual glance at the recent French referendum campaign over the Constitutional Treaty clearly reveals the contestation between two polarized positions. The French version of the European social model was pitted against a false stereotype of the ‘Anglo-Saxon’ model of capitalism, allegedly a “free market without a safety net”. In addition, the notion of a distinct European social model suggests a large degree of *uniformity* transcending national boundaries, which surely cannot be sustained empirically in an EU of 25 Member States. There are immense differences in development, policy design, eligibility criteria, modes of financing and institutional make-up across Europe (Esping-Andersen, 1990; 1999; Ferrera/Hemerijck/Rhodes, 2000). Finally, the notion of a distinctly European social model suggests a lot of *virtu* on the part of rational policy makers, which also gives the impression that best practices can easily be transported from one Member State to the next. Many social reform initiatives taken in recent years in the areas were expedient responses to impending economic crisis and political conditions. Also, incubation periods of reforms before they start pay off in terms of growth and jobs are extremely long. Usually, incoming governments that reap the benefits of painful reforms enacted by their predecessors. In short: there are no models of eternal bliss to copy.

Three sets of challenges confront contemporary policy makers to push ahead, despite the significant strides made in different countries, their efforts to redirect the welfare state, redesign institutions and to elaborate on new principles of social justice. *From without*, in the first place, international competition are challenging the redistributive scope and de-commodifying power of the national welfare state. Many academic observers believe that the increase in cross-border competition in the markets for money, goods and services has substantially reduced the room for

manoeuvre of national welfare states (Scharpf, 2000). Economic internationalization constrains countercyclical macroeconomic management, while increased openness exposes generous welfare states to trade competition and permits capital to move to the lowest-cost producer countries. Finally, there is the danger that tax competition resulting in an under-provision of public goods. Second, *from within*, ageing populations, declining birth rates, changing gender roles in households, as a result of the mass entry of women to the labour market, the shift from an industrial to the service economy, new technologies in the organisation of work, engender sub-optimal employment levels, new inequalities and skill-biased patterns of social exclusion. According to Gøsta Esping-Andersen (2002), the most important reason why the existing systems of social care have become overstretched stems from the weakening of labour markets and family households as traditional providers of welfare. In addition, new sources of immigration and segregation, also in the housing market in metropolitan areas, pose a challenge to social cohesion. And, finally, while policy makers must find new ways to manage the adverse consequences of economic internationalisation and post-industrial differentiation, their endeavour to recast the welfare state is severely constrained by long standing social policy commitments in the areas of unemployment and pensions, which have ushered in a period of *permanent austerity* (Pierson, 2001). The maturation of welfare commitments, policies put in place to cater after the social risks associated with the post-war industrial era now seem to crowd out and overload the available policy space for effective policy responses in especially public services under conditions of low economic growth. This spectre of permanent austerity is likely to intensify in the face of population ageing. As an intervening variable in the process, European (economic) integration is fundamentally recasting the boundaries of national systems of social protection, both constraining the autonomy for domestic policy options but also opening opportunities for EU-led multi-level open policy coordination (Ferrera, 2005; Zeitlin/Pochet, 2005).

3 A SEQUENCE OF INTENSE REFORMS

The welfare state, in the shape and form in which it developed in Western Europe in the second half of the twentieth century, represents a unique historical achievement. Never before in history, as Fritz Scharpf puts it, “has democratic politics been so effectively used to promote civil liberty, economic growth, social solidarity and public well-being” (Scharpf, 2003). Toward the late 1970s, the celebration of the welfare state gave way to doubts. The oil crises of the 1970s, together with the changing character of international competition, deindustrialization, and the

eroding effectiveness of domestic Keynesian demand management, led to a massive surge in unemployment not seen since the 1930s. In the 1980s, the 'prospects for survival' of the welfare state were recognised as poor. Economists singled out the accumulation of perverse labour-market rigidities produced by the welfare state, impeding flexible adjustment, blocking technological innovation, and hampering employment and economic growth in an integrating world economy (OECD, 1994). But despite the obvious 'irresistible forces' urging for reform, the European welfare state proved to be, as one leading scholar put it, an 'unmovable object' (Pierson, 1998).

A finer grained comparative analysis of long-term developments, however, shows that the empirical foundations of economic stagnation welfare inertia are fairly shaky. To the contrary: over the final quarter of the 20th century, developed welfare states of the European Union have been recasting the basic social compact upon which their national welfare states were built after 1945. If we interpret the welfare state more broadly than social protection narrowly understood, it is possible to paint a broad, cumulatively transformative process of policy change across a number of intimately related policy areas.

In *macro-economic policy*, up to the late 1970s, Keynesian macro-economic policy priorities, geared toward full employment as a principal goal of economic management, prevailed. In the face of stagflation - i.e. the combination of high inflation and rising unemployment - the Keynesian order gave way to a stricter macroeconomic policy framework centred on economic stability, hard currencies, low inflation, sound budgets, and debt reduction. Persistently high public deficits and inflation rates are undesirable in themselves and incompatible with global financial markets. The current framework of EMU and the Stability Pact, however does not provide for an adequate macro-economic regime. The key problem today is that EMU and the SGP do not do justice to the differences in economic circumstances across the Member States. The European Central Bank (ECB) set interest rates in accordance with European-wide averages and development in the trade cycle, rather than nation-specific shocks. Although fiscal discipline is in the self-interest of Member States, once a recession hits it is already too late to tinker with employment regulation and social protection. Moreover, inconsiderate and bold reforms of labor market regulation and social protection in a downturn stifle the market and are likely to generate economic stagnation and social unrest. Macro economic stability is a must, but a little more flexibility is called for.

In the 1980s, the responsibility for employment shifted away from macro-economic policy towards adjacent areas of social and economic regulation. In the field of *wage policy* a reorientation took place from the 1980s onwards in favour of market-based wage restraint in the face of intensified economic internationalization. Since the early 1980s, wage restraint resumed importance as a requirement for successful adjustment by facilitating competitiveness, profitability, and - as a second-order effect - employment. Strategies of wage moderation have been pursued in many countries through a new generation of social pacts in Europe, linked with wider packages of negotiated reform, including labour market regulation and social protection. The rediscovery of a jobs-intensive growth path in the Netherlands, Ireland and Denmark, by way of social pacts, have also allowed sectoral bargainers to strike decentralized deals over productivity, training, and job opportunities for less productive workers. In the 1990s, the EMU entrance exam has played a critical role in the resurgence of national social pacts for hard-currency latecomers, like Italy and Portugal, and Greece, stimulating policy makers and the social partners to rekindle co-operative, positive-sum solutions to the predicament of economic adjustment, i.e. by making taxation and social protection more 'employment friendly' (Fajertag/Pochet, 2000).

In the area of *labour market policy*, in the 1990s the new objective became maximising employment rather than induce labour market exit, and this implied new links between employment policy and social security. The greater the number of people participating full-time and part-time in the labour market, the greater the contribution they make towards maintaining the affordability of adequate levels of social protection. This is also the key message of the *Jobs, Jobs, Jobs* Report of the Employment Taskforce, established by the European Commission and chaired by the former Dutch prime-minister Wim Kok (Employment Taskforce, 2003). In the process, public employment services (PES) in many countries have lost their placement monopoly. And although private placement agencies have still not gained much market share, they have at least pushed PES towards modernizing service delivery. With respect to *labour market regulation*, more narrowly understood, empirical evidence from Denmark and the Netherlands suggest that the acceptance of flexible labour markets is enhanced if matched by strong social guarantees. While systems combining restrictive dismissal protection with meagre unemployment benefits essentially cater to the interests of insiders, 'flexicure' systems based on minimal job protection but offering decent standards of social protection for the unemployed are best able to bridge the gap between insiders and outsiders.

Within the sphere of *social security*, the changes in macroeconomic management and wage policy have resulted in a shift from passive policy priorities aimed at income maintenance towards a greater emphasis on activation and reintegration of vulnerable groups. In the process, the function of social security changed from the passive compensation of social risks to corrective attempt to change behavioural incentives of claimants and employers together with an emphasis on preventative social investments. This is also captured by the shift from out-of-work benefits to in-work-benefits. Different strategies are appropriate to different welfare states. In the United Kingdom, where income guarantees and unemployment benefits are modest, individual tax credits to support low-wage workers and their families are very popular. In Continental Europe, the main problem is that heavy social contributions price less productive workers out of the market. In the face of the relative weakening of traditional male breadwinner social insurance programmes, policy makers in these countries have turned towards *strengthening minimum income protection* functions of the welfare state, coupled with strong activation and reintegration measures. Many European welfare states seem to be evolving towards a dual social protection model, combining both Bismarckian social insurance and Beveridgian minimum income protection tiers. In this respect, the French and Belgian welfare states have increased social assistance protection for the neediest, using targeted benefits instead of universal benefits, financed through taxation and general revenues. In 2005 through the so-called Harz IV reforms, Germany has followed suit while stepping up job search requirements among the non-employed.

In the area of old-age *pensions*, the most important trend is the growth of (compulsory) occupational and private pensions. Most welfare states are engaged in developing multi-pillar systems, combining pay-as-you-go and fully funded methods with a tight (actuarial) link between the pension benefits and contributions. Fiscal incentives have been introduced to encourage people to take out private pension insurance. In the 1990s, a number of countries, notably the Netherlands, France, Portugal, Ireland and Belgium, have started to build up reserve funds in order to maintain adequate pension provision when the baby-boom generation retires. Also changes in indexation rules have helped to reduce pension reliabilities. In Spain restrictions have gone hand in hand with attempt to upgrade minimum pension benefits. Measures to combine work and retirement, with tax allowances, partial pension benefits have been introduced in Denmark and Belgium. Finland has developed policy approaches to improve occupational health, work ability and well-being of ageing workers, in order to keep older workers in the workforce as long as possible (Clark/Whiteside, 2003).

Social services have experienced something of a comeback lately. Spending on child care, education, health, and elderly care, next to training and employment services, has increased practically everywhere in Western Europe over the past decade (Taylor-Gooby, 2004). Especially, ageing and longevity make demands on professional care that working families cannot or are no longer able to meet. In Scandinavia the expansion of services to families began in the 1970s in tandem with the rise in female labour supply. It was in large part this policy of 'de-familialization' of caring responsibilities which catalysed the dual-earner norm. In most other European countries, female employment growth came much later (Daly, 2000). In Southern Europe it is only during the past decade that we see a sharp rise. Throughout the EU, leave arrangements have also been expanded, both in terms of time and in the scope of coverage, to include care for the frail elderly and sick children. Social service delivery organizations have also been given more autonomy to decide how they use resources in the pursuit of agreed outcomes and more incentives to innovate in the search for improvements, while structuring their accountability to service users and central government in new ways.

In terms of the *financial architecture* of the welfare state, finally, we observe an increase in user financing in the areas of child care, old age care, and medical care. At the same time, fiscal incentives have been introduced to encourage people to take out private services and insurance, especially in the areas of health and pensions. Management audit systems have been introduced to control and monitor the volume of public expenditures, involving limited annual budgets and delegating financial responsibility and autonomy to schools and hospital in countries like Sweden, Germany, and the Netherlands. With respect to *taxation*, as a result of intensified competition across the European Union, many EU Member States started to pursue a combination strategy of lower statutory tax rates and a broadening of the tax base. This implies a shift away from a focus on vertical redistribution between rich and poor citizens, but, as consequence of base broadening, not per se at the expense of prevailing welfare commitments.

Over the past two decades, as the above inventory of reform shows, many European welfare states have - with varying success, but also failure – taken measures in order to redirect economic restructuring and structural social by pushing through adjustments in macroeconomic policy, industrial relations, taxation, social security, labor market policy, employment protection legislation, pensions and social services, and welfare financing. Many reforms were unpopular, but a fair amount occurred with the consent of parties in opposition, trade unions and employer organizations. In the process, we have seen the rise and fall, respectively, of the Swedish model macroeconomic management of the 1970s, the German "Rhineland" model of diversified quality

production of the 1980s, the Dutch employment miracle of the 1990s. While today the Celtic Tiger, the Danish Lego-model, the Finnish knowledge economy, and revamped New Britain under Tony Blair, figure as model countries to emulate, nothing can guarantee their welfare systems will prove effective in responding to the next phase of social and economic turmoil. The welfare reform momentum of the 1980s and 1990s was triggered largely by intensified international competition within the context of the internal market in the enlarged EU. Thus far the endogenous dynamics of the transformation of work, gender, family, and demography remained subsidiary in the reform agenda, in part due to opposition from the remaining vestiges of male-breadwinner welfare provision. There is a real need to take policy issues related to post-industrial social change on board in the next wave of reform.

4 UNDERSTANDING WELFARE RECALIBRATION

Welfare reform crucially builds on processes domestic lesson drawing, but increasingly, especially in the context of the European Union, on cross-national social learning. As such, social policy reform processes cannot simply be reduced to political explanations of changes in the balance of power and interest. None of the policy actors participating in lengthy processes of welfare reform over the past two decades could rely on well-informed conceptions of what kind of social policy paradigm would ultimately result from their efforts of experiential domestic and cross-national exploratory policy learning. Active reformers were equally unable to judge with much precision how the sequence of policy shifts across a large number of interdependent policy areas would affect their own political and economic interests over time.

In an attempt to capture this more encompassing endeavour to rewrite the post-war social compact, especially since the 1990s, Maurizio Ferrera, Martin Rhodes and I have in recent years turned to multidimensional concept of welfare recalibration for both heuristic and prescriptive purposes (Ferrera/Hemerijck/Rhodes, 2000; Ferrera/Hemerijck, 2003).¹ The notion of welfare recalibration is meant to suggest an extensive form of remodelling by way of providing a new cast for the welfare state as we know it along four key dimensions: functional, distributive, normative and institutional recalibration. The guiding question of welfare recalibration is: What sort “new welfare architecture” is compatible with international competitiveness, the transformation of

¹ The term ‘recalibration’ was suggested to us by Jonathan Zeitlin.

working life, the demise of traditional family structures, demographic ageing and fiscal sustainability

Hereby welfare recalibration is a highly reflexive and knowledge intensive, interconnected and multipurpose reform process. Reform decisions pass through and are based rest upon cognitive, normative, distributive and institutional judgments as to how improve policy performance under conditions of structural environmental change. Each of the four dimensions of welfare recalibration requires elaboration.

Functional recalibration has to do with the social risks against which the welfare state aspires to protect. The need for functional recalibration is often described in terms of the shift from “old” to “new” social risks confronting people as a result of the transition from a ‘male breadwinner’ industrial to a ‘dual earner’ post-industrial society. Skill biased technological change, the feminization of the labour market, and demographic ageing, as a result of rising life expectancy and rapidly falling birth rates, are the most important drivers of the new post-industrial risk profile. While the boundaries between being “in” and “out” of work have been blurred by increases in atypical work, low-wages, subsidized jobs, and training programs, one job is no longer enough to keep low-income families out of poverty. In the face demographic ageing and in the light of a declining work force, nobody can be left inactive for long. European welfare states are all in the process of moving away from the breadwinner/caregiver model, under which mothers are expected to stay home with children, to a model of ‘employment for all’, under which mothers are expected to enter the labour force. This transition, which Ann Orloff captures in terms of the “farewell to maternalism”, is not merely the product changing gender values (normative recalibration), it is also part of a more deliberate strategy of policy makers to attract mothers in the face of population ageing into the work force through activation programs, tax subsidies, part-time employment regulation, and the expansion of family services (Orloff, 2005). As new social risks concern both the labour market and family life, they extend the demand for functional recalibration from unemployment, sickness, disability and old age insurance to family-friendly services to encourage labour market opportunities for women and raise birth rates.

The challenge is to reconcile women’s new career preferences with the continued desire to form families. Failure to do so will produce either fertility rates below the renewal level or sub-optimal levels of employment and income. Female employment is the key to resolving child poverty which is on the rise in most European countries. Child poverty rates decline by a factor of 3 or 4 when mothers work. Labour market participation rates in Southern Europe, especially for the younger female cohorts are rapidly catching up to Northern European averages. Among older

women (age 55-64) the employment gap is still considerable, with levels of only 16% in Italy, 23% in the Netherlands, compared to 65% in Sweden. Exit from the labour force at age 50, as Esping-Andersen forcefully argues, implies major foregone lifetime income and probably inferior pension entitlements women, and for the public economy foregone government (tax) revenue. The standard family friendly policy package includes a neutral, individual taxation regime, maternity-cum-parental leave with job-security, and subsidized childcare (Esping-Andersen, 2005).

Since life chances are so over-determined by what happens in childhood, a comprehensive child investment strategy with a strong emphasis on early childhood development is imperative. Access to affordable quality childcare is sine qua non for any workable future equilibrium. Esping-Andersen maintains that childcare demand cannot be adequately met via commercial care markets. In a purely commercial regime, low-income parents will probably not be able to afford quality care. They may respond by placing children in cheap low quality care or by withdrawing from the labour market altogether. Inaccessible childcare will provoke low fertility, low quality care is harmful to children, and low female employment raises child poverty (Esping-Andersen, 2005). It should be emphasized that the emphasis on early childhood development goes *beyond* the idea that childcare is necessary to allow mother and fathers to reconcile work and family life. A 'child centred social investment strategy' is needed to ensure that children will be life-long learners and strong contributors to their societies. More children, educated to perform in a knowledge economy, are needed to keep the economy going for a retiring baby boom generation with high caring needs.

If Europe wishes to be competitive in the new, knowledge-based society, there is an urgent need to invest in human capital throughout the life-course. The activity rate of those with higher education exceeds 80 per cent practically everywhere in Europe, whereas the corresponding figure in the case of people with only primary education is less than 40 per cent. Considering the looming demographic imbalances we face, we surely cannot afford large skill deficits. High school dropout rates provide a good indicator of the welfare deficit we face (above 30% in Spain, almost 25% in the Netherlands and less than 15% in Denmark or Sweden). While inequalities are widening in the knowledge economy, this also implies that parents' ability to invest in their children's fortunes is becoming more unequal. Everyone's favourite solution is of course education. The revitalisation of both the Irish and the Finnish economy is in part based on increased investments in education, preventing early departure from formal education and training, and facilitating the transition from school to work, in particular school leavers with low

qualifications. Social and employment policies aimed at developing the quality of human resources for the knowledge economy assume the role of social investments.

Distributive recalibration concerns the re-balancing of social protection provisions across policy clienteles, stakeholder interests, and public and private resources. Many of the so-called 'new social risks', like family formation, divorce, the elderly becoming dependent on care, declining fertility, and accelerating population ageing bear primarily on young people and young families, signifying a shift in social risks from the elderly to the young. New risk bearers however lack critical social and political influence. Their ability to exert electoral and extra-parliamentary pressure is limited by the fact that, for most people, exposure to new social risks is a transitory phase of the family life course, concerned with child rearing, elder care, or labour markets entry and exit (Taylor-Gooby, 2004).

The interaction between economic performance and the welfare state is large mediated through the labour market. The majority of Europe's mature welfare states are confronted with a syndrome of labour market segmentation between "insiders" and "outsiders". As family and gender issues remained subsidiary in the reform momentum of the 1980s and 1990s, post-industrial social and economic change seems to perversely reinforce an over-accumulation of insurance benefits on the side of 'guaranteed' breadwinner workers with quasi-tenured jobs, alongside inadequate protection for those employed in the weaker sectors of the labour market, particularly youngsters, women, immigrants and older low skilled workers. Most likely, labour markets will become ever more flexible. While the boundaries between being "in" and "out" of work have been blurred by increases in atypical work, low-wages, subsidized jobs, and training programs, one job is no longer enough to keep low-income families out of poverty. Post-industrial job growth is highly biased in favour of high skill jobs. However, increased labour market flexibility, together with the continuous rise in female employment will, in addition, also encourage the growth of a sizeable amount of low skill and semi-skilled jobs in the social sector and in personal services. The policy challenge is how to mitigate the emergence of new forms of labour market segmentation through what could be called "preventive employability", combining increases in flexibility in labour relations by way of relaxing dismissal protection, while generating a higher level of security for employees in flexible jobs. Flexible working conditions are often part and parcel of family friendly employment policy provisions. There is a clear relation between the ratio of part-time jobs and female employment growth. But the ability of part-time employment to harmonize careers with family depends very much on employment regulation, whether part-time work is recognised as a regular job with basic social insurance

participation, and whether it offers possibilities for career mobility. Special attention should be given to labour market problems of migrants and non-EU nationals, whose rate of unemployment averages twice that of EU nationals. Skills, cultural and language barriers together with discrimination call for a real improvement in integration policies, including access to social citizenship. In our ethnically and culturally diversified societies the welfare state faces a major challenge of ensuring that immigrants and their children do not fall behind. The recent outbreak of violence in the *banlieu's* of the metropolitan cities of France reveals how economic exclusion and physical concentration, reinforces educational underperformance, excessive segregation and a self-destructive spirals of marginalization. The overriding policy lesson is that in the face demographic ageing and in the light of a declining work force, nobody can be left inactive (for long)!

Late entry into the labour market of youngster, early exit of older workers, together with higher life expectancy confronts the welfare state with a looming financing deficit. Most European pension regimes are both inequitable and ineffective, and replete with early exit measures defended by labour market insiders. Aging is a challenge but also blessing, since people live longer in good health. Two trends justify adjustment in retirement regimes: a) the health status of each elderly cohort is better than that of the last; at present a man aged 65 can look forward to a further 10 healthy years. And, b) the skill gap between the elderly and the young is rapidly narrowing. Older people in the future will be much better educated than now to adapt to the knowledge economy with the aid of retraining and lifelong learning. Beyond the development of multi-pillar, including both PAYGO (pay-as-you-go) and funded schemes, in the area of *pension policy*, the challenge lies in how to allocate the additional expenditures that inevitably accompany population ageing (Myles, 2002). Of crucial importance in terms of equity remain general revenue financed first tier pension guarantees, indexed to prices, for when the next generation of flexible labour market cohorts start to retire. Sustainable pensions require that we raise the employment rates of older workers and move up the retirement age to 67 year. Later retirement is both effective and equitable. It is efficient because it invokes more revenue intake and less spending at the same time. It is inter-generational equitable because both retirees and workers contribute in equal proportions. Flexible retirement and the introduction of incentives to postpone retirement could also greatly alleviate the pension burden. Although there has been a slight increase of part-time work among the elderly, it has been shown that part-time work and participation rates among older people are positively related, there is still little systematic and comprehensive policy activity to enhance the variable opportunity set for older workers. If older workers remain employed ten years longer than is now the norm in early exit welfare regimes,

household incomes will increase substantially, which implies less poverty, less spending on social assistance and greater government revenue.

Normative recalibration concerns the norms and values implicated in the dilemmas emerging from the search for functionally effective and distributively fair policy proposals. Protecting the vulnerable and preventing the disadvantaged from becoming vulnerable lay at the heart of the normative underpinning of the post-war welfare state. Politically, the more reforms proposal alter the distributive balance between groups and vested interests, the more important of course it is to put forward and elaborate new normative frameworks and discourses capable of advocating the reform agenda as a “win-win” project, i.e. justifying reform in terms of underlying “moral foundations” (Vandenbroucke, 2002). The normative philosophy under recent labour market reforms is one of reciprocal obligations. Welfare recipients must be obliged to accept employment or training in order to receive benefits, while the state has the obligation to enhance the employability of benefit claimants. Raising female participation in the labour market is also an issue of gender equality and social justice. A number of policy analysts today advocate ‘dynamising’ Rawls’ theory of social justice (Ferrera et al, 2000; Esping-Andersen et al, 2002). They suggest a tentative shift in emphasis in the normative debate away from a static notion of distributive justice, focused on redistribution here-and-now, towards a dynamic social liberal notion of restoring equality of opportunity across the life course. This implies a re-orientation in social citizenship, away from *freedom from want* towards *freedom to act* while continuing to guarantee a *rich social minimum*. Redistribution, through e.g. progressive taxation, remains important. Equal opportunity can be achieved only in a society that keeps the scope of inequality at bay. Temporary inequalities, low wages, and poor jobs are less problematic than long-term poverty and inactivity traps. They become problematic when they negatively affect opportunities for future life chances. These authors also advocate modern social policy as a societal investment, mobilizing the developmental capabilities of citizens to achieve self-reliance under post-industrial conditions, rather than as income-replacing compensation for industrial market failures. Esping-Andersen seeks inspiration in the “difference principle” of John Rawls, stipulating that substantial changes in the social status of citizens must be to the greatest advantage of the worst-off (Rawls, 1973). Rawlsian ideas of social justice are primarily pertinent for market inequalities. John Myles has argued that the elaboration of a new normative framework of distributive fairness, touching on norms of intergenerational equity and intragenerational justice, is particularly urgent in the field of old age policy. Intergenerational equity, he maintains, implies that the transition costs associated with population aging be proportionately shared by both young and old. In agreement with Rawls’ difference principle,

pension reform in should thus turn to the advantage (or the least disadvantage) of the worst off within both the working and the retired population (Myles, 2002). Ronald Dworkin has forcefully argued that considerations of distributive fairness should take account of both the social circumstances that produce inequalities in living conditions and family and individual choices that affect life chances (Dworkin, 2000). To the extent to which the emergent new social risk profile cut across the boundaries between public and private spheres, they raise pressing normative questions over individual, family, social and public responsibilities (Schmidt, 2005). The normative position of Amartya Sen's is rooted in his concept capabilities (Sen, 1985; 2001). For Sen, material equality is at best a necessary but not sufficient condition for a fair distribution of life chances. What is decisive is the ability of citizens to convert the resources available to them into living conditions they themselves aspire to. Sen's normative view corresponds with a more flexible endowment of resources, which may be unevenly distributed, but nevertheless enable individual citizens to realize their own life plans. From the perspective of social capabilities, active participation in employment is of crucial importance, because participation in social life through employment relations is crucial for gaining respect from others and self-respect in post-industrial societies (Salais, 2003). Following the logic of Sen's capability approach, Guenther Schmid advocates labour market policy interventions to empower citizens to act as autonomous agents, especially, to allow for choice between different employment statuses according to shifting preferences and circumstances during the life-course (Schmid, 2005; Schmid/Gazier, 2002). Having the opportunity to change this plans and to make transitions between various kinds of employment, for instance between part-time and full-time work, dependent work and self-employment or a combination of both, without repeated disruptions, is important in the face of economic internationalization and post-industrial differentiation. The normative focus of social policy hereby shifts from *ex post redistribution* towards preventive or *ex ante employability*. Wolfgang Streeck captures the new "asset-based" discourse of social justice in terms "supply-side egalitarianism" as it hinges on the deployment of resources to improve and equalise citizens' individual abilities to compete in the knowledge economy (Streeck, 1999). Greater flexibility and widespread low-wage employment is likely to increase relative poverty overall economic insecurity for sizeable groups in the population. An unchecked rise in income inequality will worsen citizens' life chances and opportunities. As a consequence, it impossible to avoid some form of (passive) minimum income support. Temporary inequalities, low wages, and poor jobs are less problematic than long-term poverty and inactivity traps. They become problematic when they negatively affect opportunities for future life chances on a structural basis. It is therefore necessary to have an even more tightly woven net below the welfare net for the truly needy to meet minimum standard of self-reliance.

Institutional recalibration concerns reforms in the design of institutions, levels of decision-making and social and economic policy governance, including the separate and joint responsibilities of individuals, states, markets and families. One of the most distinctive institutional features of the European welfare *state* has been its public legalistic nature: the responsibility of ensuring social solidarity and cohesion ultimately relied on national (i.e. central) government in terms of policy formation, funding, administration and implementation. Various developments have been challenging this state-centric edifice of the welfare state in recent years – a challenge often summarised in the emergence of new forms of “governance” beyond the traditional territorial nation state. The ongoing redefinition of the role of the state with respect to welfare provision is apparent in three ways (Supiot, 2001). The inevitable failure to deliver diversified public goods and decentralized services in turn triggers popular discontent with the public sector. Hence, the need for policy change and innovation and experimentation with new forms of public and private service provision in child care, education and training and professional care for the elderly. As a consequence, national government no longer hierarchically monopolise welfare provision. Diversified demand in the face of tight budgets makes it increasingly difficult for governments to apply typical uniform rules and procedures and regulations to welfare servicing. Customization of welfare services to meet individual needs with transfers and services goes together with institutional devolution, decentralization, liberalization and privatization. Many countries (especially the larger ones) have been experimenting with decentralisation of competencies to sub-national (regional and local) governments. Markets and families have gained greater responsibility and community-based ‘third sector’ associations have been called on to deliver new services. From a horizontal perspective, secondly, there is an increasing recognition that effective social policy formation and implementation today requires ‘joined up’ governance across government departments, public agencies, private sector organizations, and community association, together with more effective form of policy coordination across various functionally differentiated policy areas of activation, social protection, family services and housing. Last but not least, the EU has in recent years emerged as an autonomous supra-national body of social regulation and to some extent redistribution (through the structural funds), creating additional layers of multi-level governance, to which I now turn.

5 BEYOND THE “DOUBLE BIND” OF SOCIAL EUROPE

The negative outcome of the 2005 referenda over the Constitutional Treaty in France and the Netherlands, signals “growing pains” of the shift from an elite-driven *diplomatic* to a broader *political* Union. The rejection of the Constitutional Treaty by French and Dutch voters brought out discontent about globalization, unease over immigration and resistance to prospects of Turkey joining the EU in the near future, this against the background of a stagnating eurozone economy (Wallace, 2005). The Single Market, EMU and the Stability Pact, which started out as a path-breaking structural policy reform of enhanced European economic cooperation, potentially putting long-term growth and stability structurally on a higher plane, are increasingly seen of as set of constraints, undermining the domestic room for manoeuvre. To be sure, countries which stayed out in the first round of EMU, the United Kingdom, Sweden, and Denmark, fare much better. However, the current legitimacy crisis of the EU, however, is not merely a problem of economic performance; it’s a crisis of political leadership and policy engagement. Domestic political elites from Left to Right have since the adoption of the Single Market been all too happy to scapegoat the EU for painful reforms. Hereby they fed popular discontent against the new Constitution which they themselves eventually supported. Now that the public genie is out of the bottle it is impossible to go back to the status quo ex ante of elite-driven technocratic European integration with the Commission in the driver’s seat, supported only haphazardly by Member States governments. In order to counter tendencies of Europe’s national political economies from becoming inward-looking, protectionist, and xenophobic, nostalgically glorifying the past successes of their sovereign national welfare state, EU political leaders are required to develop a policy vision on social progress that European citizens can support. Without a social agenda the EU will not get the support for much needed reforms at the level of the national state over pension and services at level of the EU. The European Union affects domestic welfare policy repertoires through essentially four avenues of EU intervention:

- Community method legislation within the framework of the internal market like health and safety and equal opportunities legislation;
- Macro-economic constraints for the eurozone agreed to in the context of EMU and the Stability and Growth Pact;
- Jurisprudence of the European Court of Justice based on case law, largely derived market compatibility requirements;

- Agenda setting policy coordination through the articulation of common challenges, the joint diagnosis of new social risks, and the identification of potentially effective domestic policy solution to emerging European social problems.

More broadly, EU social and economic policy coordination can be broadly characterized along two dimensions. First, there is the relevance of cross-border risk pooling through binding legislation against unruly competition through the well-known “Community Method”. Second, in its central role as an agenda setter, EU institutions can help diagnose the nature and magnitude of the fundamental challenges and identify potentially effective policy solutions to these challenges. Although the relationship between these two dimensions of EU policy coordination goes beyond mere overlap and co-existence, in the academic debate over the future of “social Europe” these two forms of policy coordination are more often than not seen as *alternatives*, rather than *complements*.

Leading scholars, most notably Wolfgang Streeck (1995), and Fritz Scharpf (1999), have argued that the Single Market, the introduction of EMU, in the wake of successive rounds of enlargement, are exemplar of the overall tendency of ‘uneven growth’ between the EU’s economic and social policies. The latter, market-correcting ‘positive integration’ has been unable to keep up with the market-expanding logic of ‘negative integration’ - “the removal of tariffs, quantitative restrictions, and other barriers to trade or obstacles to free and undistorted competition” (Scharpf, 1999: 50-52). From this pessimistic reading, European welfare states face the predicament of a “double bind”. On the one hand, Member States are unlikely to shed their welfare-state obligations, as this would jeopardise the political base of their legitimacy. On the other hand, EU Member States have, since the mid 1980s, become irreversibly committed to a pervasive program of European economic integration. In the face of this “double bind”, national policy makers cannot want to shed their welfare-state functions without jeopardising the territorial bases of their political legitimacy, while at the same time they cannot want to reverse the process of economic integration which increasingly exposes their now semi-sovereign welfare states to regulatory competition. The double bind confronts national and EU-levels policy makers with a thorny dilemma: common European solutions are desirable, but neither feasible nor effective on account of national interests, political sensitivities and the huge diversity of social security systems in an EU of 25 members (Scharpf, 2002).

The logic of the “double bind”, arguing from a more voluntarist standpoint, can however be turned into a “double engagement”. This arises out of a corollary to Europeanisation. Domestic

adjustment problems resulting from economic integration can trigger political spillovers pushing consecutive rounds of EU policy initiatives, pressed for by domestic policy makers, to deal with the unintended consequences of the first round of liberalization. Such spillovers create the political space for 'uploading' social policy considerations to the level of the EU. The spectre of competitive welfare retrenchment due to the predominance of "negative integration", can thus serve as a critical trigger (and thus intellectual resource) for progressive EU- and domestic policy makers, encouraging them to engage in "positive coordination", constructively recalibrate national welfare regimes and the European social policy agenda. The remarkable resurgence of "social pacts" across the European Union in the 1990s, alluded to earlier, is exemplar of the logic of "double engagement" at the domestic level. Following this line of reasoning, Maurizio Ferrera and Elisabetta Gualmini (2000) go as far as to claim that EMU in effect *saved* the Italian welfare state from complete ungovernability. At the level of the EU, the introduction of a separate employment chapter in the Treaty of Amsterdam provided for a new European political space for "double engagement". The European Employment Strategy, later coined the Luxembourg process, was accepted on condition that no national authority would be transferred to Brussels, there would be no extra cost, and EMU rules would be fully respected. Likewise, in committing the Union to become the "most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth and more and better jobs and greater social cohesion", the Lisbon summit in March 2000 put forward integrated agenda of economic, employment and social objectives, helping EU economies to perform better, while contributing to social cohesion and political stability. In terms of institutional innovation, the European Council at Lisbon formally recognized the Open Method of Coordination (OMC) as a new form of European governance, based on common guidelines to be translated into national policy, combined with periodic monitoring, evaluation and peer review organized as learning processes and accompanied by indicators as a means of comparing best practices. Since the introduction of the employment strategy in Luxembourg, OMC has quickly spread to other social policy areas, like social inclusion (2000), pensions (2001), and health care (since 2004). In terms of substance, open coordination processes strongly focus on "new" rather than "old" social risk categories, most notably active ageing/avoiding early retirement, part-time work, lifelong learning, parental leave, gender mainstreaming, flexicurity (balancing flexibility with security), reconciling work and family life, and social exclusion (Zeitlin, 2005).

Open coordination, if given more EU political clout and national commitment, can play a key role in ongoing processes of welfare recalibration. OMC provides for an institutional space for mutual learning and deliberative problem-solving, generating new cognitive, normative, and

practical input for defining an overlapping consensus on EU objectives and ambitions and economic performance, but not on specific national programs and institutions. The tie that binds the open method is not so much values, policies or institutional structures but rather a common identity defined in terms of problems. OMC is flexible, incremental, recognises national differences, which makes it easier to achieve agreement on policy re-direction; it allows for change and in fact anticipates change by encouraging feedback policy learning and lesson drawing (Maher, 2004). Through OMC persistent heterogeneity may be exploited for purposes of experimentation and innovation. By diagnosing common European challenges and identifying promising policy approaches through information pooling, OMC induces Member States to re-assess, re-evaluate, and re-examine policy performance and established policy approaches in comparison with other countries under the political pressure “to get something done” on urgent social questions in the face of increasing economic interdependencies (Zeitlin, 2005). OMC is extremely useful in creating a climate where policy change is possible without triggering social or political unrest. In its respect for national political traditions and policy legacies, OMC could enhance the legitimacy of the EU as a social union. It serves both *substantive* EU objectives for work and welfare *and* more ambitious national reform strategies. But the real beauty of OMC is that it helps us to focus on reform beyond the formalism of the traditional “Community Method”, which so often only serves to obfuscate reform. OMC concerns a “doubly engaging” policy process par excellence in that it seeks to interlink domestic policy making and EU coordination, combining common action and national autonomy beyond the traditional and inflexible Community Method and the rather formal and defensive deployment of the subsidiarity and proportionality principles in EU policy making. In effect, OMC signals a shift towards a richer and more constructive notion of subsidiarity.

In practice, however, OMC processes are far from perfect. Especially, its degree of ‘openness’ in terms of political exposure and commitment, together with lack of substantive focus, should be criticized. OMC practices are particularly poorly integrated in domestic policy processes, public awareness, media coverage, and parliamentary overview remains poorly developed. The role of the European Parliament so far has been only considered in strict advisory terms, while, more seriously, national parliament have let themselves be marginalized in the process. Open coordination is dominated by a new class of high civil servants and EU officials. These problems of political accountability have not been compensated (enough) by other mechanisms of civil society articulation and representation. To be sure, without substantive consensus or common concerns and a sense of urgency for cross-national problem-solving, there is the that OMC up in a ritual of ‘dressing up’ existing policy legacies. Taking heed to the Sapir report on economic

growth (2003) and the Kok-reports on employment (2003) and the Lisbon strategy (2004), 2006

there is clear a need to refocus the Lisbon agenda, urging them to act together and go beyond defending the vested interests of their now semi-sovereign welfare states. A greater focus on growth, employment, and social cohesion in a three-year sequence may be sufficient to render processes of open coordination less opaque and to facilitate better co-ordination across policy sectors both at EU and national levels.

6 THE IMPERATIVE SOCIAL PRAGMATISM

Welfare state futures are not preordained. Neither the doomsday scenario of the demise of the European welfare state, predicted by economists in the 1980s, nor the prevalent image of a 'frozen welfare status quo', pictured by comparative scholarship in the 1990s, can be corroborated by the European welfare reform experience since the late 1970s. In the 1980s welfare provisions became more austere. Since the mid-1990s, we observe a incipient process of "contingent convergence" of employment and social policy objectives, the adoption of increasingly similar policy initiatives (encouraged also by the deepening of the EU social agenda), signalling a transition from a corrective and passive welfare state to a more proactive social investment strategy, with much greater attention paid to prevention, activation and social servicing. In hindsight, it seems that in trials of repairing the increasingly dysfunctional policy repertoires of the golden age, domestic and EU policy makers, pressed by intensified economic internationalization, post-industrial differentiation, under condition of permanent austerity, have turned to combining elements from different welfare regimes. In their different attempts to achieve greater efficiency and equity, we can observe a trend of welfare hybridization, based on policy domestic policy experimentation and processes of cross-national social learning. The EU, as national boundary spanning institution, herein provides a vital additional exploratory policy space for cross-national agenda setting, benchmarking policy performance and the sharing of domestic policy reform experience. European welfare states are no longer closed systems; they are increasingly open evolutionary systems, inhabited by agents who learn and constantly apply lessons from domestic experience and EU social and economic policy coordination. Over the past decade, EU social policy makers have reluctantly given up their first order preference for the administrative "one-size-fits-all" routines of the Community Method, directed towards binding social and labor standards, and, as a consequence, have been rather slow to endorse, in their view second-best, voluntarist processes of open coordination and social dialogue, involving both domestic and EU policy makers in monitoring progress, diffusing best practices, and redefining

common concerns and shared social and economic objectives. And as community legislation will inevitably become more difficult in a more heterogeneous Union of 25 Member States, social progress will have to rely more on horizontal EU social dialogue and 'soft law' processes of the open method of coordination so as to balance common concerns and *legitimate diversity*. To be sure, the image of "doubly engaging" welfare recalibration has been put in jeopardy, due to the loss in commitment to the Lisbon momentum, and also in the light of the French and Dutch referendum outcomes. Processes of open coordination have to become more overtly political by introducing robust democratic parameters. In the highly charged political context of today, "one-size-fits all" directives from Brussels, e.g. on weekly working hours surely, is not the way forward. The EU should stimulate more daring forays of two-way political engagement over an ambitious policy agenda, endorsed by the European Council and the Member States. Social progress in the EU has to be built on the politics "double engagement".

Despite the imperative of "double engagement, social policy reform essentially remains a domestic enterprise: reforms have to be endorsed by elected governments and national political parties, preferably supported by key organized interests, and implemented through domestic administrative structures. By the same token, processes of welfare recalibration surely do not involve a search for a "blank slate" new model, a radically novel blueprint to replace existing national social and economic policy repertoires. We live in a world of path-dependent solutions. Reform, even radical policy change, does take place, but it is "institutionally bounded" change. Any attempt to social and economic performance is critically dependent on identifying particular institutional conditions under which it is possible to formulate and implement effective and equitable policies. The interaction between economic performance and welfare policy is far too complex and dynamic to allow for simple remedies and quick fixes. The analysis of social policy as an investment resources thus relies heavily on sophisticated understandings of the modus operandi of the welfare state that are more complex than those supported by neo-liberal orthodoxy, which, at best, views social policy as necessary side-payments to groups adversely affected by economic restructuring. But in contrast to the possible adverse effects of social policy on economic performance, the reasoning behind the idea of social policy as an investment occupies a difficult intellectual and political position. Although comprehensive welfare states are surely not economically dysfunctional, there are social policies that do have a negative impact on economic processes, like excessively generous social benefits, not backed by activating labor market policies. We always need to consider the "fine" structures of the welfare state in conjunction with inside and outside policy pressures. This also makes the political nature of policy prescriptions imminently conditional.

Welfare reform is a political process, which involves the strategic framing of policy problems and solutions by political actors and interests. Reforms are the products of lengthy processes of (re-)negotiation between political parties, governments and often also the social partners. In order to gain political legitimacy for promising new policy formulas, political entrepreneurs wishing to novel policy alternatives on the political agenda are pressed to elaborate new normative priorities (or, to redefine old ones) and communicate their (novel) cognitive insights of the challenges ahead in a publicly compelling manner so as to convert current anxieties over economic internationalization, post-industrial differentiation and conditions of permanent of permanent austerity, into a more mobilizing pursuit of policy priorities and political ambitions. The more reforms proposal alter the distributive balance between groups and vested interests, the more important of course it is to put forward and elaborate new normative frameworks and discourses capable of advocating the reform agenda as a “win-win” project, i.e. justifying reform in terms of underlying “moral foundations”. Following the logic of Sen’s capability approach, the policy priorities listed above concern policy interventions to empower citizens to act as autonomous agents, especially, to allow for choice between different employment statuses according to shifting preferences and circumstances during the life-course (Schmid, 2005; Sen, 2001). Nonetheless, equal opportunity can be achieved only in a society that keeps the scope of inequality at bay. Temporary inequalities, low wages, and poor jobs are less problematic than long-term poverty and inactivity traps. They become problematic when they negatively affect opportunities for future life chances on a structural basis.

Necessary investments in family services, education and training, subsidized employment, integration and labour market for immigrants, and decent basic pensions, and adequate minimum income protection do come with a price ticket. However, in the medium term, the gains are very likely to outweigh the initial costs of the social investment strategy. Moreover, investments in (public and private) social services also provide job opportunities, especially for women, older workers, youngster, and immigrants. And while they raise the volume and quality of the work force, high-return investment support economic growth. This, in turn, generates additional government revenues, which ultimately contributes to the long-term sustainability of the European welfare state.

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