Diversity and Commonality in European Social Policies:

The Forging of a European Social Model

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Diversity and Commonality in European Social Policies: The Forging of a European Social Model

Różnice i elementy wspólne w polityce społecznej państw europejskich. Powstawanie Europejskiego Modelu Społecznego

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Peter Hengstenberg

Foreword

The harmonization of national social policies in the European Union has only recently received close attention among the member states. This development has been stimulated by modern challenges such as globalization, climate change, the technological revolution, and the ageing of societies – each of which demands a common response. The belief that these challenges can be successfully met rests upon Europe's deeply-shared social values, including equality, solidarity, and social dialogue – as well as upon her peoples' bold and consequent aspirations to build an exemplary community. Indeed, Europeans are ever more aware that sustainable economic growth can only be achieved if an important degree of social justice is guaranteed – which is to say they more clearly discern how closely interlinked economic and social policies are. Our study therefore attempts to observe the forging of a European Social Model.

Varying types of European welfare states have been analyzed in this study in order to provide an overview of currently existing national social models, as well as to highlight both their interaction and their prospects for the establishment of a European Social Model. Following Esping-Andersen's classifications of liberal, conservative, and social democratic models, the United Kingdom, France and Germany, and Denmark respectively have been chosen from among the old EU member states. Thus, both Bismarckian (France and Germany) and Beveridgean (Denmark and the UK) traditions are represented.

Among the new member states Poland[1] was included as their biggest representative. The Czech Republic serves as an example of an early-industrialized country, today experiencing very successful egalitarian welfare state development. Estonia, representing the former Soviet republics among the new member states, has relied on comparatively liberal market ideals since 1990. Our analysis shows that all the states we have examined in this cross-section are struggling with similar social problems of differing magnitude, only gradually arriving at common policy solutions. In addition to path dependency this relative slowness in social policy convergence is due to the lack of general

[1] The Friedrich-Ebert-Stiftung in 2005 published *The Social Report: Poland 2005*, wherein we analyzed the key social problems in Poland and the social policies that have been pursued in Poland over recent history. It has been our intention to launch public debate on the ways in which pressing social concerns should be resolved, as well as on the challenges which Poland faces as a member of the European Union. One of these challenges is to link social policies with the European Social Model.

EU competence in social policy. Harmonization efforts in this field are limited on the one hand by the member states' unwillingness to give up authority in this key area of domestic politics, and by the high financial burdens related to the social sphere on the other. The lingering underestimation of social issues in the context of economic development has also contributed to the weakness of a common European social policy. And yet the future success of the European Union requires recognition of the importance of social justice as a vital factor in sustainable development.

The current global financial crisis and its worldwide effects on economies and social systems oblige us to reexamine and rechart the path for further globalization. The new path will likely be more regulative than that of the last two decades.

The recent calls to extend the social dimension of the European Union reflect this demand. The debates over a European Social Model that furthers the goal of a socio-economically balanced society are based on values that we can find in every European social system – for equality, non-discrimination, and solidarity are fundamental to each of them. Moreover, universal, free or easily-affordable access to education, healthcare, and the range of general social services, as well as the upholding of robust civil rights, are regarded as essential to creating a successful 21st-century economy and a just society. EU regulations in the social policy area have been identified in many EU documents, programs, and directives. Whereas national social policy is to a large extent "material", EU social policy is mainly "regulative", with the single exception of measurements financed by the European Social Fund.

Nonetheless, the current form of European social policy cannot be deemed sufficient. This is because it is based on the old EU member states' divergent national experiences, which are oft'times inappropriate to meet contemporary challenges. Understanding that fact is one of the main purposes of our book.

The historical development of social policy differs considerably from one EU member state to the next. And indeed, the differences are found not only between old and new member states, but also within these two groups. However, despite the significant divergence between the member states, we may discern strong common tendencies, ones that are influenced by such common societal tendencies as ageing, migration, the weakness of the family as a social institution, social exclusion, and environmentally unfriendly consumption patterns. The European Union has responded to this with the European social strategies and joint social plans.

The European social strategies, implemented by the Open Method of Coordination (OMC), integrate four areas: full employment policy, social inclusion, pensions, health, and long-term care. The process of convergence in social policy areas is influenced by exogenous (e.g., global competitiveness, the process of internationalization, influence from model countries), as well as by endogenous factors (e.g., ageing and state responsibility for the public good). At the same time, measurements taken in order to create social policies that are more sustainable financially can be observed in all the countries we analyze. This includes a decreasing generosity of benefits, improving adequacy in the case of Estonia and the UK, the introduction of activation policies regarding unemployment following the British and Danish example, administrative changes, the improvement of public management, as well as a new public-private mix in financing education and social protection (e.g., obligatory private pension funds in Poland and Estonia, “Riester-Rente” in Germany). Generally, we may observe a trend towards more flexibility and individualization in the organization of social security.

In the long run education seems to be one of the most important factors in providing human capital as well as social justice. Progress in the quality and effectiveness of educational systems has been given new impetus by the comparatively low PISA results of European children, excluding those from the UK and Denmark. The Lisbon Strategy names education and knowledge development as key requirements for success in global competitiveness and as one of the main factors for balanced social development. The improvement of education systems shall be achieved by initiatives and undertakings targeted at the creation of a European Higher Education Area.

Despite this growing interdependence between member states, as well as between the national and the EU level in the field of social policies, the EU remains virtually absent from national debates on social policy. Thus, there is rather limited convergence of institutions on the national and the common European level. The role of the EU in the process of harmonization has mainly revolved about the exchange of best practices. Nevertheless, even with the EU’s limited competencies and soft instruments in this area, European integration in the economic sphere has a growing influence on national labour markets and social policy. EU integration is also raising public awareness of social problems and concepts and is enhancing both a more strategic approach and the coordination of various social policy areas in the new member states.

The background for this is the European Social Model. In our book the concept of the European Social Model is presented broadly, as a process for creating a shared foundation of both values, similar institutions, secured resources, and the means for responding to new problems and challenges in the future. The European Social Model is an open and renewable concept that fosters and serves the conduct of European policy, both at the national and supranational levels. It responds to the goal of building socio-economically balanced societies.

The seven country reports in this publication show that today’s European Social Model includes a variety of social policy instruments differing in respect to the divergent historical, institutional, political, and cultural conditions in the individual member states. However, the fact of facing similar challenges has indeed stimulated interaction and convergences between the EU countries.

The social dimension of the EU has been strengthened – and a European Social Model is being forged. This progress must however be buttressed by greater EU competency in social policy, as well as by greater focus on social issues in European public debate. Only together can the European states secure their welfare and provide for ecological balance, economic sustainability, and social justice in their shared future.

Credit for the enormous intellectual task of shaping our study is above all owed to Stanislawa Golinowska. Maciej Żukowski's input and labour were of great importance throughout the creation of this book. The authors of the individual country reports – Martin Potůček, Jolanta Aidukaite, Jørgen Goul Andersen, Christophe Starzec, Paul Gregg, and Karl Hinrichs – also lent their expert advice and insight at every stage of the work. As the person who guided our study to completion I may boast that our common endeavour was accompanied by an exceptional team spirit. I therefore express my heartfelt thanks to all involved. Also to Tomasz Inglot of Minnesota State University, author of *Welfare States in East Central Europe, 1919-2004*, who reviewed our final manuscript. We very much appreciate the work he did. We also thank Philip Earl Steele, who in proofing and editing all portions of our work – and translating much of it – was a valued member of our team. Last but not least we wish to express our gratitude to Katharina Kreuder-Sonnen, Barbara Janusz, and Elżbieta Panas for their wonderful hand in the many technical and organizational parts of our work.

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Introduction
The European social model. Its meaning and scope

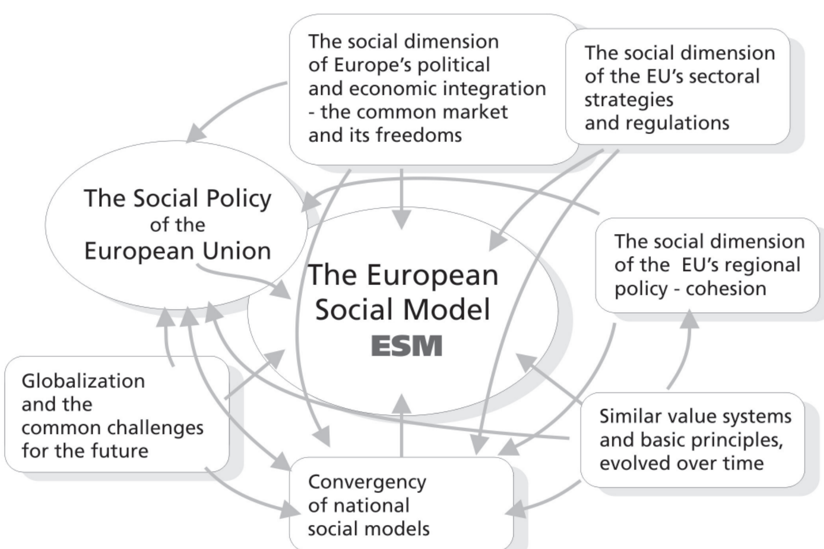
The European Social Model remains the subject of controversy. Nonetheless, it is widely agreed that there is no single European social model as far as solutions in social policy are concerned. Indeed, several models or "regimes" have been identified in Europe (by Esping-Andersen and others). On the other hand, there is agreement that (at least Western) European states share many basic social values and evince a similarity of social policies that distinguishes them from other developed parts of the world. Moreover, European integration has been influencing national social policies through various channels, not only via limited social regulation and the jointly selected social strategies pursued by the Open Method of Coordination (OMC). In 2004 the EU was enlarged by ten new countries – and in 2007 by two more. These twelve differ in many respects from the old EU-15. For some observers, the European Social Model has been threatened by these enlargements.

In this volume the European Social Model is understood as both the common core of the social policies of the member states and the social policy of the EU. The new member states of the EU which entered the Union in 2004 and 2007 are in the foreground of the present study. Before formulating the objectives of this study and presenting its structure, the concept of the European Social Model should be presented from the perspective of three elements: (1) the common core of national welfare states, (2) European social policy, and (3) the internalization of European policies and strategies (not only social) by national economies, and (4) the joint (European and national) response to the common challenges of the future.

There is no single European Social Model in the meaning of social policy solutions or design among European countries. The welfare systems of member states are characterized by diversity (Esping-Andersen 1990 and 1999). As there is no general Community competence in social policy (this area remains within the competence of the member states) and the Community has expanded greatly from the original six to the present 27 states, the diversity of social policy solutions or models has risen sharply throughout the 50 years of European integration. The differences in social policy solutions between the original six member states of the European Economic Community (Belgium, France, Germany, Italy, Luxembourg, and the Netherlands), all belonging to the conservative welfare regime, were relatively small. Every subsequent enlargement of the Community (1973, 1981, 1986, and 1995) increased diversity by bringing into the Community new traditions (regimes) – namely, liberal, social democratic, and southern European. The recent enlargements of 2004 and 2007 have further increased this diversity through the accession of countries which differ from the old not only in lower living standards, but also in social policy traditions. After all, for decades they belonged to the Soviet sphere of influence – some were within the Soviet Union itself (the Baltic states). All of them developed a distinct socialist version of the welfare state.

From the social perspective, however, Europe as a whole is distinct from the US and other parts of the world (Alber 2006). Looking from a broader perspective and comparing Europe with the rest of the world, differences between countries seem less important and similarities become more visible. For instance, we may observe that in Europe socioeconomic inequalities are lower, and social rights and state support to provide social protection are broader. This is the meaning the term "European Social Model" most often captures.

A document of the European Parliament published in 2006 stated that "the European Social Model is first and foremost a question of values. Whatever European social system we examine we find the common values of equality, non-discrimination, solidarity and redistribution as fundamentals, with universal, free or cheap access to education and healthcare, and a variety of other public services as the right of a citizen and as essential to creating the basis for a successful modern economy and a fair society. It is in this respect that our European model differs from the US model, for example. Social policies (including social protection, health, education and care services) are highly developed in the EU, reflecting a strong attachment to social cohesion" (European Parliament 2006, p. 11).



In the present work we intend to present the European Social Model more broadly, as a process for creating a shared foundation of both values, similar institutions, secured resources, and the means for responding to new problems and challenges in the future. The European Social Model in this meaning is an open concept, one that is dominated neither by tradition nor the inertia of the welfare state solutions developed by any of the groups of national states. That said, the European Social Model (ESM) draws heavily on experience, benchmarking, and good practice. For this is a concept that remains open to the changes elicited by plurality and the high degree of dynamism intrinsic to modern challenges – but without surrendering the values that allow people to feel safe and bonded with others. Thus, the ESM is a concept that fosters and serves the conduct of European policy, both at the national and supernational levels.

The above diagram shows the process whereby the EMS is shaped. Among the many key factors are:

- the shaping of a common market designed to attain desired outcomes in sectoral policy
- regional policy, focused on achieving greater cohesion between regions within EU countries
- a European value system, something that meets with the greatest acceptance, despite discussions on the differing roots of those values
- the convergence of the national models for the welfare state, driven both by national solution-seeking and the impact of European programs
- the effort of EU member states to jointly carry out defined social strategies within the framework of the Open Method of Coordination (OMC)
- the undertaking of common activities in response to the emerging contemporary challenges before the expanded Europe and the world as a whole
- the conduct of an explicitly European social policy, one whose competence is to gradually increase.

Seen this way, the ESM is not the traditional model for social policy of the countries of "Old Europe", something which is often attacked for hindering dynamic economic development in an era of globalization (cf. Sapir 2005). Nor is it a model for the retrenchment of social policy on the basis of certain reforms of the new member states. Indeed, the European Social Model is a concept for a future in which basic European values and approaches will be preserved. But it also a concept that permits institutional changes and the adoption of new objectives.

We have identified the following contents and/or characteristics of the European Social Model (ESM):

- simultaneous and proportional economic and social development
- emphasis on innovation and a knowledge based economy
- active employment policy

- decent and equalized living standards
- common values: equality, solidarity, subsidiarity
- social dialogue and social participation
- social inclusion
- the significant role of state social policy.

Economic and social development

The European Social Model is more than just a social model in the narrow sense. Indeed, it also influences production, employment, and productivity – and thus growth and competitiveness, along with all the other objectives of economic policy (Aigiger, Guger 2006). Additionally, the ESM concept includes emphasis on the development of research and development (R&D), human capital, and the speedy diffusion of new environment-friendly technologies for the future.

Active employment policy

Active employment policy became an obvious element of the ESM together with the Amsterdam Treaty's proclamation of the European Employment Program (EEP), which conjoins the policy of job creation with the activation of professionally passive people and those vulnerable to unemployment. The ESM concept upholds the value of work as a way for realizing and building personal identities, the meaning of work for social integration, and the bases for creating decent living conditions for individuals and families. Despite the changed character and organization of work in today's economy (e.g., it's being more individualized and demanding greater adaptive flexibility and mobility), its intrinsic value is not diminished. On the contrary – the demands and expectation regarding work are rising.

Decent and equalized living standards

The European Social Model is associated with relatively high and equalized living standards achieved by a range of instruments in many fields, to wit: development of social infrastructure, universal access to social services of general interest, universal access to education and health protection, very high coverage of social security, minimum wages, decent housing and work conditions, etc.

As a consequence, one common characteristic of the EU member states is the high level of human development. According to the Human Development Index 2005 (UNDP 2007/2008), the 27 EU member states had a Human Development Index value above 0.8 (high human development), placing them between places 5 (Ireland), 6 (Sweden) and 53 (Bulgaria), 60 (Romania) in the HDI rank.

This rank also clearly shows that the new member states that entered the EU in 2004 and 2007 are less developed, as the 15 old members states ranked among the first 29 countries on the list, and Slovenia and Cyprus are the only two new member states with an HDI rank higher than an old member state (namely, Portugal). It is in regard to living standards (welfare) that new member states differ most from the old. On the other hand, in all the new member states human development is higher than the GDP level, which is reflected in the fact that their position in the human development index ranking is higher than in the GDP level ranking. For example, Poland was classified in 37th place in 2005 according to the HDI index and in 48th place according to GDP per capita (UNDP 2007). Thus, the new member states are closer to the EU average in human development than in economic development, which is partly related to their social policies (this is expanded upon below).

The continual improvement of living and working conditions of EU citizens was laid down at the European level in the Treaty as the essential objective of the Community, that is, right from the birth of the European integration.

Common values: equality, solidarity, and subsidiarity

It is widely accepted that Europe is characterized by less income inequality as a result of higher attachment to the value of solidarity than in most other parts of the world. The average value for the OECD of the Gini coefficient in 2000 was 31.0. Inequality was lower in most EU member states (24.7 in Denmark, 25.0 in Sweden, 26.9 in Finland, 28.3 in Germany) and higher in some of them (38.5 in Portugal and 36.0 in the UK and Italy). In this respect new members states do not differ from the old, and some of them have income inequality measures closer to that of the Scandinavian countries (Czech Republic 25.4, Hungary 26.9), while the others are nearer that of Portugal (Latvia 37.7) (OECD 2007). But even if European states differ in income inequality, their income inequality is generally lower than in countries with a high human development index on other continents, with recent Gini values of 40.8 in the US, 49.2 in Malaysia, and 54.9 in Chile (UNDP 2007).

Solidarity mainly relates to internal policies of European states and is to a large extent pursued by state social policy (see below). This solidarity is attained mainly through obligatory social security systems and redistribution, and is financed by high taxes and social insurance contributions.

The next important value and principle of social organization within European societies is that of subsidiarity. This principle is based upon the autonomy and dignity of the human individual, and holds that all other forms of society, from the family to the state and the international order, should be in the service of the human person, and should not limit people and their small and intermediate-sized communities or institutions in creating appropriate social conditions necessary for the full development of the individual.

Thus, equality, solidarity, and subsidiarity are important values of European integration. Subsidiarity is a cornerstone of European Union law, established in the 1992 Treaty of Maastricht, and in 2000 was declared one of the main principles in the Charter of Fundamental Rights of the European Union. The social cohesion principle contains the idea of equality and solidarity, and has helped to build structural policy in the Community. This policy is one of the main policy areas, and structural funds constitute an important part of the EU budget.

Social dialogue, social participation

The European Social Model is also rooted in democracy, resting heavily on social participation and the involvement of citizens in society and public institutions.

Social dialogue is an important European value and a crucial method for achieving both economic and social objectives. It is to a large extent a lesson from European history that solving problems through dialogue is less costly than other methods. Especially in the corporatist tradition (but also in the social democratic regime), social dialogue is a basic component of the political system. In social insurance, as well, the core of the European social policy systems, there is a long tradition of self-government.

In the countries that recently entered the EU, social dialogue could not develop under the previous Soviet-backed regimes, and so they had to develop it and create new institutions during their transformation process of democratization. For these same historical reasons, many new member states remain behind the old in terms of social participation: civil society is marked by meager participation in public life and mistrust of public institutions.

Also at the European level, European social dialogue is seen as a “unique and indispensable component of the European social model, with a clearly defined basis in the EC Treaty. It refers to the discussions, consultations, negotiations and joint actions undertaken by the social partner organizations representing the two sides of industry [management and labour]” (EC webpage).

Social inclusion

Social inclusion in the developing ESM concept entails not only acceptance of activities on behalf of combating poverty and social exclusion for humanitarian and societal reasons. For it is also a philosophy for developing the integration of societies in which there is an equal place for everyone, despite their differences, biological and social limitations, and culture. The policy of social inclusion moreover embraces within the labour market persons traditionally viewed as having too low employability to fully participate in the main current of social life. It is therefore a step toward a revolutionary transformation of institutions in the realm of social protection – particularly, social assistance.

The significant role of state responsibility in social protection policy

Europe is characterized by high public social spending. While it was 20.7 percent of GDP on average in OECD countries in 2003, it was 16.2 percent in the US and 17.9 percent in Australia, but 23.9 percent on average in the EU-15 and 31.3 percent in Sweden, 28.7 percent in France and 27.6 percent in Denmark (OECD 2007). Some commentators stress the role of the state as the most prominent characteristic of the European Social Model. This indeed is a crucial difference between EU member states and, for example, the US. Net social expenditures, including both public and obligatory private expenditures, are on a similar level in developed countries (European Commission 2004, p. 53). In 2001 they were at the level of 24.5 percent of GDP in the US, 24.4 percent in Denmark, and 22.3 percent in Italy. Thus, Europe relies relatively more on the state than the market in meeting needs and upholding its values when compared to other developed parts of the world. Welfare is thus "produced" by the state to a large degree. One crucial element is the universal, free or cheap access to education and healthcare and other public services (childcare, elderly care, etc.). The European countries are welfare states also in this sense.

In the new member states public social spending is relatively high. Poland, along with the other new member states, spends less on social protection than the old members. Total public social spending was 22.9 percent in Poland in 2003, while it was 31.3 percent in Sweden, 28.7 percent in France, and 27.6 percent in Denmark and Germany. These figures illustrate, however, the fact that the new countries are much closer to the EU-15 in this respect than in terms of GDP. The relative expenditure in Poland was higher than in some countries of the EU-15 with a much higher GDP per capita, to wit: Spain (20.3 percent) and Ireland (15.9 percent) (OECD 2007). The Joint Report on Social Protection and Social Inclusion 2006 formulated this as follows: "…in Germany, France and Sweden, as well as Poland, social protection expenditure per head was higher than would have been expected given their comparative levels of GDP per head" (European Commission 2006, Technical Annex, p. 30).

Thus, the new member states are also welfare states, as far as extended social policy is concerned, and in this sense they are compatible with the European Social Model. As their economic development and thus living standards are lower than in the old member states, the new members may be described as "less affluent welfare states".

The large scale of social outlays in the EU countries is often times criticized for the reason that the vast scope of income redistribution impedes the opportunities for the improved global competitiveness of European economies. This is why many European documents and reports (e.g., the Lisbon Strategy and the Social Agenda) call attention to the need to modernize the national welfare states. The aim of this postulate is to search for more effective ways to realize the basic elements of the European Social Model, and not to stray from its basic principles and contents.

The main objective of this study is to analyze the European Social Model in the face of the EU's recent enlargements[1], through confrontation of social policy developments in EU member states with EU social policy. We shall attempt to answer several questions:

- What have the main social policy developments been in the analyzed countries between 1990 and 2007; what important similarities and differences may be identified?
- How has the European social policy's contents, aims, and means for influencing member countries evolved?
- What role has the EU played in the national developments, which influences may be identified, how is the EU perceived in national debates on the welfare state?
- What are the primary future challenges for European social policy shared at both the national and EU level, and how will they influence the ESM?

The first chapter presents a general description of the social policy regimes in EU countries, based mainly on the modified typology of Esping–Andersen, as well as the two-dimensional approach of Bonoli. Against this backdrop, the choice of countries for the case studies in the following chapter will be explained.

In the second chapter, the core of the book, national social policies in seven EU member states are analyzed: four old member states (Germany, France, UK, and Denmark) and three new ones (Poland, the Czech Republic, and Estonia). For each country three main issues are presented: the national "model" for the welfare state, with the main actors and structures; social policy developments between 1990 and 2007; and the relations between the national welfare state and European integration.

The third chapter deals with the development of EU social policy as well as the influence of European integration on national social policies. It is argued that even without clear extension of EU competencies in that area, European integration in the economic sphere is ever more strongly influencing national employment and social policy. Recent developments following the acceptance of the Lisbon Strategy are given special analysis, with the Open Method of Coordination being shown as a crucial tool to achieve objectives.

In the fourth chapter an attempt is made, first, to indicate differences in national social policy developments and to find similarities and commonalities (albeit on differing scales), and, second, to assess the EU dimension of national policies and developments. Finally, the issue is discussed of whether there has been a convergence in national social policies and what the role of European integration has been in this process.

[1] Notably, this publication is prepared i.a., by authors hailing from the new member states, ones who understand their specific development, current problems, and the scale of their new challenges.

Finally, in the fifth chapter, new shared challenges for a new social policy, both European and national, are analyzed: globalization, rapid changes in population structure, new technologies, environmental threats, and energy supply problems. We think that the challenges the individual member states face in the future have much in common. The EU may play an increasing role in addressing and solving their problems.

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Chapter I
Social policy regimes in the European countries

Introduction

Social policies in the European countries differ in terms of quantity ("welfare efforts"), that is, social spending as a proportion of GDP, welfare systems solutions (e.g., entitlement base), mode of financing or organization, and in terms of results, for instance, the at-risk-of-poverty-rate or income inequality. Certain indicators of this diversity are presented in table 1.1.

Table 1.1: Basic social policy indicators, EU-27, 2007

Member state	GDP per capita in PPS (EU 27= 100)	Total expenditure on social protection (% of GDP)*	Contributions as % of total social protection receipts*	Employment rate 15-64 (%)	At-risk-of-poverty-rate (%)***	Inequality of income distribution***, *****
EU-27	100.0	27.2	59.1	65.4	16****	4.8****
Austria	126.9	28.8	65.3	71.4	13	3.7
Belgium	119.2	29.7	73.4	62.0	15	4.2
Bulgaria	38.0	16.1	60.7	61.7	14	3.5
Cyprus	93.1	18.2	34.7	71.0	16	4.3
Czech Republic	81.1	19.1	80.7	66.1	10	3.5
Denmark	122.4	30.1	28.8	77.1	12	3.4
Estonia	70.6	12.5	79.4	69.4	18	5.5
Finland	116.4	26.7	50.2	70.3	13	3.6
France	110.9	31.5	65.6	64.6	13	4.0
Germany	112.8	29.4	62.7	69.4	13	4.1
Greece	97.1	24.2	58.4	61.4	21	6.1
Hungary	63.3	21.9	57.9	57.3	16	5.5

table 1.1, cont. Member state	GDP per capita in PPS (EU 27 = 100)	Total expenditure on social protection (% of GDP)*	Contributions as % of total social protection receipts*	Employment rate 15-64 (%)	At-risk-of-poverty-rate (%)***	Inequality of income distribution***, *****
Ireland	149.3	18.2	40.0	69.1	18	4.9
Italy	101.1	26.4	57.0	58.7	20	5.5
Latvia	57.8	12.4	64.0	68.3	23	7.9
Lithuania	61.0	13.2	59.8	64.9	20	6.3
Luxembourg	276.7	21.9	51.3	64.2	14	4.2
Malta	77.1	18.3	62.7	54.6	14	4.2
Netherlands	132.2	28.2	67.8	76.0	10	3.8
Poland	53.6	19.6	50.3	57.0	19	5.6
Portugal	74.6	24.7**	47.4**	67.8	18	6.8
Romania	40.5	14.2	73.2	58.8	19	5.3
Slovakia	68.4	16.9	84.4	60.7	12	4.0
Slovenia	90.9	23.4	67.4	67.8	12	3.4
Spain	106.6	20.8	64.5	65.6	20	5.3
Sweden	125.8	32.0	49.8	74.2	12	3.5
United Kingdom	117.1	26.8	47.9	71.5	19	5.4

Notes: * 2005; ** 2004; *** 2006; **** EU-25; ***** The ratio of total income received by the 20% of the population with the highest income (top quintile) to that received by the 20% of the population with the lowest income (lowest quintile).

Source: EUROSTAT database, data collected on October 22, 2008

For decades comparative social policy research has been concentrated on identifying various social policy models, sometimes called welfare state regimes. They may be best understood as an attempt to describe the diversity of social policy through constructing "ideal types", in line with Max Weber's approach. Many typologies have been constructed, but none of them have attained such broad resonance as that of Esping-Andersen. We therefore start with his famous typology. In the next section, other classifications are described, ones that may be even more useful for the present study.

The following presentation of the salient issues is very concise, as it constitutes but a starting point and a justification for the choice of countries for chapter II's analysis of national social policies.

1.1. Esping-Andersen's three worlds of welfare capitalism

Esping-Andersen (1990, 1999) has classified welfare states according to their market-correcting components (decommodification), influence on social stratification, private-public (later: welfare) mix, as well as defamilization. The welfare states were mainly classified according to decommodification, and this produced the threefold typology of welfare states. These famous three worlds of welfare capitalism have been identified as: the liberal regime of the USA or, with some reservations, the UK; the conservative welfare regime typical of continental Europe (e.g., Germany and France); and the social democratic regime typical of Scandinavian countries (table 1.2). In his later work, Esping-Andersen stated that "welfare regimes must be identified much more systematically in terms of the inter-causal triad of state, market and family" (Esping-Andersen 1999: 33).

Table 1.2: Welfare regimes according to Esping-Andersen

	Liberal welfare regime	Conservative welfare regime	Social democratic regime
Countries	Australia Canada Ireland New Zealand UK USA	Finland France Germany Italy Japan Switzerland	Austria Belgium Denmark Finland Netherlands Norway Sweden

Source: Esping-Andersen 1990.

In many applications of this typology the location of several countries has been changed, e.g., Austria, Belgium, and the Netherlands have been placed in the conservative and Finland in the social democratic regime.

The liberal regime is characterized by a preference for market welfare production and social policy is justified only as a correction of market failures, mainly as a needs-based social assistance. The conservative regime places the family at the center and social policy should respond to "family failure': it is stratified by gender and occupation and strongly associated with employment protection. In the social democratic regime the key role in welfare production is given to the state: social policy is universalistic and egalitarian.

1.2. Other classifications

Adding to the three worlds of Esping-Andersen

Some commentators have tried to expand Esping-Andersen's typology by adding further regimes.

First, a separate southern welfare model has been suggested. Ferrera (1996) identified four characteristics of the "Southern model", including Italy (which Esping-Andersen classified as a conservative welfare state), and (not included by Esping-Andersen) Spain, Portugal and Greece. These countries evince a highly fragmented and "corporatist" income maintenance system, near universalistic National Health Services, a low degree of state penetration of the welfare sphere, and the persistence of clientelism.

Moreover, a separate "Eastern regime" has also been suggested (see chapter 1.4).

Some other classifications

In fact, the "welfare modeling business" is much older than Esping-Andersen's influential book from 1990. Two more traditional approaches in welfare state modeling may be differentiated: those looking mainly at the *quantity* of welfare provision (the *how much?* dimension), and those concentrated on quality (the *how?* dimension). Whereas originally the quantity approach prevailed, the *how?* dimension has since gained in importance (Bonoli 1997). Traditionally, countries were classified on the basis of their social expenditure (Cutright 1965, Wilensky 1975). Esping-Andersen's typology may be seen as an albeit partial break with the quantification tradition. Interestingly, certain older classifications also led to the identification of three models, ones that may be compared to those identified by Esping-Andersen. For instance, Titmuss (1974) identified three welfare models: the residual welfare model; the industrial achievement-performance model; and the institutional-redistributive model. Powell and Barrientos (2004), in turn, use different criteria but also arrive at three models.

Numerous dimensions of differences between European welfare states may be identified, including:

- Eligibility and risk coverage,
- Benefit structure and generosity,
- Methods of financing,
- Service intensity,
- Family policy,
- Employment regulation,
- Logic of governance,
- Industrial relations (Hemerijck 2002: 178).

An example of an established classification of Europe's social policy tradition, one that is popular e.g., in France (Bonoli 1997) or Poland, is the distinction between Bismarckian and the Beveridgean models (table 1.3). It should be noted, however, that this classification is not fully appropriate for in-kind benefits: objectives and benefits formulated in table 1.3 do not fit the health care systems.

Table 1.3: The Bismarckian and the Beveridgean model of social policy

	Bismarckian model (social insurance)	Beveridgean model (universal tax-financed provision)
Objective	income maintenance	prevention of poverty
Benefits	earnings-related	flat-rate
Eligibility	contribution record	residence or need
Coverage	employees	entire population
Financing	contributions	taxation
Administration	public insurance institutions	state administration

Source: Bonoli 1997, modified

The two-dimensional approach

Bonoli (1997) proposed a two-dimensional approach, including both the quantity of welfare provision, that is, the *how much?* dimension (indicator: social expenditure as a proportion of GDP) and its quality, or *how?* dimension, whose indicator is the proportion of contribution-financing as an approximation of the size of the Bismarckian, as opposed to the Beveridgean component in a welfare state (Bonoli 1997; for an extension of this typology, see Bambra 2007). This typology seems suited to account for (at least some) new member states, ones which may be described as "less affluent welfare states". Data for 2005 are presented in table 1.4.

Four types of welfare states can be identified here: Beveridgean/high spending welfare states (Denmark, Sweden, the UK, and Portugal), Beveridgean/low spending welfare states (only two cases: Ireland and Cyprus), Bismarckian/high spending welfare states (e.g., France and Germany), and Bismarckian/low spending welfare states (e.g., Spain and all the new member states from Central and Eastern Europe).

As always, the border lines between these two dimensions are debatable. In table 1.4 we set them at the level of 24 percent of GDP for the quantitative dimension and at 50 percent of social protection financed through contributions for the qualitative dimension. Thus, the data presented should be treated as an indication only, all the more so as they are taken from just one year. For more analytical purposes, averages from a longer period should be taken for both dimensions.

Table 1.4: European welfare states (EU-27) according to two dimensions, 2005

Total expenditure on social protection (% of GDP)	Percentage of social protection financed through contributions (% of total)						
	20.00-29.99	30.00-39.99	40.00-49.99	50.00-59.99	60.00-69.99	70.00-79.99	80.00-89.99
32.00-33.99	***Beveridgean/ high spending***		Sweden	***Bismarckian/ high spending***			
30.00-31.99	**Denmark**				**France**		
28.00-29.99					**Germany** Austria Netherlands	Belgium	
26.00-27.99			**United Kingdom**	Finland Italy			
24.00-25.99			Portugal	Greece			
22.00-23.99	***Beveridgean/ low spending***			***Bismarckian/ low spending***	Slovenia		
20.00-21.99				Luxembourg Hungary	Spain		
18.00-19.99		Cyprus	Ireland	**Poland**	Malta		**Czech Republic**
16.00-17.99					Bulgaria		Slovakia
14.00-15.99						Romania	
12.00-13.99				Lithuania	Latvia	**Estonia**	

Note: **coloured** – countries analyzed in the present study.
Source: own table, based on data from table 1.1.

1.3. A social model for the postcommunist countries?

The countries in Central and Eastern Europe, which at the time of Esping-Andersen's original work formed the "socialist camp", were not of course included into his work on welfare capitalism. However, this exclusion largely persists to this day, although ten of them – namely, Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia – belong to the EU, and thus should be included in social policy typologies. When such is done, they are often treated as one group – e.g., as "transition countries", "transition regimes", or "Eastern regimes" – and their similarities to the Southern model are stressed (Maydell *et al.* 2006, Cerami 2006). We will endeavor to answer whether this is appropriate for the countries included in the present study.

Our proposal is that the new member states from Central and Eastern Europe form a unique welfare model.

Indeed, there are significant reasons confirming this thesis, in spite of the differences in the outcome of the social policies they pursue. These similarities are mainly of an institutional character, resulting from their similar past and the similar challenges they face regarding their transformation to democracy and the market economy. In the future their specificity may fade and EU integration will bring about a Europeanization of the social policy of member states. For now, however, this process is not sufficiently advanced.

Below is a list of key attributes that distinguish the new member countries today (Golinowska 2008):

- A return to the Bismarckian social insurance system (established before WWI) in the early transition period as a primary common element of the welfare state in the market economy
- Defending the socialist welfare state as far as full access to old age pension, disability payments, and health protection are concerned
- Carrying out courageous social reforms meant to increase individual initiative, manageability, and activation (something that has been risky from the point of view of egalitarian tendencies and political results) by applying the suggestions of external experts and organizations
- Bigger problems with the labour market resulting from economic restructuring in conditions of globalization and bigger anxieties and concern for matters connected with unemployment
- Labour migrations in order to find work and higher earnings. The new member countries are mainly sending countries
- The high education aspirations of the young generation, higher than in the old EU countries
- Very high dynamism in demographic changes (accelerated demographic transformation compared to the old EU countries)
- The weakness of non-governmental organizations and lower social control of undertaken activities; appearance of corrupt practices
- Dynamic reduction of material poverty and growing problems connected with social exclusion

These features will provide the crux of our further examination of the new member countries.

1.4. The problem of when models do not fully match the classifications presented, and that of the appearance of the process of convergence

Over the last years an intense debate has been waged on the topic of classifying national social models and the European Social Model in many diverse contexts, to wit:

- the search for shared roots that give rise to sources of European values as the basis of European identity,

- the search for similar institutional solutions (i.e., legal ones) to be helpful in the process of harmonizing various EU policies,
- maintaining/creating minimal standards of social security as the basis of honest competition (i.e., no welfare dumping),
- appraising the capability of individual European countries (ones having divergent social models) to meet the challenge of globalization.

Numerous instances of comparative research have been carried out regarding the commonality/distinctiveness of national social models (e.g., Schubert, Hegelich, Bazant 2007) and new ones are being planned (within the VII Framework Program). Research and debate still continue, as European integration requires insightful analyses in conducting European socio-economic policy.

From the debate to date arise contrasting conclusions concerning the suitability of the classifications and generalities applied. On the one hand, said classifications are very suitable in the general cognitive process, despite their simplifications and oft'times highly ideological (politically) generalizations. On the other hand, the overly simple divisions may lead to the error of losing certain important distinguishing elements that do not fit in the classification scheme. What is even more important, they may fail to grasp the process of changes, from passing from path dependency to submitting to the process of convergence or catching up, or even joining in shared decisions, in regard to the measure of European integration and meeting the challenges of the future.

As Giddens (2006) writes: "But we are not sure that this typology, useful as it was at one time, has great value today. It implies that these different types of social model are impossible to reconcile when there is in fact quite a lot of evidence of mutual borrowing and adaptation. Rather the picture is one of a mixture of diversity and synergy. In other words, the welfare systems of Europe are changing or evolving and at the same time learning – at least in some ways – from one-another. Consider, for example, the UK. The proportion of GDP given over to taxation is now approaching 42 per cent – about the same as Germany. The UK is seen by many as market-driven, but it has the most "socialistic" system of health-care in Europe in the shape of the National Health Service – the largest single employer in Europe. Very large further investments are being made by Tony Blair's government in both health and education. The new Labour government has not only introduced a national *minimum wage* but raised it year on year. Labour market reforms have been inspired more by Sweden and Denmark than by the United States. The same goes for the planned devolution of both the health care and education systems."

Referring to the classification of models is only a first tool in the work being done here, that is, the choice of countries for analysis and indicating there "exit position" for further considerations.

1.5. The choice of countries for analysis

Seven countries have been chosen in the present study for an analysis of their social policy in the EU context. The number had to be restricted because of limited space and capacities. The seven constitute about ¼ of the present number of EU member states. They are not a sample of all countries, as any single member state is unique in every respect, including its social policy. On the other hand, the choice was deliberate, and based on several criteria.

There are four old member states (Denmark, France, Germany, and the UK) as well as three new ones (the Czech Republic, Estonia, and Poland). Among the old member states various welfare regimes are represented: liberal (UK), conservative (France and Germany) and social democratic (Denmark). Both Bismarckian (France and Germany) and Beveridgean (Denmark and the UK) traditions are thus represented. The countries chosen have also exerted clear influence on the social policy of other countries, and have played the role of pace-setters or benchmarks in various stages of welfare state development (e.g., Germany with the Bismarckian social insurance or social market economy, France with family policies and social rights, the UK with the Beveridge Report or NHS, and Denmark with the first universal old-age pensions or flexicurity).

Among the new member states three different cases have been chosen. Poland was included for obvious reasons taking into account this report's publisher, but Poland is also by far the biggest new member state, with a population constituting more than half of the total for the ten countries which entered the EU in 2004. The Czech Republic is the case of a better developed, early industrialized country with a more effective social policy. Estonia was chosen to include the case of a country that was once within the Soviet Union, as well as a country that recently has shown dynamic development based on more liberal ideas.

The seven countries are marked in table 1.4. Three categories identified in the classification are thus represented: Beveridgean high spending (Denmark and the UK), Bismarckian high spending (France and Germany) and Bismarckian low spending (Czech Republic, Estonia, and Poland). The specific case of Beveridgean low spending countries is thus not represented, and it consists of just two countries: Ireland and Cyprus.

In the following chapters we will search for the similarities and differences between the social policies to have developed in the countries being analyzed, analyze possible future developments, and focusedly assess the role of European integration in this process to date and into the future.

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Chapter II
The welfare state and welfare reforms

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1. The Czech national model of the welfare state Tradition and changes

Introduction

Social policy has fallen on hard times in Central and Eastern Europe (CEE). The victorious "End of history" wave of liberalism coincided with the public's dissatisfaction with the cumbersome, mediocre though universal system of welfare inherited from the communist states in the early 1990s. Indeed, some commentators thought of social policy as something relegated to socialism. It was not until the start of the 21st century, as European Union (EU) enlargement was approaching, that both national governments and the European Commission recognized the importance of social cohesion as one of Europe's core societal goals – and upheld effective social policy as an appropriate means to achieve it.

In the Czech Republic, the pre-war tradition of social welfare proved saving after the "Velvet Revolution". For that institutional and cultural legacy of the country's rudimentary, capitalist welfare state, buttressed by certain still-functioning, universalistic elements from the socialist period, effectively prevented the complete collapse of the system. Moreover, new elements of an effective safety net and universally accessible labour market services were established directly on the heels of the political transformation. Thus, a deep social and humanitarian crisis of the kind typical for some ex-Soviet republics did not occur.

Hence, the country managed to find its own way out of the stresses of economic transformation in the field of social protection. The EU was more focused on nurturing the institutions of the market economy and political democracy once the Copenhagen criteria of accession were set up in 1993. National social policies became more relevant only with the launching of the EU's Lisbon Strategy, which began to be binding for candidate countries not until 2002. However, the European Union has as yet to speak one language to its new members: on the one hand it presses for more and better employment

[1] I am grateful to my colleagues Miroslava Mašková, who helped me in preparing parts 1.5.1 and 1.5.4 of this paper, and Arnošt Veselý, who authored part 1.5.5

and social cohesion, on the other it enables (sometime selectively) global market forces to enter the domestic arena without care for the social consequences. This neglect of social issues (related, e.g., to the distributional effects of market liberalization, the quality of life of those losing out in the transformation) has started to backfire, as we see in the rise of populist, nationalist, and Euro-sceptical tendencies in CEE.

Although these trends are recognizable in the Czech Republic as well, the country has been relatively successful in internalizing the core values of the European integration project and incorporating its institutional requirements. The transformation of Czech social policy has been a part of this story: the present Czech Social Model, an embodiment of institutional path dependence and the outcome of various ideological battles and specific political choices, is compatible with the European Social Model by any interpretation available.

There are both foreign and domestic economic and political forces which see this as an obstacle to raising profits and economic growth. There are others that appreciate its role as an effective social investment in the long-term prosperity of the country and as a vehicle for a just distribution of resources among the population. Thus, its future is open – and very much will depend on the future policy of the EU in this respect.

2.1.1. The roots and development of the national welfare regime, social values, and their changes

By far the most influential historical link of the contemporary Czech welfare state can be traced back to Bismarck, with that period's corporatist, compulsory health and social insurance schemes that have been evolving since the end of the 19th century. In the interwar period, democratic Czechoslovakia enacted advanced social legislation that became a pattern to follow for several other countries, including Greece. The pre-1989 Czechoslovakia was described by communist propaganda as a showcase example of well-organized health and social services (in the context of the Soviet Bloc). The reason for the final collapse of communism was not so much the mediocre, technically outmoded quality and sometimes limited availability of social services, as the sorry state of the economy and the loss of its legitimacy due to the broadening civilizational gap between the comminuist countries and the affluent Western democracies.

Soon after the 1989 "Velvet Revolution", a plan for a coherent system of social welfare was adopted that would offer universal compulsory health and social insurance (complemented by voluntary supplementary insurance for individuals or groups) and means-tested state social assistance when all alternate possibilities of welfare and assistance have been exhausted, or when a citizen is unable to provide for him or herself. Czech social policy reform was based on three basic components: active employment policy, accompanied by sufficient public provisions for the unemployed; liberalization and pluralization of social welfare based on a Bismarck-inspired insurance system; and thirdly, the development of a social safety net for people in need, including the establishment of an officially defined (and secured) subsistence minimum for everyone.

The Czech Republic exhibits typical features of strong adherence to the continental, or more specifically, Central European, Bismarckian, corporatist, achievement-type welfare state. This stems from its modern history and its revitalization after more than four decades of etatist bureaucratic collectivism (Deacon 1997). It has an ideological basis in the considerable tradition of social thinking (Albín Bráf, Tomáš Garrigue Masaryk, Karel Engliš, Josef Macek, and others), in the venerable tradition of the Social Democratic movement (the Czech Social Democratic Party was founded in 1878 and survived in exile throughout the period of Communist rule), and in the favorable inclination of Czech public opinion both toward the principle of achievement-remuneration, and, at the same time, toward the principle of social justice. As my late colleague the distinguished Czech sociologist Miroslav Purkrábek once put it: "Czechs like to be liberals with a state wind blowing at their backs".

The Czech welfare state owes much to the neighbouring German and Austrian systems (including the institutional and attitudinal resistance to change), despite the increasing incidence of residual elements in the whole system of welfare that could be attributed to a mixture of external pressures and internal decisions that stem from the neoliberal concept of social policy making.

2.1.2. The main actors of social policy

The beginnings

After the "Velvet Revolution" of 1989, social policy was developed and embodied in legislation on both the federal (the Czechoslovak Federal Ministry of Labour and Social Affairs) and national levels (Ministry of Labour and Social Affairs of the Czech Republic). Although cooperation between the two ministries was not always ideal, from a political standpoint their position and those of the respective governments were always compatible. What they did is best described as an effort to systematically replace state paternalism by introducing more resilient and decentralized mechanisms that would be compatible with ongoing economic reform. These mechanisms were to be beholden to the regulative and executive powers of the state only where necessary.

From the standpoint of the government's prevailing political philosophy, this approach was a combination of socio-liberal and social democratic philosophies. The "Scenario of Social Reform", drafted and adopted at the federal government level in 1990, was influenced by social democratic and social liberal ideologies and became the fundamental conceptual document for a reform of the social sector.

The corporatist structures started to operate at the central level of government. The Council for Social and Economic Agreement was established, composed of representatives of trade unions, employees, and the state. Corresponding corporatist institutions were set up at the regional level as well.

Unlike Poland, in the Czech Republic a considerable level of mutual trust and collaboration was preserved between various trade union organizations, as they were not split along ideological or political lines. The Czech-Moravian Confederation of Trade Unions represents their strongest association, complemented by certain other umbrella units. Despite their dwindling membership figures, Czech trade unions are still a relevant political force in social policy making.

Political actors

After the 1992 general election, a new government came into power. As a coalition of neo-liberal and conservative political parties, it placed emphasis on economic reform. It declared and even legislated an effort to limit the role and spending powers of the government in the sphere of social security. Mistrust towards the intermediary role of civil society institutions in forming and implementing social policy gained favour in the Czech Republic (Potůček 1999b). At the end of 1992, Czechoslovakia peacefully split into two independent republics – Czech and Slovak. The Czech government was not enthusiastic about joining the EU and there were considerable shortcomings in the EU accession effort of the country, and this was reflected in the annual reports of the European Commission. Interestingly, many social policy institutions, originally designed as pluralistic and corporatist, had remained firmly in the hands of the state (e.g., the system of social insurance). Targeted, means-tested residual schemes were introduced in some instances (namely, child allowances in 1995).

The period between 1998 and 2006 saw a mix of minority or coalition governments dominated by the Czech Social Democratic Party. The core governmental idea was that of a socially and environmentally orientated market economy. This was in sharp contrast with the more or less residual social policy accents implemented by the previous governments. However, the implementation of such programs was seriously threatened by budgetary constraints caused by the country's acute fiscal problems, the legislative delays caused by the weak position of the governments, the insufficient implementation capacity of the state, and the long-drawn-out reform of public administration.

The state, business community, and the civic sector

The core contextual societal change which has influenced social policy making since the collapse of communism was the abrupt shift from a centrally planned to a market economy, and from authoritarian to democratic, pluralistic systems of policy making. Correspondingly, the regulatory power of the state has diminished and that of the market has sharply increased.

Along with socio-economic and political changes, the state had to undergo – even with some delays and corresponding losses – concomitant substantive functional changes as well. It had to adapt to the challenges of NATO and EU membership. Administrative reform was realized with the aim of decentralizing decision-making power. New regions and districts started to operate at the beginning of the 21st century, taking much of the previous responsibility for housing, education, and social and health services from the central level of government.

The actors of the market economy spilled over into welfare provision. Many health and social care facilities have been privatized and private funds started to launch voluntary social and health insurance schemes. The way also opened for individual contracts between individuals paying from their own pockets and private providers of education, health, and social services, which went hand in hand with the publicly financed provision.

The ministries of Industry and Trade, Environment, and Finance have been partly engaged in the Corporate Social Responsibility (CSR) agenda. An important authority is the National Contact Point at the Ministry of Finance for the implementation of the OECD guideline on multinational corporations. It operates on the tripartite principle, checking the behaviour of multinationals in the field of employment and labour law. The government has implemented several other programs that directly or indirectly motivate corporations to adhere to CSR principles, too: Eco-Management and Audit Scheme, Environmental Management Systems, Ecolabelling, Responsible Care, Energy Performance Contracting, Energy Contracting, etc. A few large enterprises (such as Bosch, Siemens, or Telecom) have been engaged in this agenda more noticeably than others.

For very many reasons the role of the civic (non-profit) sector has remained quite marginal, though with an appreciable rise of its influence and scope of operation (Kendall – Anheier – Potůček 2000). Churches are traditionally not very influential in the prevailingly secular Czech society; they have been involved primarily in establishing and running non-profit care facilities and charities.

International actors

There are also strong external factors that have influenced national social and health policies. The European Union has not developed strong, clear-cut requirements in the field of devising social policy for its candidate countries (Potůček 2004, Horibayashi 2006), even though Orenstein could identify its positive effect on the postcommunist new member states compared to post-communist countries without an immediate prospect of joining the EU. The obvious discrepancy between the Copenhagen Criteria of accession, covering a very limited part of the social welfare agenda and installed in 1993, and the Lisbon Strategy, developed as an explicit and balanced public policy program for candidate countries as late as 2002 and politically and administratively executed only since 2004, opened a considerable space for other, more active and influential international actors, namely the World Bank and International Monetary Fund governed by the Washington Consensus' neo-liberal ideology of the 1990s (Potůček 2004).

2.1.3. Social expenditures and revenues

Table 2.1.1: Ratio of Public Social and Health System Expenditures to GDP, Czech Republic, 1990-2006

Items	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06
Pension security benefits	7.3	7.4	7.6	7.3	7.2	7.3	7.5	8.0	8.1	8.3	8.3	8.3	8.5	8.5	8.1	8.1	8.3
Sickness and maternity benefits	1.4	1.2	1.2	1.2	1.4	1.2	1.2	1.1	0.9	0.9	1.2	1.3	1.3	1.3	1.1	1.1	1.0
Unemploy-ment and employment policy expendi-tures	0.0	0.3	0.4	0.2	0.2	0.2	0.2	0.2	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Family allowances (state social support system)	2.1	1.9	1.8	1.4	1.5	1.3	1.6	1.6	1.6	1.5	1.5	1.4	1.4	1.3	1.2	1.1	1.1
Social care benefits and social services system	0.9	0.6	0.8	0.8	1.0	0.8	0.7	0.7	0.8	1.0	1.1	1.1	1.2	1.1	1.0	1.0	0.9
Others	1.4	2.7	1.8	1.3	0.9	0.5	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.2	0.2	0.2
Admini-strative expendi-tures	0.1	0.3	0.2	0.3	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Social security system ex-penditures – total	13.1	14.5	13.7	12.6	12.6	11.7	11.6	12.1	12.1	12.5	12.8	12.9	13.1	13.1	12.2	12.1	12.2
Health care system expendi-tures	4.8	5.2	5.4	7.2	7.3	6.9	6.6	6.7	6.6	6.6	6.6	6.9	7.0	7.3	7.1	7.2	6.8
Social and health protection system - total	17.9	19.8	19.2	19.8	20.0	18.6	18.1	18.8	18.7	19.1	19.4	19.8	20.2	20.4	19.3	19.3	19.0

Source: Czech Statistical Office: Main Economic and Social Indicators 2007

The compulsory contributions of employees, employers, and self-employed persons to social and health insurance funds represent the main source of financial resources for social and health policies[2]. The state contributes to these funds as well, and contributes to other items in overall social and health expenditures from general taxation. The ratio of public social and health system expenditures to GDP is quite modest, approximately 8 per cent below the EU average.

The overall trend has been surprisingly stable; one can identify only minor fluctuations, despite the shift from liberal-conservative governments (in power from 1992 until 1997) toward the Social Democracy-led governments (in power from 1998 until 2006).

In comparison with Western European standards, the share of private funding for social and health care is still on a very low level. On the other hand, there have been some fields with a slow but steady increase of private share of all invested financial resources (e.g., co-payment of the price for medicines).

Table 2.1.2: Present macroeconomic context of social policy, Czech Republic, 2006

Indicators	Values	Index 2006/2005
GDP in constant prices 2000	2776.4 bn CZK	106.1
Employment	4 862 000	100.9
Unemployment	475 000	92.3
Inflation	2.5 %	131.5

Source: Main Economic and Social Indicators 2007, Czech Statistical Office's webpage

2.1.4. Country-relevant social problems, social policy institutions, social policy, reforms and challenges 1990-2006

Demographic development, family formation patterns and family policy, gender issues

Martin Potůček with Miroslava Mašková

Marked changes in demographic trends reflect current transformations of the Czech family and the pluralization of family forms. They are happening against the background of changing values among the young generation, with emphasis on individualization, education, professional career, and the assertion of new lifestyles. At the same time, however, the social and economic conditions of young families, together with retrenchments in state support for families with children and the growing difficulty of harmonizing work with family obligations, have been coming to the fore. This becomes especially evident as:

- first marriages are being postponed to an ever higher age and the overall marriage rate is rapidly declining. If the 2006 marriage rate trend con-

[2] One has to bear in mind that the Czech state does not define social and health benefits as a taxable income. This fact complicates the comparison with states which do so.

tinued, 30.5 percent of women would remain single for the rest of their lives. Because of this postponement, the average age for first marriages has been continuously increasing; by 2006 it was 31 years for men, and 28.4 years for women. According to sociological surveys, up to 15 percent of the young people aged between 18 and 29 are still living with their parents (Čermáková 2005).

- Maternity is being postponed and the birth rate is slumping; consequently, a dramatic slump in total fertility was recorded in the first half of the 1990s, while it has stabilized since 1995 on a very low level, well below the simple reproduction limit. Indeed, the Czech Republic has assumed one of the lowest places in Europe. The greatest ebb was reported in 1991 (1.13). By 2006 total fertility increased to 1.33, only just beating the 1.3 figure considered very low, with slim chances to reverse the trend.
- The number of children born out of the wedlock is increasing (33 percent by 2006), while the divorce rate remains steadily high. Nearly half of every 100 marriages breaks down.

The current age structure is characterized by a low share of children, high represention of persons in productive age, and a relatively low share of persons over 65. However, this situation will quickly start to change. The drop in the number of new born children has made a deep dent in the age structure that will manifest itself by a drop in population due to natural change and the acceleration of the population's ageing. According to forecasts, the proportion of seniors will more than double by 2005, while the economic burden indexes will substantially increase. The Czech Republic will become one of the "oldest" countries of Europe. The fertility trend will emerge as a key factor of the country's further population development. Even though the actual fertility levels do not correspond with the above, selective surveys show that parenthood continues to be highly valued by men and women in the Czech Republic. The "empty spaces" between reality and parental plans would seem to indicate a chance for success for a comprehensive family policy, and this would create an environment for their fulfilment.

That said, the interest of state bodies in the period under survey was meager in terms of formulating a new population and family policy. Liberal views were promoted to foster individual decisions about child birth (its number and timing) without the active role of the state, and there was massive preference for a flexible workforce regardless of its impact on the family.

The system of social support, which targets families with dependent children, was reconstituted in 1995. One of the most important changes was the method of awarding benefits to children. Until 1995 child allowances were paid, as a categorical benefit, to all families with dependent children. The State Social Support Act introduced a means-tested method tied to a family income not exceeding three times the subsistence minimum. In the period of 1998-2006 the Social Democrat-led governments wanted to switch back to universal (categorical) child allowance, but were unable to re-introduce that because of the political resistance of coalition parties, opposition parties, and fiscal constraints. The real purchasing value of child allowances and tax credits has been decreasing considerably since 1989 (see table 2.1.3).

Table 2.1.3: Drop in public support for families with children (child allowances and tax credits), Czech Republic, 1989-2002

Type of family	Drop in public support in 2002 (compared to 100% in 1989)
Family with 1 or 2 dependent children	27%
Family with 3 children	35%
Single parent family with 1 child	45%

Source: Hiršl (2003)

Children can be seen as important losers in Czech society's transformation. In 2002 37.7 percent of them lived in households within the lowest income, an additional 25.7 percent in the second lowest. 13 percent of children are at risk of poverty according to the EU poverty indicator. This is also reflected in public opinion concerning public support for families, which scored lowest from all social policy fields covered (only 12.1 percent in 2005; Večerník 2005).

This was one of the decisive impetuses – apart from ideological factors (Christian and Social Democrats as government coalition partners) and the EU's programmatic and political influence – which brought about the political and administrative reaction.

The Department of Family Policy and Social Action of the Ministry of Labour and Social Affairs (MOLSA) was instituted in 2003. In 2004, MOLSA released a National Report on the Family as a blueprint for the National Concept of Family Policy, endorsed by the Government in the autumn of 2005 (Koncepce 2005). The Action Plan of Support for Families with Children for the period 2006-2009 followed suit. Individual activities of the Action Plan from the angle of compatibility of professional and family roles include: analysis of existing conditions of and obstacles to the care for children up to and over three years of age; a draft plan for the development of various types of care for children up to three years of age; a draft plan for the development of care for children from three years upwards; a draft plan of incentives for employers who enable their employees, taking care of preschool and school-age children, to better combine their professional and family roles; encouragement of education and consultancy.

Maternity leave benefit is calculated as 69 percent of the previous salary (with the upper ceiling of 694 Czech crowns (CZK) per day) and paid for 28 weeks. One of the outcomes of the increasing awareness of the long-term consequences of low birth rates was the approval of a dramatic increase of parental allowance – from CZK 3,696 (ca. 130 euro) in 2006 to CZK 7,582 (ca. 270 euro) per month from the beginning of 2007. Parental allowance is paid for up to the child´s first four years.

On the whole it can be said, however, that the current situation in the institutional provision for family policy as a thoroughgoing, multidisciplinary policy is still rather unsatisfactory and quite reflective of the lack of the public sphere's attention to the family.

Czech EU entry negotiations and the process of harmonizing the Czech legislative framework with that of the EU brought about radical changes in the field of gender equality. The government resolution "Government Priorities and Procedures to Provide for Gender Equality" (adopted in 1998) was an official program document concerning the position of men and women in all walks of social life. The Labour Code amended in 2001 commits employers to ensure equal treatment of all employees regarding their working conditions and remuneration, and outlaws discrimination. In the non-profit sector, there have been long-term activities in support of equal opportunities for both genders. An example of good practice is furnished by the public benefit organization Gender Studies – an NGO serving as an information, consultation, and education centre dealing with relations between men and women and their positions in society.

However, in spite of progress in the creation of the legislative framework for a policy of equal opportunities, gender inequalties still exist in many spheres of social life. They come to the fore especially on the labour market (the general unemployment rate was 7.1 percent; for men 5.8 percent, and for women 8.8 percent at the end of 2006), in the representation of women in decision-making processes, and in the field of coordinating professional careers with family care.

Labour market development (employment, unemployment, labour mobility) and policy toward work: job creation, active labour market policy…)

The centrally planned economies created an artificial demand for inflating the labour force. Thus, unemployment was virtually an unknown phenomenon in the country prior to 1989. In terms of employment, the general tendency in the country has been towards a steady decline in the number of employed people. Feeble signals of the reverse trend have occurred only very recently, and quite incidentally.

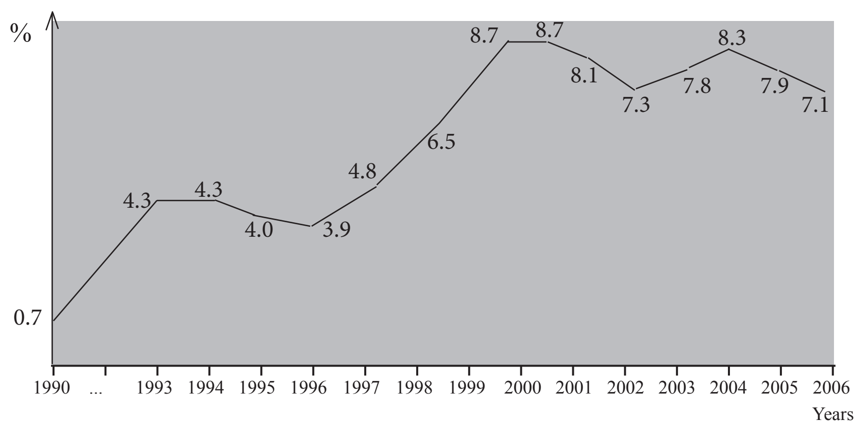
Table 2.1.4: Employment activity rate, percent of the 15-64 years old population

Countries	1990	1995	2005
Old Member States (EU 15)	N/A	60	65
Czech Republic	79	74	65

Source: Czech Statistical Office: Employment (1998), Eurostat (2007)

The unemployment rate was relatively small until 1996. With the economic crisis that occured in 1997, the number of unemployed has risen considerably and remained at high levels until recently. The trend is positive over the last couple of years: the number of vacancies is rising, the number of unemployed declining, and the country as a whole is a net importer of labour force (with many foreign workers from Slovakia, Ukraine, Vietnam, and other – mostly postcommunist – countries far to the East).

Figure 2.1.1: Unemployment rate in the Czech Republic (in %), 1990-2006 (end of the year)



Note: Data collected by the Czech Statistical Office on the basis of representative sample surveys of the population. These numbers show a systematic difference in a downward direction compared to data from the number of officially registered unemployed persons.
Source: Czech Statistical Office: Main Economic and Social Indicators (2007)

The relatively small share of the long-term unemployed (up to 6 months), that did not exceed 20 percent of all the unemployed up until 1996, has considerably risen since then to nearly 40 percent at the start of the 21st century. With people unemployed for between 6 to 12 months, the pool of the long-term unemployed represented 49 percent of all the unemployed in 2003. The risk of the occurrence of long-term unemployment is higher for those who are more afflicted by unemployment as such: general workers, single mothers with children, the Roma, and the handicapped. Detailed studies indicate that long-term unemployed in the Czech Republic do not yet show a strong tendency towards becoming an "underclass", this being particularly absent in the rural areas. There is a considerable risk, however, that in the future there will emerge an uprooted underclass among the long-term unemployed Roma, the homeless, and the unskilled young people who have never worked.

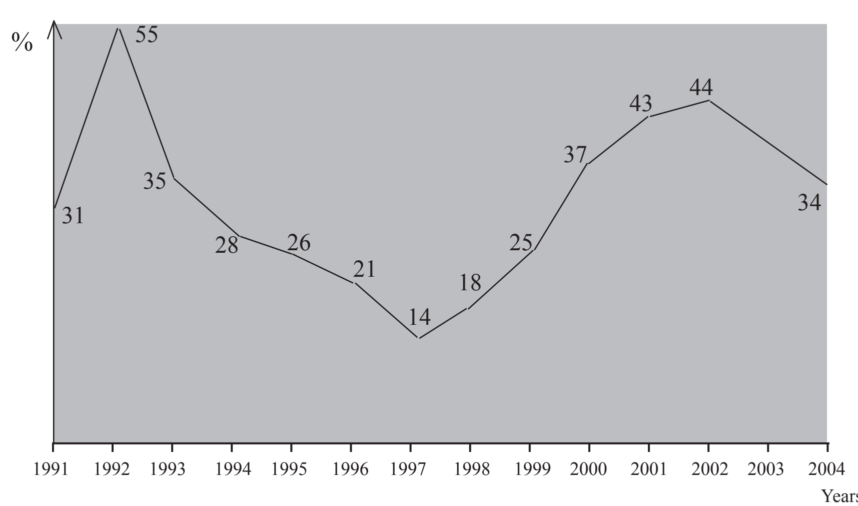
The average unemployment benefits represented 28.5 percent of the estimated net average earnings in 2005. Persons under 50 years of age can receive them for 6 months, those between 50 and 55 for 9 months, and above 55 for one year.

The Employment Act came into force in 1991. A network of public regional Labour Offices was created to administer state employment policy in the regions. Besides locations in individual regional capitals, branch offices were established in the bigger regional towns. Their services were relatively easily accessible to job-seekers throughout the country. Private headhunting firms focus nearly exclusively on finding good candidates for high executive positions in multinational companies.

Employment policy is financed by contributions from employers, employees, and the state (on behalf of economically inactive citizens). The government launched (and Parliament accepted) the first National Program of Employment in early 1999. The National Employment Action Plans have been regularly elaborated under the auspices of the European Commission and MOLSA. The Czech Republic reacts to challenges in the field of employment policy by numerous regional and local programs. Labour offices ran many programs in 2006 – the Program in support of jobs for the disabled, Renewed Chance, Chance for the long-term unemployed and the disabled, the Program for job seekers over 50 and disabled job seekers, Chance for the disabled, Our Chance, Chance for the long-term unemployed, etc.

The attention paid to active and passive employment policy fluctuated significantly over the years according to the political orientation of the consecutive governments, with the right-leaning parties being more in favour of passive policies, and the left-leaning orientation supporting active employment policies.

Figure 2.1.2: Expenses for active employment policy as the percentage of all expenses on employment policy, Czech Republic, 1991-2004



Source: Ministry of Labour and Social Affairs of the Czech Republic (2006); Eurostat (2006)

The share of expenses for active employment policy has stabilized at the level of about one third of total labour market policy expenses. European structural funds added up to one third to the amount available from the Czech state budget in 2006. Despite that, the Czech Republic significantly lags behind on active employment policy in terms of both expenditure and the number of beneficiaries. Czech spending relative to GDP in this field is at least twice lower, and maybe four to five times lower than in the European countries with comparable unemployment figures. In international comparison, the Czech Republic is spending, in both absolute and relative terms, less than other countries (in relative terms, five times less than Portugal and Italy and eight times less than Germany and Finland, Sirovátka et al. 2006). As a result, the capacity and quality of its advisory and mediation activities is low and the scope of its active employment policy measures is insufficient. The number of labour exchange staff workers relative to the number of unemployed is half the EU figures or less. As shown by international experience, there should be 150-200 clients served by one mediator/consultant. Foreign considerations (notably, German) take this for a maximum; future plans envisage around 80 clients per mediator/consultant and labour exchanges are working hard to recruit additional personnel. It is estimated that the inclusion of ca. 20 percent of the labour exchange client cohort in individual nationwide action plans in the Czech Republic and maintaining the client rates at 150-200 would require an additional 600-700 employees on the assumption that labour exchanges with smaller clienteles will make do with their present staff (Problémy 2003). Not surprisingly, the rate of clients who can enjoy individual treatment is still very low – at about 8 percent in 2006, as the ratio clients/case-workers fluctuates between 250-400 (Sirovátka 2007). Also, there are no professional training systems for the labour office employees, whose remuneration is unfairly lower than in other fields of state administration (Problémy 2003).

Old age and disability pensions

A universal and uniform system of social security was to become the core of the state's social policy during the first turbulent years after the collapse of communism in 1989. Bills were passed enabling the transformation to a new structure of social insurance in 1992. Social insurance was to be compulsory, the contributors to the Social Insurance Fund being employees, employers, and the state, which pays the insurance contribution for children, pensioners, parents on maternity or paternity leave, the unemployed, the disabled, soldiers and prisoners.

Social insurance contributions cover old-age pensions, disability pensions, widows' and orphans' pensions, sickness contributions, contributions for the treatment of a family member, contributions to the state employment policy, and administration costs.

Table 2.1.5: Compulsory social insurance contributions (% of gross earnings), Czech Republic, 2007

Items	Employee	Employer	Employed person, total	Self employed person*
Pension insurance	6.5	21.5	28	28
Health insurance	4.5	9.0	13.5	13.5
Sickness insurance	1.1	3.3	4.4	4.4 (or 0)
State employment policy contribution	0.4	1.2	1.6	1.6
Total	12.5	35	47.5	47.5 (or 43.1)

Note: Self-employed persons decide the basis for the contribution calculation by themselves, with a minimum level of 50% of income after deduction of expenses, but at least 25% of average monthly salary, and with a maximum ceiling of 40,500 CZK, representing approximately 2 times the average monthly salary. The basis for their health insurance is calculated according to the formula of 50% of average monthly salary. They may decide to opt out from sickness insurance and arrange it for themselves privately.
Source: * Ministry of Labour and Social Affairs, Czech Republic.

In 1995 there was a significant legislative change in the framework of the compulsory structure of social insurance with the passing of a new law on old-age pensions. An increase in the statutory retirement age limit was approved to be introduced incrementally up until 2007. The statutory retirement age for women, originally 53-57, was raised to 57-61 (the actual limit depends on the number of children), while for men it rose from 60 to 62. Another move was made in 2003, when the retirement age was further raised to 63 for men and women without children. These age limits are to be reached in 2016 (men) and 2019 (women). The law on base pension insurance conceives the old-age pension as consisting of two-components made up of a fixed amount paid to all and one that is dependent on the number of years worked and the working income received. This law is based on the principle of substantial redistribution of accumulated finances towards persons with a lower level of earnings. Old-age pensions for persons with higher working incomes are affected by a regressively acting calculation formula. The proportion of the average old-age pension to the average net wage decreased to 52.7 percent in 2006 compared to 66 percent in 1990. The proportion of the average old-age pension to the average gross wage decreased correspondingly - to 40.8 percent in 2006 compared to 52.7 percent in 1990. The average public old-age pension was 8173 CZK per month in 2006 (approx. 290 Euro). It is supposed that a proportion of the gross wage will drop by the year 2010 to 38 percent and in 2015 to 35 percent. Thus the conservative-liberal government managed to set down a very residual conception of old-age insurance that differs considerably from the Continental practice and does not rule out the possibility of the pension falling below the subsistence level. Moreover, it is a system, including its management of collected resources, that is fully in the hands of the Ministry of Finance instead of the originally envisaged independent public corporation – a Social Insurance Fund.

The public sector of compulsory social insurance is completely dominant in the Czech system of old-age pension insurance. However, additional voluntary private pension insurance, based on an individual contract between the citizen and the insurance company, introduced in 1994, is attracting ever more clients. The state supports participation in it through the provision of state subsidies and an income tax allowance for participants. If the participant agrees, his or her employer may pay the contribution on their behalf. This scheme represents a popular and quite successful example of public-private mix of welfare provision.

Since 1995 there has been a public discussion going on concerning reform of the whole concept of the old-age pension system. It was initiated by experts from international financial institutions, especially the International Monetary Fund and the World Bank, who strongly recommended that the country opt for compulsory private co-insurance. This new type of old-age insurance would complement the pay-as-you-go public scheme that would gradually lose its importance in the total amount of redistributed resources. It was argued that this change would be inevitable due to demographic trends (ageing of the population) and the demand for investment in the national economy that would be satisfied by the newly established and privately run for-profit pension funds. In contrast to Hungary (1998), Poland (1999), Latvia (2001), Estonia (2002), Lithuania (2004), and recently Slovakia (2005), which have introduced this model, the Czech Republic resisted the pressure. There were two main factors that could explain this significant difference:

- the country was not in as deep a fiscal crisis as the other Central European countries and was less dependent on loans provided by these organizations;
- there were strong political opponents of this idea, namely the consecutive Social Democrat-led governments and trade unions that stressed the risks of such reform due to the fragility of financial markets and institutions and the huge demand for additional financial inputs during a couple of decades after such a reform is introduced.

Early into the 21st century, the discussion about the pension reform was going on. Neoliberal theorists, right-wing politicians and representatives of financial market institutions support the idea of compulsory private co-insurance, whereas the institutionalists, left-wing politicians and trade unions favour voluntary non-profit co-insurance schemes (with the financial contribution of both the employees and employers).

A draft of the principles of pension reform was prepared in 2005-2006 by a task force established by the government and composed of representatives of the gamut of political parties, experts, and civil servants. It suggested further reforms of the statutory pension including an increase of the retirement age, the creation of a reserve fund, and further development of voluntary private pensions. The document did not include the element of compulsory private insurance that had been discussed in the country. However, this document was not approved by Parliament. Czech pension reform is stalled again, with little prospect to see a political consensus about its concept and content due to the deepening polarization of the political scene before and after the general election held in June 2006.

Health status and health policy

Martin Potůček with Miroslava Mašková

The socio-economic changes after 1989 found their reflection also in the development of mortality. A marked improvement was brought about by improving many conditions on which depends the health situation of the population (especially health care, new high-quality medicines, health care instrumentation, environmental specifications, socio-psychological factors, and partly also the assertion of healthy lifestyle). After many years of stagnation, the median life expectancy of men and women again started to increase, the life span of senior citizens extended, and the previous gap between male and female mortality has narrowed. The infant mortality rate (which dropped to 3.3 per mille by 2006) matches that of the most advanced nations and approaches the biological limit. The rate of mortality has decreased for all the most frequent main causes of death, due especially to a drop in the death rate due to cardiovascular diseases (esp., coronary thrombosis). Although the Czech Republic is nearing the West European countries in terms of the rate of decrease, there is still considerable room for improvement. At present, the average life expectancy for both men and women is still about three years less than the EU 15 average.

Table 2.1.6: Life expectancy at birth in the Czech Republic

Life expectancy at birth by gender	1989	1999	2006
Female	75.4	78.2	79.7
Male	68.1	71.4	73.4

Source: Unicef: A Decade of transition 2001, Eurostat 2007

The Bismarckian legacy in people's minds shaped the reform of the Czech health services after 1989. Even though there were good reasons for the transformation of the over-institutionalized state-owned communist health care system into a more flexible National Health Service model financed from general taxation, older professionals and the general public overwhelmingly preferred the system of compulsory health insurance financed by employees and employers, and the state. Employees contribute 4.5 percent of their earnings, employers 9 percent of total wage-bills, and self-employed 13.5 percent of their insurance basis (with the minimum set as 50 percent of average monthly wages in national economy). Sickness insurance is compulsory for employed persons. It is covered from the social insurance fund. Sickness insurance benefits represent 25-69 percent of the wage, with an upper ceiling of 694 CZK (about 25 euros) per day.

What followed was the decentralization of health care, the establishment of public Health Insurance Funds, the privatization of most practitioners and some (smaller) hospitals, and the modernization and improvement of care delivery. A further loosening of the system occurred at the start of the 21st century when part of the responsibility for the organization and management of health care services was delegated to the newly established administrative regions. Many various providers of health care services currently operate in the country, ones that are largely autonomous as far as their organizational and management structures are concerned. Health care has yet to become a public service domain in the sphere of individually targeted medicine and demographically oriented public services. In spite of certain hints in the first half of the 1990s, there has yet to be formulated a comprehensive policy of protection and promotion of public health. Neither the state nor the new public health insurance system have yet managed to optimize the scope of medical services on offer, while a number of state-provided steering mechanisms have either ceased to exist or continue to formally operate without having an effect. In the absence of parliament-approved and regionally or locally applied health care concepts, there are no main priorities outlined. This is not transparent and can easily run into more serious problems due to both the rapid growth of the overall requirements for health care services and differences in access to health care services for various population groups.

The share of the health care system's expenditures in GDP fluctuates at around 7 percent (see Table 1). Thus, the overwhelmingly public financing of health care is associated with the increasing (but still relatively very small – today about 10 percent) share of its private provision.

The EU's impact on the progress of the Czech health care reform was very limited.

Education development and policy

Arnošt Veselý

The education policy and educational system of the Czech Republic have experienced very many radical changes since 1990. The past 17 years have seen change happen in all aspects of education: in the organization of the educational system, in its management at all levels, in the curriculum (content of education), and in financing and evaluation.

At the start of the 1990s it was necessary at first to cope with the legacy of the communist system of education. The early "revolutionary steps" of reform called for the following moves:

- depoliticize education (remove communist ideology from the curriculum);
- abolish the state's monopoly on education and introduce private and church schools;

- re-establish six- and eight-year upper secondary schools (*"víceletá gymnázia"*) in recognition of the right of talented pupils to acquire a fitting education);
- decentralize the management of tertiary education; institutions of higher learning, which were previously under direct control of the Ministry of Education, were granted sweeping autonomous powers (in many ways broader than in advanced democratic states).

Perhaps because education never emerged as a major political issue, the early 1990s were characterized by general enthusiasm. Many alternative development concepts saw light, various civic institutions were established (or re-established) in the field of education and policy, and alternative education programs were introduced and implemented. This showed that educational values are deeply rooted in the Czech Republic and many people view education as both a key societal objective and a vehicle for their self-assertion. However, it was also increasingly obvious that shedding the communist past and "getting back to the roots" alone will not do. The times had changed and so had the education systems of the developed democratic nations. Many conventional attributes of Czech education came into serious question. Chief among them was the emphasis on:

- professional education and apprenticeship (as against the need to expand general education);
- vast encyclopedic knowledge and a mass of findings obtained through the compulsory curriculum;
- the completion of full secondary-school education rather than expanding the ranks of tertiary students;
- direct state control of education.

Even though implementation of such measures was quite spontaneous and rapid in the revolutionary phase, educational policy slowed down appreciably in the second phase of "catching up with the West" (as "traditionalists" and "reformers" clashed). Critics of the Czech education system pointed out the following issues: the low percentage of university-educated population; an overburdened curriculum; the centralization of elementary and secondary education; too much emphasis on professional education; and the highly selective character of the education system.

As international analyses and probes by experts on educational policy showed, the reformers "suffered victory" on most counts. The MoE-controlled school offices were closed down and some powers (especially to establish schools) were delegated to municipalities and regions. A sweeping curricular reform was launched in order to suppress "swatting" in favor of developing more general key competences. Thanks partly to demographic changes (declining numbers of children in the age of compulsory school attendance), the numbers of pupils of non-academic and vocational schools (apprentice training programs) began to decrease in favour of a slight increase in general education. Over the past few years, a dramatic rise has been recorded in the number of tertiary students in both relative and absolute terms.

However, some obvious problems persist while many above-mentioned aims and policies (notably the reform of curriculum and evaluation) have yet to be implemented. Other outstanding problems involve above all the still overly high level of system selectivity due mainly to the existence of six- and eight-year upper secondary schools. Many pupils leave elementary school at the age of 11, which fact is more reflective of the quality of their family background than their actual abilities. In result, the quality of elementary schools suffers all the more. Also, many Roma children are being sent to special schools and sequestered from mainstream education; a small part of the population participates in futher education; the inclusion of higher professional schools in the tertiary education system remains unresolved, etc.

Poverty, social exclusion, social activation and inclusion policy

The low percentage of truly poor people under socialism reflected the fact of full employment, large income leveling, and relatively generous aid to families with children. Even though the economic transformation has changed the economic situation of most individuals and households, the situation is kept under control, in part by making use of higly varied socio-political measures, such as the above-mentioned introduction of the institutions of subsistence level, minimal wage, the adjustment of old-age pensions to inflation, and the payment of unemployment benefit.

MOLSA is responsible for monitoring the occurrence and trends of poverty in the Czech Republic. The rate of poverty in the Czech Republic has remained relatively low. The following indicators can be worked with:

1. The officially set subsistence minimum limit. For a single-person (excluding household expenditures) it is CZK 3,126 (about 110 Euro) per month, as of 01.01. 2007. The minimal wage equals CZK 8,000 (about 280 Euro) per month as of 01.01. 2007. According to the results of the "Social Situation of Households" survey by the Czech Statistical Office, implemented with the Eurostat regulation, the incomes of 3.4 percent of the households and 4.3 percent of the individuals were below the subsistence minimum in 2001.

2. The relative poverty indicator used by the EU. Households find themselves in the poverty belt if their per capita income drops below 60 percent of the income median of an equivalent adult person, whereby the first adult is counted with a coefficient of 1, other adults with a coefficient of 0.7, and children with a coefficient of 0.5 (this is the previously mentioned adjusted household income). Below the above-defined poverty was 7.6 percent of the population in 1996 and 7.92 percent of the population in 2001 (Joint Inclusion Memorandum 2004). In general, the level of (relative) poverty is kept lower than in most EU member states.

Table 2.1.7: At-risk-of-poverty rate after social transfers

Countries	2000	2003
Old Member States (EU 15)	15	15
Czech Republic	8	8

Note: The share of persons with an equivalent disposable income below the risk-of-poverty threshold, which is set at 60% of the national median equivalent disposable income (after social transfers).

Source: Eurostat 2007

The differentiating process regarding incomes of the population is an inevitable part of the postcommunist transformation. Two facts lie at the heart of the problems relating to this issue. First, the differentiation of incomes does not occur in line with an increase in the living standard of the majority of the population, as it is the norm in developed countries, but rather during a tangible decrease of the average living standard and an absolute and relative shift of income to high income groups. The share of the richest quintile of the economically active population in the total sum of incomes increased from 30.9 percent in 1988 to 37.8 percent in 1996. In the same period, the ratio between the lowest and the highest household income decile increased from 2.6 to 3.2 in the Czech Republic (Večerník 1997). Second, the criteria used as the base for differentiation are not accepted in most cases by society as being equitable. The most threatened groups of the adult population are the unemployed, the disabled, single parents, and citizens with only elementary education. Families with dependent children in particular belong to the population groups which run a bigger risk of falling into poverty. Those most at risk, then, are families with unqualified workers and with dependent children.

The Roma as an ethnic group have been especially hard hit by the consequences of economic and social transformation. With insufficient social and cultural capital, many of them were not able to find their way out of the changing social and economic demands and conditions. Low-skilled labourers were the first to be made redundant when the big state companies started to collapse. Public support began to shrink as well. Unemployment problems, bad health and housing conditions, schooling failures, crime – all these socially handicapping or socially dysfunctional phenomena are more concentrated in this particular ethnic group than in the majority population. The Roma are the most frequent target of abuse and racially motivated attacks, particularly by other socially marginalized groups.

The winners of the changes are the members of the economic and political elite, those who have profited from privatization (either legally, or by stripping the assets of public and/or corporate funds into private hands), and the employees of multinational corporations whose Western-level salaries are many times higher than the average local wages. The inequality in the country is still considerably lower than in the EU's old member states.

Table 2.1.8: Inequality of income distribution measured by income quintile share ratio

Countries	2000 (2001)	2003 (2004)
Old Member States (EU 15)	4.5	(4.8)
Czech Republic	(3.4)	3.4

Note: Income quintile share ratio – the ratio between the aggregate incomes of the highest income quintile and the lowest income quintile of the population.
Source: Eurostat 2007

The structure of social assistance is conceived as a lifeline to those who are no longer able to help themselves, have no claim to benefits in the framework of the social insurance and state social support structures, or these benefits are not enough to sustain them at least at the level officially set as the subsistence minimum. Social aid is provided in cash or in kind or both.

The new laws began to influence the living conditions of people in need in the early 1990s. This particularly concerns the Subsistence Level Act and the Social Need Act (which was amended several times). They included the obligation of the state to guarantee all citizens that their standard of living would not fall below the official subsistence minimum, and to make up the difference between the actual income of an individual or family and this limit, on condition that they themselves cannot increase this income by their own endeavour because of their age, state of health, or for other legitimate reasons. This act thus delineated a socially accepted poverty limit, establishing the right to receive state aid under certain circumstances. It is a scheme based on individual assessment of total income, property, and social relations of the applicant. The defined subsistence minimum differs according to the age and structure of the household.

The law ordered the government to increase the subsistence level in accordance with the changing costs of living and to maintain the ratio between the level of subsistence minimum and the average income.

The Czech government's concept of social assistance ensues from the principle of subsidiarity: the individual is responsible first, then the family, next charities, the municipality, with the state coming last. After years of protracted preparation, the new Social Services Act took effect in January 2007. It delegates more responsibility to regional governments and gives the client a wider choice of service delivery (defined benefits will go to individuals instead of institutions).

The more comprehensive approach toward social activation and inclusion has been stimulated by the EU Lisbon strategy, which became binding for the then candidate countries (including the Czech Republic) in 2002. This process and its outcomes are analyzed in more detail in the next paragraphs.

2.1.5. European integration and the Czech welfare state

The impact of EU social legislation on national social policy

The history of the candidate countries' preparation for accession started with the launching of the Copenhagen Criteria of Accession (1993). These criteria were designed more as a technical (economic and political) instrument from above than as an appropriate tool to steer the living conditions in the candidate countries. Hence, legal, economic, and political issues prevailed. The candidate countries were asked to reform their national economies to be able to compete – and be compatible – with the market economies of the then member states. They were required to build robust and reliable institutions for political democracy. They were told to adjust their legal and administrative systems in accord with the acquis communautaire. The rate of progress in both the economic and political adjustment to these requirements has been astonishing and deserves high evaluation. Nevertheless, genuine social goals were at the very bottom of the list of priorities, being limited to the preservation of individual human rights and the building of a loosely defined framework for social policy making. "Indeed, of the 29 thematic chapters that made up the regular reports that yearly reviewed the 'progress' made by the then candidate countries in their preparation for accession, only one chapter dealt with employment and social policy…" (Keune 2006: 18). The containment or reduction of poverty and income inequalities, labour rights, a living wage, and the alleviation of the fate of the marginalized groups – in other words, the fight against social exclusion – did not form an integral part of the Copenhagen criteria reform agendas. Nor, of course, did more universalistic social policy models. This has opened a considerable space for other, more active and influential international actors, namely the World Bank and International Monetary Fund governed by the Washington Consensus' neo-liberal ideology of the 1990s (Potůček 2004).

The European Council launched the economic nucleus of the Lisbon Strategy in March 2000, and enriched it by its social dimension at Nice in December the same year. Soon afterwards, the environmental dimension followed suit (Gothenburg Summit, June 2001). It was a stream of new political initiatives, stressing the importance of human resources, quality of life, social cohesion, in short, the "social fabric" of contemporary societies. The candidate countries were asked to take part in the Lisbon Strategy negotiations only after the 2002 Barcelona Summit, when the preparation of the new member states to enter the EU – until then organized under the logic of the Copenhagen Criteria – had only just been completed. The fully fledged participation in the Lisbon Strategy started only with those countries' accession to the EU in May 2004. Thus, social policy moved to the top of the EU political agenda of enlargement as late as a decade after setting up the Copenhagen Criteria of Accession.

The EU's Lisbon Strategy was redefined in 2005. This was due to the unsatisfactory state of its implementation in most member states, and also to the new composition of the European Commission, reflecting the outcomes of the 2005 European Parliament elections that enhanced the representation of rightwing parties. Economic priorities came to the fore. In the Czech Republic this shift coincided with the appointment of a new Deputy Prime Minister for Economic Affairs in 2004 (Martin Jahn) who was charged with formulating comprehensive strategic documents – the Strategy for Economic Growth (Strategy 2005), and the National Lisbon Program 2008 (National 2005b). The government adopted both documents and forwarded them to the European Commission in 2005. Not surprisingly, the latter document, a basic guide to the country's strategic orientation for the next few years, came in three parts: macroeconomic (with emphasis on continued public finance reform), microeconomic (with measures to boost and further increase the economy's ability to compete), and employment (flexibility and openness of labour market and education). Although the Czech Republic Strategy for Sustainable Development for the Czech Republic (2004) was approved as the umbrella strategic document, i.e., one that should become the binding basis for all consequent strategies, the Strategy of Economic Growth (passed a couple of months later) paid only lip service to this document and posed itself as a core strategic document to be respected in other strategic endeavours. It did not associate itself with the national Action Plan on Social Inclusion 2004-2006 (NAPSI 2004-2006) at all. Under otherwise unchanged conditions, this further weakened the actual status of the Czech government's endeavours in the field of sustainable development in general, and one of its three core elements, the goal to strengthen social inclusion, in particular.

The absence of direct EU influence on welfare state transformation should not obfuscate the less visible thrusts of cultural changes associated with the processes of European integration, which influenced domestic discourses on social policy making, set up new notions, agendas, approaches, and policy instruments. Call it mutual learning, cognitive Europeanization, or enculturation, it has been changing the cognitive framework of social policy making. This process will have a long lasting (albeit difficult to identify) impact on welfare state transformation in the Czech Republic.

Sengoku (2006:239n) sees the following three structural causes of the EU's institutional weakness in social policy making:

- It has not required specific conditions or "hard laws" as to the social policy of accession countries.
- There are few specific mechanisms that could be used by the European Commission to enforce the CEE countries to adopt the European standard of social policies.
- The EU has no "model" or "template" concerning the welfare system of the candidate countries.

This weakness has created chronic socio-political tension: the Czech Republic (and other new member states) entered the European Union with their health, social, and employment policies insufficiently developed to cope with the legitimate demands of this strategic policy document. There is the urgent need to solve the discrepancy between the enormous public tasks of high employment, capacity building in health and social services, alleviation of poverty, and strengthening social cohesion in the Czech Republic (and other new member states), with their insufficient social, economic, and administrative implementation capacities.

The impact of the Open Method of Coordination

As mentioned in the previous paragraph, since the start of this century the European Union has helped with pushing social policy issues higher up the political agenda ladder, with institution building, and with the transfer of skills and money from the old member states. The OMC has become the main instrument of the "Europeanization" of Czech social policy.

Its application began with the annual elaboration and implementation of the National Employment Action Plans, guided by the European Employment Strategy at the end of the 1990s. Inspired by and consulted with the Commission, this EU activity represented an added value. This was expected, as its application of various schemes had already proved to be effective in other countries. Still, poorly defined goals and responsibilities, lack of program evaluation, poor inter-sectoral coordination, and missing links to budgetary resources leave room for further improvements (National 2004, Jabůrková – Mátl 2007).

In 2002 the European Commission asked all the candidate-country governments to elaborate a Joint Inclusion Memoranda in order to identify the key problems and policy measures in the fight against poverty and social exclusion. The agenda of social inclusion was formally set with the preparation and approval of this document by the representatives of the European Commission and the Czech Government in 2004 (Joint 2004).

The preparation and approval of the NAPSI 2004-2006 followed suit (National 2005a). Let us analyze its content in more detail:

- The document summed up other applicable and prepared policies, action plans, strategies, programs and governmental decrees that had some relevance to the issue of social inclusion.
- It described itself as a national strategy, "the aim of which is to canvass due publicity to the problems of social exclusion and to help solve them" (National 2005:8). The only explicit reference to the other development goals was: "The important condition of the success of the strategy of social inclusion is its close relationship with the economic policy of the state. The economic situation is characterized, on one hand, by economic growth and virtually zero inflation but, on the other, by a growing public

finance deficit. Improvement is therefore perceived as the main political priority" (ibid.). Thus, NAPSI 2004-2006 did not clearly define its links with the other developmental priorities of the country.

- There was no plan for improving the coordination of NAPSI 2004-2006 and the government economic strategy. The fact that this document did not envisage the allocation of targeted funds – something which is corroborated by the absolutely astonishing absence of the Ministry of Finance from the Committee to Prepare a Joint Memorandum on Social Inclusion and NAPSI 2004-2006 – was arguably one of its softest spots. The authors of the Joint Memorandum on Social Inclusion candidly complained that "the non-participation of the Ministry of Justice and the Ministry of Finance might have an unfavourable impact on the volume and effectiveness of proposed measures" (Joint 2004:45). In the context of the reform of public finances that intended to reduce public budget deficits, and in an atmosphere where many commentators and some analysts summarily dismissed social spending as counterproductive, obsolete and not conducive to economic competition, this complaint might well point to the potential ineffectiveness of this document as measured against the competing strategies, formulated with the explicit delineation of goals, delegation of responsibilities and allocation of funds.
- Surprisingly, no attempt has been made to address the issue of pension reform. This is directly connected with social cohesion in that the best level of inter-generational solidarity needs to be sought and found.
- The soft spot of the document was the lack of explicit goals, and poorly defined responsibility for implementation. (Potůček 2006).

Clear positive procedural aspects for the creation and implementation of NAPSI 2004-2006 could be recognized as well. The actors participating in it have been gradually honing their craft as to both the methods at their disposal and thematic cultivation of problems within this category. The plan itself induced rising awareness of the public on "newly emerging" social problems (such as homelessness), and rising activism of non-profit service and advocacy organizations. We have also discerned considerable interest in social inclusion by civil servants at the level of some municipalities, recently established regions, and at the central level of government. All in all, this has a positive impact on the overall culture of political communication and decision making.

However, the cons far exceed the pros; including an unenlightened political leadership, the absence of matching organizational structures on the state administration level, poor contents and methodological provisions of strategic control mechanisms, lack of coordination, and above all, the ensuing implementation gap: NAPSI 2004-2006 has been dismissed as a nonbinding, Platonic appeal without clearly defined objectives, implementation deadlines, delineated responsibilities, or definite control mechanisms.

Without an institutionalized system of strategic management it was not possible to coordinate the content of NAPSI 2004-2006 with other strategies so as to achieve their material and methodological consistency. Thus, the state of preparation and implementation of the national programmatic documents' standards was not advanced: poorly defined goals and responsibilities, lack of program evaluation, poor inter-sectoral coordination, and missing links to budgetary resources made enough room for further improvements. (Atkinson – Cantillon – Marlier – Nolan 2005)

Table 2.1.9: Evaluation of Czech NAPSI 2004-2006 in the light of strategic governance criteria

Criteria of strategic governance		NAPSI 2004-2006 assessment
1	Level of political support for strategic governance issue	half-hearted
2	Involvement of civil and expert communities in strategic governance	broad
3	Existence of Strategy Unit at the central level of government	none
4	Cognitive capacities of futures studies	low
5	Quality of strategic documents	very low
6	Strategic guidelines from the meta-level of governance	conflicting

Source: Potůček et al. (2007)

As a result, the real impact of the Open Method of Coordination (OMC) in governance at the national level owed a lot to its potential influence. In other words, operative and tactical tasks, short-term interests, lack of time, and professional myopia severely limit the effects of the OMC's application. At the same time, clear positive effects can be recognized in raising the level of general awareness of civil servants about EU problems.

In terms of technique and procedure, the Czech Republic has had no problems with the application of the OMC. The serious problem lay not with its formal application, but with the administrative and political context in which it was being applied. To cut a long story short:

- Czech public administration did not possess specific organizational structures that would have the capacity to deal with strategic issues.
- Czech civil servants were not trained and experienced in dealing with strategic issues in their professional life.
- Czech political leaders in general did not appreciate the importance of strategic thinking and decision making for the realization of their political missions.

At the start of the 21st century, the Czech Republic lacks a functional system of strategic governance that could help prevent many unnecessary social and economic losses, and help the country to quickly overcome the handicap of civilization backwardness inherited from the wars and totalitarian regimes of the past century. Operative and tactical tasks, short-term interests, lack of time, and professional myopia severely limit the OMC's effects. The real impact of the OMC in national governance has fallen dramatically short of its potential influence.

Relevance of EU concepts and programs

I will mention three programs and concepts which were, apart from the OMC covered in the previous paragraph, most relevant for social policy making in the Czech Republic: European Social Fund (ESF), the Program on Ageing, and the European Social Agenda.

The European Social Fund

Europe's financial instrument of support for strategies to improve quality in the field of employability is doubtlessly the ESF, with its focus on reducing unemployment, developing human resources, encouraging integration with the labour market (unemployed people and disadvantaged groups), and supporting gender equality. The Czech Republic successfully draws ESF funds to finance various programs in support of employability – the very essence of the ESF. This process involves especially NGOs, town halls, municipalities, regions, businesses, labour exchanges, and other entities. Innovation programs centre on supporting as many employees as possible on the labour market, i.e., supporting endangered groups, protecting young people and encouraging their employment, on educating and creating job opportunities for women, on establishing new businesses, improving education systems, including the provision of new curricula. These programs further centre on the development of human resources, i.e., preparing individuals for the start of their working lives, on self-employment, local partnerships, new working methods, on building child day care centres, on introducing part-time jobs, on improving the employers' rapport with employed parents, and on helping unemployed parents to return to the labour market. There are preventive programs focused on building adaptive and modernization systems of education, training and employment. The support of equal opportunities and universal access to the labour market, biased in favour of those threatened by social exclusion, is one of the core ESF spheres reflected by the implementation of this instrument in the Czech Republic. Winkler, Klimplová, Žižlavský (2005) provide numerous examples of targeted programs on local labour markets that actively solve the issue of equal opportunities of access to the labour market, biased in favour of persons threatened by social exclusion. ESF also supports local and regional agreements on employment.

The Ageing Program

The national program on preparation for ageing for 2003-2007 was approved by the Czech government as early as in May 2002. The Green Paper on "Confronting demographic change: a new solidarity between the generations" is very topical for the Czech Republic, which has one of the lowest birth rates in Europe and a rapidly ageing population. The Minister of Labour and Social Affairs, Zdeněk Škromach, welcomed it at the Conference "Confronting demographic change: a new solidarity between the generations" (Brussels, 11-12 July 2005), pointing out that the Czech government sees the family as a legitimate subject of public interest.

The Contribution of the Czech Republic to this document was prepared by MOLSA and the Ministry of Health, was then submitted for public discussion, and finally approved by the Committee for the EU (*Výbor pro EU*)[3] and sent to the European Commission at the end of 2005. The upper chamber of the Czech Parliament, the Senate, held a public hearing on the EU Green Paper on demographic change on June 29, 2005 and passed a resolution on October 6, 2005. Composed mostly of the representatives of right-wing political parties, the Senate (the upper house of the Czech Parliament) has condemned the OMC and all other non-legislative procedures that the EU applies in member states, and rejected any state intervention in the privacy of family life (e.g., the division of household chores).

On the other hand, the Green Paper positively influenced the preparation and approval of the Family Policy Conception (Koncepce 2005, see par. 2.1) and the activities of the task force for pension reform (see par. 2.3).

The EU Social Agenda

No comprehensive Czech national policy has been inspired by the new EU Social Agenda. Nevertheless, piecemeal progress on the majority of its issues is apparent:

- The government has established a cross-party task force to simulate the consequences of alternative pension reform options and thus contribute to rational discussion among representatives of different ideological views (see par. 2.3).
- The government prepared a new Labour Code Act, approved by Parliament in 2006. This implements all the traditional core principles of ensuring the balance of power between employees and employers.
- The tripartite body has matured and gained legitimacy and its relatively smooth functioning has resulted in minimal strikes and other forms of open protest.
- The government has discussed gender equality and taken new approaches to close the gender gap in job opportunities, wages and other living conditions.

[3] *Výbor pro EU* was the main coordinative body of the Czech public administration toward the EU until general elections in June 2006. Its Chairman was the Minister of Foreign Affairs.

- As mentioned earlier, the government formulated a new Conception of Family Policy with the aim of strengthening the position of families, especially those with children, and encouraging young people to become parents.
- Other specific agendas were considered and realized (some of them mentioned elsewhere in this chapter).

Indirect influence from other areas, especially from the economy

As in other postcommunist countries, the economic transformation brought about huge changes in the labour market, along with decreasing and changing demand for the labour force. The consequent declining employment rate and rising unemployment created additional stress for the whole system of social welfare.

The Czech authorities are generally well aware of the positive impact of the implementation of the core EU principles (and goals) for enlargement on the socio-economic development of a country extremely dependent on foreign trade and foreign investment, technology, and experience, and neighboured exclusively by EU member states. Thus, both the Czech government and general public often encounter delays from some older EU member states in the full application of these principles, typically in the free movement of labour. This reaction is paradoxical, as the Czech Republic has for several years been a net importer of labour from other EU member states. Even Czech politicians who are genuine supporters of Europeanization have found it difficult to sell this paradox at home.

National discussion on the European Social Model and European social policy, perspectives

Even if the Czech Republic still has a considerable way to go to become a consensual democracy like some West European countries, it has developed a quite open space for public discourse on the European Social Model and European social policy perspectives. I should mention the stance of the president Václav Klaus on the EU, the academic initiative called Social Doctrine, the public involvement in the creation of NAPSI 2004-2006, and the controversial discussion on the proposal on Services Directive.

President Václav Klaus and the European Union

There is one both nationally and internationally thrilling element in the policy debate on the EU, its future, and its social dimension: the stance of Czech President Václav Klaus, an outspoken critic of the EU's present shape and developmental tendencies (Klaus 2005). Klaus warns against the tendency to embrace or even strengthen the coordinating and consultative mechanisms apparent in EU policy making. In his lecture "From integration toward unification", presented to the Czech Learned Society on May 15, 2006, he pointed out that the liberalizing effect of European integration has waned, whereas the present harmonizing and standardizing processes would necessarily lead to top-down steering and the bureaucratization of human lives. Klaus believes that this homogenizing and unifying tendency should be replaced by a return to the liberalizing phase. In reaction to the lecture, a group of 66 outspoken Czech scientists wrote an open letter to Václav Klaus on May 24, 2006 (Dopis 2006). They did not share his critical view of the European integration process (compared to the previous integration attempts within the Soviet empire). They opposed both his idea that EU membership was associated with a democratic deficit and his proposal to reduce collaboration within the EU to a customs union. They did not fear that European integration might result in the loss of Czech national or cultural identity; after joining the EU they saw neither signs of economic problems nor the irresistible pressure of Brussels' bureaucracy (for more detail, see Klaus 2005, p. 1).

As a neoliberal thinker, Klaus also finds it difficult to accept the contemporary institutional and functional shape of Czech social policy (for more details, see Klaus 1995, and Potůček 1995, 1999a).

The Czech Social Doctrine

An interesting example of the original "national initiative" was *The Social Doctrine of the Czech Republic* (Sociální 2002). Its aim was to build a broad national consensus on the orientation, goals, priorities and corresponding instruments of Czech social policy. Five preparatory conferences in 1998-2000 constituted a "joint venture" of the academic community concentrated around the non-profit Socioklub, MOLSA, and the Senate.

The document – the work of a group of experts from various fields and political affiliations – was mentioned in the coalition agreement statement of political parties in power in July 2002 as the starting point for the further development of government social policy and its priorities and approaches until 2006. Nevertheless, until its resignation in 2004, the government failed to find sufficient capacity and motivation for consequent steps: real social policy decisions stemmed mostly from either urgent problems or strong demands from various pressure groups.

The discussion on the NAPSI 2004-2006

The Government of the Czech Republic adopted, by its Resolution 476, the decision to establish a Committee for the Preparation of a Joint Memorandum on Social Inclusion and a National Action Program of Social Inclusion. The appropriate Committee was established on September 15, 2003 by MOLSA. Its 40 members represented:

- selected government ministries (labour and social affairs; education, youth and physical education; health, regional development; the in-terior; transport; industry and trade; information; the environment; and agriculture);

- other public administration institutions (Government Committee for the Handicapped; Government Council for Roma Affairs; Czech Statistical Office; Ombudsman's Office; Association of Regions of the Czech Republic; and the Association of Cities and Municipalities of the Czech Republic);
- the civic sector including social partners (Czech-Moravian Confederation of Trade Unions; Industry and Transport Union; Czech and Moravian Production Cooperative Union; Czech Catholic Charity Association; People in Need; National Council of Handicapped Persons);
- academic community (Charles University Faculty of Social Sciences; Sociological Institute of the Academy of Sciences of the Czech Republic).

This committee was tasked with looking after the coordination between the various ministries and ensuring that all the relevant institutions share in inter-ministerial coordination in processing the Joint Memorandum (2004) and NAPSI 2004-2006 (National 2005a). The committee was also tasked with implementing a comprehensive policy to fight poverty and social exclusion.

As indicated by the list of actors directly involved in the preparation of the NAPSI 2004-2006, due respect was paid to the traditional position of social partners in social dialogue, representatives of employees and employers as partners to the government, in the regular meetings of the tripartite body – the Council of Economic and Social Agreement. The National Council of Disabled Persons had retained its traditionally strong status vis-à-vis the Ministry of Labour and Social Affairs even on this agenda.

As indicated by that document's authors, its preparation also involved the participation of other partners, notably representatives of the nongovernmental not-for-profit organizations centering on homeless people and seniors (National 2005a: 62).

The fourth chapter of the NAPSI 2004-2006, entitled Institutional support, states that structures of participation in the field of social inclusion have been established at all levels – national, regional and local – independently of the strategy of social inclusion. As indicated by the content of this chapter, they are the Council of Economic and Social Agreement, the Government Council for Non-state Non-profit Organizations, the Government Council for Roma Affairs, the Government Committee for Disabled Citizens, the Government Council for Ethnic Minorities, and cooperation with the Association of Cities and Municipalities and the Association of Czech Regions. Regional and municipal bodies can establish committees of relevance to social inclusion policy – social committees and committees for disabled citizens.

In an effort to involve the broad public in the preparation of the National Action Plan of Social Inclusion, its various chapters have been posted on MOLSA's website www.mpsv.cz and other associated websites (National 2005a: 62). There were organized several conferences for actors involved, too.

The Proposal on Services Directive

This regulation has been the focus of attention for the Czech authorities. The unit responsible for this agenda was the Ministry of Trade and Industry. The official Czech position was much closer to the original proposal of the European Commission, and quite critical of the amended and changed version that the European Parliament approved on February 16, 2006.

The Czech government's position on the parliamentary version was in preference of:

- the broadest spectrum of services
- the broadest and clearest definition of conditions for cross-border provision of services in Article 16
- the easing of the administrative burden associated with across-border movement of workers (Ministry 2006).

Social partners expressed their views in letters to the Czech Prime Minister: the Association of Industry and Trade supported the original version of the Commission, whereas the Bohemian-Moravian Chamber of Trade Unions endorsed the amended version of the European Parliament.

According to the Deputy Minister of Trade and Industry (Martin Tlapa), the Czech Republic (along with the Netherlands) headed a group of 15-16 governments that did not see the version approved by the European Parliament as inevitably final and that were trying to change the path of development at the March 2006 Vienna Summit. They failed, however, as the European Council in Vienna — with the final approval of the then Czech Prime Minister Jiří Paroubek — endorsed the version approved by the European Parliament.

2.1.6. Conclusion Is European integration a convergence factor in the field of social policy?

The Czech Republic does exhibit a telltale inclination toward the continental, corporatist, performance-achievement-type welfare state, with a relevant role of the tripartite institution. It also comprises universalist elements, ones mostly inherited from the communist period, but having some roots from before World War II. The increasing incidence of residual elements in the whole system of welfare is perceptible and can be attributed to a mixture of external pressures and internal decisions that stem from the neoliberal concept of social policy making. Thus, the Czech state is a classical example of a mixture of various ideal-type models of welfare.

The analysis of welfare expenditures, which have fluctuated only slightly in accordance with the ideology of political formation in power (see Table 1), confirms both the robustness and considerable inertia of the Czech welfare state. It should be mentioned that, due to the proportional electoral system, Czech governments are generally weak and unable to design and push through "radical" reform. The retired and handicapped have preserved their prerogatives, whereas children and families with children seem to be the core losers of the postcommunist transformation.

External factors have impacted the nature of the Czech welfare state as well, albeit to a much lesser extent. Topping the list of relevant factors is economic globalization, associated with the formation of the country's open market economy, one that is extremely dependent on foreign trade and thereby facilitates effective integration into the world economy.

The present condition of the Czech social model may be characterized as popular support for its main functions (though the public remains rather critical of the quality of services), the high efficiency of redistribution toward the most vulnerable (with social and health public spending at 19 percent of the GDP in 2006, and with the percentage of the poor – i.e., people with incomes below 60 percent of the national medium income – at 8 percent in 2002), and the universal though modest (and in some situations even unsatisfactory) delivery of core social and health services.

There is agreement in the literature about the relevance of the new member countries' candidacy and later membership in the European Union for their social welfare transformations. At the same time, most authors see the EU's role in social policy shaping as altogether weak. Orenstein-Haas (2003) estimate its influence as strong enough to prevent the overall deterioration of people's welfare – especially when comparing the social situation in the new member states with countries from the region remaining outside (mostly ex-Soviet republics). Lendvai (2004) summarizes the findings of several other authors and speaks about the weak social dimension of the European accession and enlargement and that economic issues have had clear primacy over social issues. There are two political positions prevailing in EU policy making: one that understands the European project as essentially de-regulatory, and another that sees the market as the first step in the process of institution-building at the European level (Taylor-Gooby 2004: 184). "Pressures for both liberalism and for a stronger interventionist role exist, and whether the balance between the two will shift in the future is at present unclear" (Taylor-Gooby undated: 12). The European Union does not communicate in a single voice with its members. One of its two Janus faces speaks about further trade liberalization (including the services of general interest), fiscal discipline, flexible labour market, the need to make the European economy the most competitive in the world... whereas the EU's other Janus face speaks about social justice, social rights, the fight against poverty and social exclusion, and nurtures its own child – the ESM. This conceptual confusion represents a serious puzzle for the less experienced national political class and the public of the then prospective and now new EU member states, including the Czech Republic.

By and large, though, the ESM and the Czech Social Model (as it has evolved to date) are fully compatible in terms of history, culture, institutional frameworks, attitudes of the population, and political legitimacy.

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2. The welfare state and welfare reforms in Denmark

Introduction

When Denmark adopted its first modern social reform in 1891, it deliberately rejected the Bismarckian social insurance approach in favour of tax-financed support for all elderly citizens who were unable to provide for themselves. Ironically, it was the moderate wing of the Liberal party representing the independent farmers which laid the early foundations for a citizenship-based, tax-financed universal welfare state in Denmark (Petersen 1990). These basic traits have been further strengthened up to the present. Even more than the other Nordic countries, Denmark has maintained a purely tax-financed welfare state virtually without social contributions or payroll taxes – and even more than the other Nordic countries, Denmark has followed a generous, flat-rate universalism.

Unlike the other Nordic welfare states, the Danish welfare state experienced hard times in the 1970s and 1980s when unemployment exploded. This was countered by rather strong cost containment in the 1980s, but few institutional changes. From the early 1990s, economic conditions improved, and public consumption increased by some 35 percent in fixed terms from 1992 to 2007 (Goul Andersen 2007a). One could almost speak of a second "golden age" of the welfare state. But institutional changes have nevertheless been quite profound in that period.

Labour market policies have undergone an altogether dramatic change, from a citizenship approach with emphasis on maintaining the unemployed in the unemployment benefit system and avoiding any sort of differential treatment, to a strategy based on active labour market policy (ALMP) from 1993. Gradually, there has been a conversion of the ALMP towards a "work first" approach with increasing emphasis on obligations and incentives, in some respects even moving towards "workfare". Still, the government (Ministry of Employment 2005) rediscovered "flexicurity" which has served to legitimize the maintenance of an unemployment benefit system with long duration, rather generous support for the lowest-paid workers, but coupled with increasingly tight works tests, or "conditionality", to use Clasen's (2005: 16) expression. There has been no tendency toward higher proportions of those registered as unemployed receiving social assistance rather than unemployment benefit. On the contrary, it has declined (Goul Andersen 2007a).

Pension policy has undergone a revolution in slow motion as the country has moved from a (relatively generous) flat-rate "people's pension" system to a multipillar system with contributory, fully funded, quasi-mandatory labour market pensions gradually becoming the backbone of the system. This strange combination of elements does, however, secure high minimum standards. As a whole, the system currently seems to meet the ideal of "adequate and sustainable pensions" very well, although in an odd way that is sometimes poorly grasped even among politicians and experts. Its future, however, is uncertain because the elements protecting the less affluent people are based on vulnerable political foundations.

There is a high and increasing priority given to services in the Danish welfare state, with a corresponding rise in double-income families. Both spouses typically work full-time, part-time work having declined dramatically since 1980. However, the organization of public services has changed from the 1980s onwards. Since 2001, there has been a bit of a choice revolution and efforts to ensure competition – ideally public-private competition – in any field of welfare services. Still, financing has remained public, and New Public Management in the Danish version has typically not been aimed at saving money. Nor, need it be added, was that the result.

As to the financing of the Danish welfare state, the tax structure has remained unique throughout the entire period since Denmark entered the EU. Since 2005, there has been much debate about lower marginal tax rates to increase labour supply, and lower average tax rates to ensure competitiveness in what is perceived as a global competition over the most skilled labour force in the future. In January 2008, a tax commission was appointed to come up with proposals by February 2009. However, apart from higher incomes, both marginal and average taxes on labour are quite moderate in Denmark, as compared to other Western European welfare states.

In the early 1990s, there was quite a lot of debate among experts and politicians about tax harmonization in the EU, and about transforming the system to an insurance-based system financed by social contributions. In all likelihood this contributed to the Danish "no" to the Maastricht Treaty in the 1992 referendum. However, both among experts and politicians, knowledge about the Continental European model was poor at that time. The reasons for the introduction of a special income tax labelled "labour market contributions" in 1994 were never spelled out, but it was probably aimed both as a concealment of taxes and as a device which could enable a path switching to something more resembling the Continental European countries if this should become necessary. Since then, EU concerns have almost never entered Danish debates about welfare or tax policies, but Denmark has been increasingly active in promoting some of its own solutions in the EU.

2.2.1. The Danish welfare model: A variant of the Nordic model

Tax-financed universalism with high minimum standards and emphasis on social services – these are the most characteristic features of the modern Danish welfare state as it developed in the 1960s and 1970s, in particular from 1964 to 1974. In all these respects, Denmark is prototypical of the Nordic countries, but Denmark has followed the most clean-cut tax financed approach and has almost completely avoided social contributions or payroll taxes. Further, Denmark has adhered more to flat-rate benefits; this applies not least to pensions where Denmark failed to introduce earnings-related public pensions in the 1960s, mainly due to resistance from inside the Social Democratic party (Rasmussen 1996; Albrekt Larsen, Goul Andersen 2004). Denmark also deviates in its employment protection legislation, which has remained much more liberal than in the other Nordic countries – a much neglected trait that has been rediscovered and heralded as "flexicurity" (Madsen 2002; Jørgensen, Madsen 2007). Finally, even though there have been quite a few path-breaking reforms, Denmark is perhaps prototypical of welfare state transformations through incremental changes (Streeck, Thelen 2005), e.g., through *layering* of new schemes (and differential growth), or through *conversion* (e.g., of "liberal" institutions to "Social Democratic" ones).

Tax-financed universalism with high minima

The *tax-financed universal approach* derives from the social reform in 1891 which was the first reform outside Germany to introduce old-age pensions, or more accurately, old age cash benefits for people over 60 who could not provide for themselves. Denmark deliberately rejected the Bismarckian social insurance approach in favour of a tax-financed, universal approach based on citizenship and need. This approach was more or less followed in subsequent legislation (Petersen 1985). Until the 1950s, discourse about social protection was often phrased in insurance terms, but materially, social protection was rarely based on any logic of insurance (Petersen 2001).

Pensions

In the field of old age pensions, discretion with regard to eligibility and entitlements were replaced by fixed rules, in particular from 1922, and the target group of benefits gradually increased from little more than one-fifth to include the entire population as recipients of "the people's pension" from 1956. Flat-rate pensions for everybody were introduced in 1964 and fully implemented by 1970.

By that time, Denmark had fallen behind in Scandinavia. In the 1960s, the other Nordic countries had reached the next stage and introduced earnings-related supplementary pensions. This was also debated within the Social Democratic party in Denmark, but there was much resistance, not least among rank and file members who preferred improvements of the people's pension (Albrekt Larsen, Goul Andersen 2004). Only a small, employment-related but not earnings-related contributory supplementary pension (ATP) was introduced in 1964 (see figure 2.2.2 below). This left the pension system in a state of flux which was never really settled until the expansion of occupational pensions among the new middle classes had *de facto* eliminated the possibility of introducing public earnings-related pensions.

However, the level of the Danish flat-rate pensions was considerably higher than the minimum pensions in the other Nordic countries. Indeed, until 1970, Denmark had the highest *average* compensation rate (Korpi 2002). Moreover, an extremely generous housing benefit scheme for pensioners was adopted in 1978, followed by a subsidy for heating in 1981 (Goul Andersen 2008a). These two elements, which were formally financed by tax contributions to a "Social Pension Fund" (accumulated from 1970 to 1982), secured a very high *de facto* minimum level of living for pensioners, roughly equivalent to maximum unemployment benefits for a single pensioner (Goul Andersen 2007b, 2008a). This was the point of departure for further pension reforms from the mid-1980s.

Unemployment and voluntary early retirement

The Danish unemployment benefit system is based on the so-called Ghent model of voluntary state-subsidized unemployment insurance which dates back to 1907 when unemployment insurance funds (mutual help organizations with a long pre-history) recognized by the state were granted a public subsidy (Pedersen 2007). In principle, voluntary state subsidized welfare (Korpi, Palme 1998) is a liberal institution that has survived in Denmark (like in Sweden, Finland and Belgium) mainly because it provides a selective incentive for union membership (Rothstein 1992). However, in a Social Democratic context, it undergoes a conversion: the insurance element is strongly downplayed, access is made easier, the element of financing by contributions becomes negligible, and benefits become very generous (Goul Andersen 2007a).

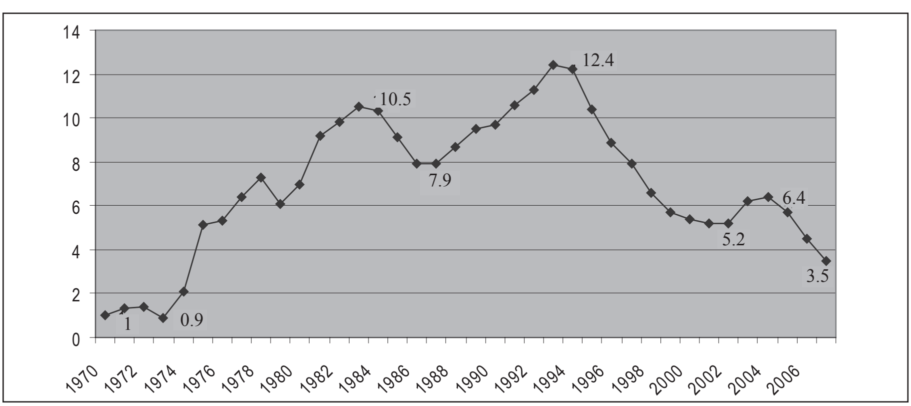
In Denmark, the full Social Democratic conversion of the unemployment insurance system was basically the outcome of a major reform that was fully implemented by 1972 (Pedersen 2007; Jonasen 1997: 73; Goul Andersen 1996). Contributions became the same across all unemployment insurance funds, regardless of unemployment risk. The state took over the marginal risk of unemployment – which meant that (tax-deductible) member contributions became negligible, relatively speaking, when the country was struck by mass unemployment from 1974 onwards. Access was nearly unrestricted (full benefit rights required one year of membership and 26 weeks of employment – including subsidized employment – within the last three years). Moreover, the replacement rate was raised dramatically, to 80 percent from 1970 and

90 percent from 1972, although with a ceiling. The duration was fixed at 2½ years, but this limit was suspended in 1976 and subsequently (1978-82) *de facto* extended to 8½ years as people could re-qualify twice by accepting a job offer for a subsidized job (Goul Andersen 1996; Albrekt Larsen, Goul Andersen 2004). After that, people could in principle re-qualify for another 8½ year cycle through 26 weeks of non-subsidized employment. Nonetheless, the relative proportion of long-term unemployed has always been low in Denmark (Goul Andersen, Jensen 2002).

The reformed unemployment benefit system was adapted to the entirely changed context of mass unemployment (see figure 2.2.1) which broke out immediately after the oil crisis of 1973/74. A key concern of welfare policy in the 1970s was to protect against social marginalization for those who had involuntarily become victims of unemployment. This included strong efforts to maintain people within the unemployment benefit system, as the alternative would be means-tested social assistance.

The social assistance system was also thoroughly reformed by a new law in 1976. This allowed very much help on an individual basis and on discretion, based on the premise that social assistance was for a relatively small group with complex problems – typically in a transitional stage from where they should be helped back to employment or out of the labour market to a permanent scheme like disability pension. However, the reformed social assistance also came to function in a context of mass unemployment where the level of benefits eventually became fixed (e.g., 60 percent of maximum unemployment benefits for a single person, with supplements for children, special expenses, etc).

Figure 2.2.1: Registered unemployment, 1970-2007. Percent of labour force



Note: Calculated as full-time unemployed (based on the method applied by Statistics Denmark until 2007). Survey-based standard unemployment rates (SUR) are usually a bit lower. 2007 figure refers to third quarter.

Source: Statistics Denmark, Statistisk Tiårsoversigt, 1980ff. (Goul Andersen, Pedersen 2007).

From 1979, a new voluntary early retirement allowance scheme was introduced for people aged 60 years or more, provided that they had been members of an unemployment insurance fund for a number of years. This contribution period was gradually extended, but at the same time, the early retirement allowance (labelled "efterløn" – "after wage") was raised to maximum unemployment benefits for the entire period until the official pension age of 67 years (from 2004: 65 years).

Finally, disability insurance was also thoroughly reformed in the 1960s and early 1970s. Like old-age pension, disability pension in Denmark has never been formally linked to employment (even though take up rates were in practice higher among people with an employment record). When disability insurance was introduced in 1921, it was linked to health insurance (which, in turn, was open to all citizens regardless of employment status). In the 1960s, disability pensions were improved (granted at different levels, as it was assumed that people who were less than fully disabled were able to exploit the rest of their ability to work). However, as disability pensions are not earnings-related, they have remained less generous than in the other Nordic countries. In the 2003 reform (agreed upon in December, 2000), disability pensions were brought into line with maximum unemployment benefits (plus supplements for extra expenditures; less for couples).

Health insurance

Like unemployment benefits, health insurance has a long history that reaches back into the 19th century in the shape of private mutual help associations (sometimes even covering pensions). But from 1892, a voluntary state-subsidized model was introduced for people with low incomes. However, as in the case of unemployment benefits, this liberal institution was gradually converted to a Social Democratic one. From 1933, membership became mandatory for all citizens aged 21-60. Support remained means-tested, but was gradually extended, and so were state subsidies. When the system was formally abandoned in 1971 in favour of a universal public health insurance financed exclusively by ordinary taxes, this was primarily an administrative reform, not a matter of redistribution (except for the full inclusion of the better off).

Since 1971, health care in the primary sector and in hospitals has been completely free of charge. Overall, private financing is low, but for historical and more or less accidental reasons, subsidies for dental care are low, and the same holds for subsidies for medicine. Unlike in Sweden, the primary sector is run by independent GPs working as ordinary self-employed, but treatment is financed directly and 100 percent by the state according to a collective agreement.

Social services

Probably the most important change in the Danish welfare state in the 1960s and 1970s was the defamilialization (Esping-Andersen 1999) and the socialization of care functions from the family. From 1965 to 1980, a huge majority of married women became gainfully employed, often in part-time jobs. From 1980 onwards, part-time employment was largely replaced by full-time (or nearly full-time) employment. This development went hand in hand with a thorough socialization of care functions. Since 1992, elderly care is free and is provided for around 25 percent of all people aged 65 or more – half of whom receive only "practical assistance" for cleaning etc., however[1]. Pre-school child care is delivered at low costs (by 2007 a maximum of 25 percent of total cost for the first child[2], and a 50-percent rebate for siblings). Due to reduced growth in the public sector, there was a shortage of child care facilities in the 1980s; this was largely caught up in the following decade, and around 2000, most municipalities could provide a guarantee. Since 2006, this has been a legal requirement as municipalities are obliged to provide care for all children between 6 months and school age if the parents want it. Needless to say, there has also been a vast expansion of education which is tax-financed and free at all levels (with the exception of a few exotic educations which are not authorized). Students after high school level receive a very generous student's allowance (8050 euro annually by 2008), regardless of parents' income[3].

Compared to other countries, Denmark and the other Scandinavian welfare states have been characterized since the 1960s by an extraordinary emphasis on social services whereas expenditures on social transfers are about average for the affluent welfare states.

Administrative reform

The administrative structure of the Danish welfare state is pretty simple. A municipal reform in 1970 concentrated nearly all administration of the welfare state at two levels: the county level (health care, secondary education and a few specialised care functions) and municipal level (the rest). The municipal reform was followed by a consolidation along these lines. This structure remained intact until 2007, when the number of municipalities was reduced from around 270 to 98. The 14 counties were replaced by five regions which remained in charge of the health care system but lost most of their other tasks to the municipalities. Besides, the regions lost their right of taxation. This means that the municipality is strongly consolidated as the level where the citizen meets the welfare state.

[1] The number of hours allocated to practical assistance has been cut significantly by some 35-40 percent since the mid-1990s (Nielsen, Goul Andersen 2006).

[2] In the compromise over the 2008 Budget and in the negotiations with the municipalities in 2008, the maximum was raised to 28 and 30 percent, respectively – the latter in return for a free meal for the children.

[3] Those (very few) who live with their parents receive about one half of this amount. For students at high school level who live with their parents, the basic amount (from the age of 18) is small, but there is a means-tested supplement tested on parants' income.

Outcomes

Together, the abovementioned institutional characteristics describe a welfare state that was very much dominated by public institutions – with the exception of GPs and a relatively high proportion of private schools (with a history back to the 1850s and based on alternative values more than on class biases). Around 1980, the level of relative poverty was extremely low, even among long-term unemployed, and the level of equality was correspondingly high (Goul Andersen 2003). Taxes and public expenditures were very high, but not subject to much criticism among ordinary people, even though the extraordinary expansion under the Bourgeois government in 1968-1971 had previously elicited a tax protest and even given rise to an anti-tax party, the Progress Party. In the early 1980s, however, that party was rapidly en route toward extinction (Glans 1984). Its successor, the influential Danish People's Party, has mobilized its support primarily on the issue of immigration, but it has also adopted a sort of "classical" Social Democratic welfare policy and gives strong priority to welfare over taxes.

2.2.2. Reforming the Danish welfare state 1982-2007

Broadly speaking, the reforms of the Danish welfare state can be divided into three stages. In the 1980s, the main purpose was cost containment and efforts to escape severe economic imbalances, but few institutional changes took place. From 1992/93, cost containment was softened, and the cumulative growth of public services over the next 15 years reached about 35 percent in real terms. However, there were profound changes in labour market and pension policies, as well as in the underlying paradigms and concerns. Several changes at the third stage since 2001 have continued previous reforms. However, they also include more emphasis on economic incentives (including negative sanctions), on a choice revolution and competition in public services, and on immigration-related issues. In addition, corporate taxes and taxes on labour have been lowered to about an average EU-level (OECD 2008).

Economic crisis and cost containment without institutional reforms (1982-1992/93)

During the 1970s the challenge of unemployment was largely countered by efforts to increase demand for labour power (including the expansion of public service employment) and to reduce the labour supply through longer holidays, shorter working hours, and early retirement. However, nothing seemed to work. Around 1982, the inflation and unemployment rates were about ten percent. Moreover state deficits in 1982 were above ten percent of GDP, and both state and foreign debt was exploding (Goul Andersen 2000). There was a widespread crisis awareness coupled with recognition that something had to be done. This also included willingness to accept hitherto highly unpopular approaches (Petersen et al. 1994).

Less than one year after the 1981 election, the Social Democrats had to give up power because the pivotal party – the Radical Liberals – had withdrawn their support, and government was handed over to the Conservative leader Poul Schlüter, who remained in power as Prime Minister for more than 10 years. The government adopted some harsh measures during its first years in office, including:

- abolition of the automatic indexation of wages
- introduction of a fixed currency value and liberalization of international capital movements
- a temporary freeze (for three years) on all social benefits except pensions (partly compensated in 1987/88)
- zero growth in public services obtained through fixed budgetary frames
- increasing members' contributions to unemployment insurance and increasing after-tax payments by reducing deductibility.

Basically, it was the aim of the Conservative-Liberal government (which included two centre parties until 1988, and another one in 1988-90) to assign priority to growth in the private sector through improved competitiveness and increasing exports, and to constrain public sector growth as much as possible. From 1985-88 the government temporarily took a centrist position, only to switch to a radical neoliberal course from 1989-92. It explicitly rejected Keynesian stabilization policies and emphasized the distortionary effects of taxes. But in particular, it launched a new supply-side paradigm in 1999 (introduced by the Danish Economic Council one year earlier) describing unemployment as largely structural and rooted in mismatch problems, in particular inordinately high minimum wages and overly generous benefits.

The Conservative-Liberal governments managed to keep growth in public (service) consumption at a very low level – an accumulated growth of only about 6 percent in real terms from 1982 to 1992 (Goul Andersen 2007a). But the governments did not accomplish much in institutional terms. In particular, they did little about the unemployment benefit system, apart from a few modifications for young people on social assistance (Albrekt Larsen, Goul Andersen 2004).

At the same time, a number of changes in the 1980s moved in the direction of stronger universalism: means-testing was softened or abolished in a number of instances (Goul Andersen 2000). Universal child benefits, introduced in 1903 as a tax deduction and changed to a universal benefit in 1970, had become means-tested in 1977, but were changed back into a universal benefit from 1987. Highly generous benefits for students above 20 were made independent of parents' income from 1985. Home help services were made universal and free of user charges from 1992. Maternity leave was extended to 26 weeks in 1985. And deductions for supplementary income in pensions were reduced in the late 1980s and early 1990s.

Finally, it is worth noticing that from 1991, most social benefits have been indexed to wages rather than prices, albeit with small technical modifications which tend to deduct about 0.5 percent annually[4]. Altogether, this means that there has been a slow, long-term decline in compensation rates for average workers, but much less so for people with low incomes. In practice, unemployment compensation has become a flat-rate benefit that provides very generous support for low-income workers, but low compensation rates for people with above-average earnings (Clasen et al. 2001).

Changing labour market and sustainable pension policies in the 1990s

A paradigm shift in labour market policy towards a supply-side perspective took place almost over night in 1989, when the government issued a white paper on the "structural problems on the labour market". From then on, unemployment was considered largely structural, mainly because of mismatch between minimum wages and productivity, mismatch between the supply and demand for skills on regional labour markets, or disincentives to work. The conclusion was that it would be impossible to obtain any substantial reduction of unemployment without structural reforms. The only effect of stimulating the demand for labour power would be increased competition for the labour power of those already in employment, or in other words: wage inflation. Unexpectedly large wage increases in 1987 were interpreted as evidence that the structural (or "natural") unemployment rate – the Non-Accelerating-Wage-Rate of Unemployment (NAWRU; see Elmeskov, Macfarland 1993) – had increased to 8 percent or even more.

Because the Bourgeois governments were unable to obtain a majority in parliament, the only immediate effect on policy was the failure to do anything about unemployment. Nevertheless, the paradigm shift served to shape subsequent policies. When the Social Democrats returned to office in 1993 they did not embark on a neoliberal course, but they developed an active labour market policy that was in accordance with the new paradigm, as it could be seen as a functional equivalent. Rather than adapting minimum wages (and, accordingly, social protection) to productivity among the lowest skilled, the Social Democrats wanted to raise skills to a level that could justify the high minima. Besides, the party wanted activation tailored to the demand for skills on regional labour markets. The duration of unemployment benefits was fixed to seven years, and re-qualification for benefits required non-subsidized employment.

[4] If wage increases are above 2.3 percent, 0.3 percent of the increases in social transfers are paid to an (accumulating) account financing special initiatives for people receiving transfer incomes, and technicalities with regard to weighting account for roughly another 0.2 percent. This is a rather sophisticated form of obfuscation which has gone unnoticed even in nearly all economic calculations (Goul Andersen 2004; Det Økonomiske Råd 2005: 114). It should furthermore be noticed also that calculations are based on *annual* wages *excluding pension contributions*. If wage earners prefer to have shorter working hours or improved pensions instead of wage increases in collective wage negotiations, social transfers are not regulated.

ALMP and the increasing conditionality of benefits

In 1993, however, the short-term concern was to reduce unemployment immediately. Therefore emphasis was on new leave arrangements (parental leave, educational leave, and sabbaticals – for the unemployed, also), on creating an opportunity for long-term unemployed above 50 to retire at favourable conditions, and on voluntary activation according to individual action plans (Goul Andersen 2002a). However, from 1994 towards the end of the decade, activation was made mandatory, the duration of unemployment benefits was gradually reduced from seven to four years, and sabbaticals and educational leave were dropped. Evaluations of the employment impact of activation were disappointing, and rather than a source of qualification and motivation, activation came increasingly to be seen as a sort of deterrent that could force people to seek a job. At the same time, the requirements to actively seek any job, and the duty to accept long commuting time, etc., were strongly tightened.

Borrowing a term from Clasen (2005: 16), one could say that the main direction of these changes was towards increasing conditionality. Among social assistance claimants, these requirements were equally strong. In return, there was little retrenchment in economic terms for those unemployed, and there were only few people dropping out of the unemployment benefit system to social assistance; the proportion of (registered) unemployed receiving unemployment benefits in fact increased to around 80 percent. It is also noteworthy that the driving force behind the tighter rules was not that of economic pressures, as it is usually assumed in the literature about retrenchment. Rather, it was the improved employment situation. From 1994 to 1999, unemployment rates were halved.

Yet another change was the modification of the early retirement allowance in 1998. The allowance was reduced by 9 percent for 60-61 year-old recipients who also faced a greater deduction for private pension savings other than labour market pensions. Moreover, the contribution to unemployment insurance and early retirement allowance were separated and increased. The required contribution period was extended to 25 years. Finally, a premium for non-take up was introduced. This reform was not only unpopular, but it also broke with promises made during the election campaign nine months earlier. As a result, support for the Social Democrats in opinion polls was temporarily halved (Goul Andersen 1999).

The emphasis on “work first” and on employment as *the* indispensable means of social inclusion was carried over to other fields as well. The disability pension system was reformed in a broad political agreement in 2000, mainly by simplifying the number of levels of benefits, as the opportunities to exploit a small percentage of ability to work had become more and more theoretical. But access was also strongly restricted such that transition to the disability pension was only granted as the last possible solution. It is difficult to tell whether this has worked, or if it is the employment situation which has worked. Whatever the case, the number of disability pensioners has not increased for more than a decade, in spite of very large age cohorts in their 50s, and in spite of the simultaneous restriction of access to early retirement allowance.

Pensions

The 1990s was also the period when Denmark definitively changed its pension system from a "people's pension" system to a multipillar system. Actually, this transformation took place silently, without any legislation, for the most fundamental element was the introduction of labour market pensions negotiated in collective agreements between the social partners. In the long run, this addition of another layer will (most likely) make the fully funded, contributory, semi-mandatory (but formally private) labour market pensions the backbone of the pension system. At the same time, however, the people's pension and various supplements remain important for people with wages below average, not to mention people with a bad employment record. Means-tested supplements have even been improved and now ensure an unusually high *de facto* minimum for pensioners.

It is difficult to identify the point of no return in the process towards a multipillar system. The very first labour market pension agreement emerged around 1900. In the 1950s and 1960s, these arrangements mushroomed in the health care sector, and later they spread to more and more groups of public and private employees. By 1985, they had grown to such an extent that it was more or less impossible to introduce an earnings-related second tier in the public pension system as in the other countries. However, a window of opportunity suddenly emerged in the mid-1980s. The government was strongly interested in any reform that could increase the level of savings because of Denmark's permanent balance of payment deficits. The unions had worked for economic democracy with union-controlled funds for more than a decade without any results. And in 1984 where fertility reached a low point, the first long-term population forecast predicted a rapid ageing of the population, something which convinced the unions that further pension improvements via the people's pension were unlikely. In this situation, the government gave a signal to the unions that it would welcome new collective pension savings. The chief economist of the unions, later the Social Democratic prime minister Poul Nyrup Rasmussen, got the hint and elaborated a proposal for labour market pensions. In 1988, a labour market pension commission worked very fast to establish an analytical foundation, but it worked under the premises that it was to consider an additional layer only (Albrekt Larsen, Goul Andersen 2004).

In 1989 the Association of Municipalities and the Conservative Minister of Finance Palle Simonsen (shortly before his resignation in protest against the rightward turn in government), signed a collective agreement with the public sector unions according to which labour market pensions were introduced for nearly all public employees who did not have a labour market pension already. By 1991, a pension scheme was also included by most unions in the private sector as part of the collective agreements, and most of the rest followed in 1993. The original long-term target for the new schemes was somewhat lower than in most schemes before 1989. The target was 9 percent – of which 3 percent was to be paid by employees, 6 percent by employers. It was completely uncertain whether this target would ever be reached, but in one negotiation after the other, contribution rates were gradually raised, and within little more than a decade, the 9 percent target had been reached. The target was subsequently raised to 10.8 percent, and by 2009, most agreements will have reached the target of 12 percent. This is probably enough to make labour market pensions the backbone of the future pension system – and not very far from the 15-20 percent that is the standard for upper middle class groups.

Figure 2.2.2: The Danish Pension System. 2007

<table>
<tr><td rowspan="2">Pillar 1 A.
Tax-financed public pensions</td><td>People's Pension</td><td>a) Basic amount
b) Pension supplement</td><td rowspan="4">Tax-financed/ Pay As You Go</td></tr>
<tr><td colspan="2">Supplementary pensions benefit*</td></tr>
<tr><td rowspan="2">Pillar 1 B.
Schemes targeted at old-age pensioners only</td><td colspan="2">- Housing benefit for pensioners**
- Support for heating for pensioners</td></tr>
<tr><td colspan="2">Other individual supplements
Tax exemptions and rebates</td></tr>
<tr><td>Pillar 1 C.
Fully funded public pensions</td><td>Supplementary pensions (contributions, funded)</td><td>ATP
SP (suspended)</td><td rowspan="3">Funded: Financed by pensioners (but tax subsidy via deductions)</td></tr>
<tr><td>Pillar 2.
Collective Contri-bution financed private pensions</td><td colspan="2">Labour market pensions (collective agreements)
(Civil servants' pensions***)</td></tr>
<tr><td>Pillar 3.
Individual voluntary private pensions</td><td colspan="2">Other private pensions</td></tr>
</table>

Notes: Grey colour: means-tested schemes. * Income-tested supplement. Maximum support is about 1050 euro annually (2008), will rise to 1340 euro from 2009. ** A special housing benefit scheme for pensioners adopted in 1978. Maximum support is about 5000 euro annually (2008). *** Civil servants' pensions have typically been replaced by labour market pensions. Those schemes which remain in municipalities are often re-assured by the municipality's payment of contributions to a a Municipal Pension Insurance Fund in order to avoid excessive expenditures in the future. And even though civil servants' pensions are in principle defined benefit pensions, the calculation normally makes them almost equivalent to labour market pensions.

Source: Goul Andersen 2007b

Curiously, within little more than a decade it proved possible to overcome the so-called "double payment problem" where current wage workers pay for the pensions of the older generation while at the same time financing the bulk of their own pensions. The government had promised some supplementary legislation, but apart from investment rules, this legislation was never adopted. In other words, the century's biggest pension reform was carried through as an incremental change – more specifically, by so-called layering – without legislation.

It is a matter of some dispute whether funded pensions can solve the problem of financing future pensions; at least in a closed economy, this is argued to be difficult (Barr 1998). However, money from Danish pension funds are invested worldwide, and labour market pensions are generally considered to have contributed much to ensuring adequate and sustainable pensions in the future. The pension system that has emerged is very complex, but it certainly provides a great relief for the state's financial obligations in the future. And it actually satisfies the concerns of the World Bank (1994) while maintaining a much better poverty protection and a much higher level of equality than most other systems (Ploug 2001; Larsen, Goul Andersen 2004; Goul Andersen 2007b; Green-Pedersen 2007). An extremely favourable housing benefit scheme and heating support for pensioners (adopted in 1978 and 1981, respectively) contributes very much to this, alongside a means-tested supplementary pensions benefit (introduced in 2003 and gradually increased). The minimum level for a pensioner who is a tenant (except for people with less than 40 years of residence) is roughly equivalent to the maximum unemployment benefits if the housing benefit is taken into account (Goul Andersen 2007b). In terms of equality and poverty, the Danish system seems to compare favourably with the reformed Swedish public system, which is a pure *defined contribution* scheme with a minimum guarantee (West Pedersen, Finseraas 2008).

The Danish pension reform is a radical instance of incremental reform by layering and differential growth (Streeck, Thelen 2005). However, it remains to be seen what the future holds. The pension system is anything but stable. An additional layer of contributory, fully funded public pensions ("special pensions savings") has been suspended since 2004, and a new tier of highly means-tested supplementary pensions was added in 2003. There are quite a few among policy elites (including the "Welfare Commission", working in 2003-06, and the Economic Council in 2008) who have argued that special arrangements for pensioners such as the preferential housing benefit scheme should be terminated (Det Økonomiske Råd 2008). And gradually, the proportion of pensioners being dependent on the "people's pension" will decline. This group will become more and more weak in terms of political resources and it may lose much backing as the better-off segments of the population care less and less about this basic pension. In other words, the high *de facto* social minimum for pensioners rests on rather uncertain foundations.

Incentives, New Public Management and Tax Relief after 2001

In the 2001 election, the Social Democrats lost office to a Liberal-Conservative government, partly because of the issue of immigration, but also because the Liberal party had modified its ideology substantially and was speaking very positively about welfare. Also since 2001, the government has actively sought a pro-welfare image – occasionally almost an image of lavishness. However, supported by good economic conditions until 2007, and substantial oil revenues, the government has found money both for moderate expenditure increases and for tax relief. In spite of this weakening of finances, the government maintained a huge surplus in the state budget, one that amounted to an average of 4.5 percent of GDP from 2005-2007.Welfare policy changes are largely in continuation of those under the former government, but there are also some significant breaks.

Labour Market Policy: incentives, sanctions and reorganization

In the field of labour market policy, a major reform labelled "More people to work" was adopted in 2002 with the support of the Social Democrats. The reform contained numerous small tightenings in continuation of previous reforms in 1993, 1995 and 1998. A new element, however, was a reduction of social assistance after 6 months for spouses, and lower ceilings for social assistance to families with high expenses. The purpose was to make sure that there would always be an incentive to take any job. This was carried even further in the 2005 reform "A new chance for all", which was originally supported by the Social Democrats. However, they withdrew their support when the agreement was spelled out in new rules. The most significant new element was an obligation for couples receiving social assistance to have at least 300 hours of ordinary employment over a two-year period in order to maintain support; only a minority considered *completely* unable to work (the lowest among five "matching groups") was exempted. An even more radical measure was the introduction in 2002 of a so-called "start assistance"/ "introductory assistance" for non-EU immigrants[5], which was some 30-50 percent below ordinary social assistance (Goul Andersen 2007c). All of these measures affecting social assistance recepients were *de facto* directed mainly against immigrants. Besides, the requirements regarding active job search have become extremely strict for people receiving unemployment benefits.

Taken together, conditionality has increasingly approached "workfare" (Lødemel, Trickey 2002; Goul Andersen, Pedersen 2007). Thus, to quite a large extent there has been a *conversion* of the system to new goals, steered by explicit rules as well as by informal signals from the government apparatus.

[5] This also includes Danish citizens returning from non-EU countries.

Still, apart from government preferences, the most important driving force for change was no doubt the shortage of labour power. In this field, prosperity seems to have stronger impact on change than austerity.

By 2008, it is even tempting to speak of a liberal conversion of the unemployment benefit system. Previously, the costs were largely paid by the state. Members' contributions played a negligible role. However, contributions were raised in the 1980s, and with ever lower unemployment since 2005, state support has declined rapidly. By 2008, the state even seems to be earning a profit. To some extent, one may speak of a conversion back to a liberal system, but unlike the increasing contribution rates in the 1980s, the development in 2005-2008 was unintentional – and to some extent in accordance with the principle from 1970/1972 that the state should carry the marginal risk of unemployment.

After the municipal reform 2004-06, there has also been major change in the administration of the active labour market policy (ALMP) (Madsen 2006). The state-run job offices for those receiving unemployment benefits are amalgamated with the municipal system for social assistance clients into municipal *job centres*. The effects have been limited by the fact that in most municipalities, administration remains divided (Breidahl, Seemann, forthcoming), but in 2008 it was decided during negotiations over the 2009 state budget to introduce a completely unitary municipal system from August 2009. The corporatist bodies of the new regions (reduced from 14 to 5) have only advisory competence under the new structure (Jørgensen 2006). Further, the government has welcomed private providers and tried to generate quasi-markets for activation projects, although this so far remains under-developed as compared to the Netherlands or Australia. The public employment agency still has responsibility for 2/3 of all insured unemployed; and among "private" providers, the labour movement has until now been a key actor (Bredgaard, Larsen 2006).

On the other hand, the relatively generous rules have been maintained regarding the duration and compensation rates for people with (very) low incomes. Shorter duration and/or declining compensation for long-term unemployed is often proposed. Depending to quite some extent on working-class support, the government has avoided such measures and has welcomed the legitimization provided by the idea of flexicurity, that is, the institutional complementarity of generous benefits, low protection against unemployment, and active labour market policy.

All in all, ALMP in Denmark can be seen as a battlefield between "welfare" and "workfare", but the pendulum has obviously moved towards "workfare" since 2001, partly because of the economic situation with the shortage of labour power, partly because of the changed political situation with a right-shifted majority – which in this respect also includes the Danish People's Party, even though the party adheres to classical welfare policies in most other fields.

Postponement of retirement

As mentioned, the Danish early retirement pension system was changed in 1998 in order to make it less attractive to retire at the age of 60. After this reform – and voter reactions – it was expected that the rules would not be changed in the foreseeable future. However, after three years of softening resistance by means of a "Welfare Commission" appointed by the government to study the challenges of ageing and globalization, the welfare reform in 2006 postponed early retirement to the age of 62 (and early retirement on more favourable conditions from 62 to 64) as from 2019-22. Five years thereafter, retirement age would be raised to 67. In an amendment, however, it was agreed that the future retirement age should be fully indexed to life expectancy at 60. If this agreeement is kept, it will probably bring early retirement age to 65 and pension age to 70 for people born after 1970 (Goul Andersen 2007b). This was supported by all the major parties, among whom some apparently failed to recognize how far-reaching this was.

Welfare services

The bourgeois government 1982-93 had one overriding concern: cost containment, in particular for public services. With zero growth in output and a calculated annual productivity gain (incorporated in budgets), this should reduce the number of public employees (Schlüter 1982). The Liberal-Conservative government after 2001, however, has adopted a much more positive approach, stressing the need for a better, but by no means smaller public sector. Retrenchment has been replaced by restructuring.

Already in 1983, the government introduced its first "modernization program" (Bentzon 1988) which contained a number of elements of what later came to be known as *New public management* (Hood 1991; Greve, Ejersbo 2005; Greve 2007; Christiansen 1998) and became disseminated across modern welfare states, e.g., by the OECD. Some elements were further developed under the Social Democratic governments. By 2002, however the Liberal-Conservative government launched a new modernization program which has subsequently been implemented, *inter alia*, in a reform of the Danish elderly care system (2002). To quite some extent it has also been underlying the municipal reform (2004-2006) and a proposed quality reform (2007), even though it should be stressed that policies have been pragmatic and not theoretically coherent.

The main point of the 2002 program is that, wherever possible, services should be exposed to competition and consumer choice by generating quasi-markets. The underlying premise is that there is little difference between public and private service "production", and that principles of management from the private sector can be transferred to the public sector. Competition requires a separation of buyers and providers of welfare – where the latter should in principle function as private companies and be paid according to performance, as agreed upon in a contract. Consumer choice requires information about quality. It is also assumed that obtaining efficiency becomes easier if wages are more individualized and less compressed. Control and/or incentives are needed to avoid "sharking" among public employees ("agents") vis-à-vis their employers ("principals"). This requires institutional change.

In the 1980s, modernization efforts were mainly focused on cost containment and better management (decentralization and stronger management, contracting, output controls). Since 2001, the main focus has been on marketization (competition, user fees and outsourcing), and on "de-bureaucratization" (Greve, Ejersbo 2005). In terms of user influence, the reforms of the 1980s included increased user influence through *voice* (in particular, elected user boards wherever possible), whereas the 2002 program is more about consumerism and *exit*. In practice, voice and exit have worked together well to date (Goul Andersen, Hoff 2001; Goul Andersen, Rossteutscher 2007; Goul Andersen 2008b). Reforms have also included a few "cash for care" elements, but due to the high full-time employment frequency, potentials for such reforms appear small. Outsourcing, on the other hand, is favoured by the Liberal-Conservative government, and after a slow beginning, it is expected to move upwards. For instance, in the 2007 economic agreement with the municipalities it was agreed to increase outsourcing from 20 to 25 percent before 2010. Because of the critical discussions about outsourcing in the 1980s, it has become important for governments to underline that outsourcing is not aimed at saving money, only at improving quality. Furthermore, outsourced services are often exposed to so much critical media coverage and government control that firms do not regard this market attractive. For instance, after some negative experiences, firms have almost completely dropped the market for childcare.

Vouchers are different as they allow users to choose, usually between private and public providers (as in elderly care), sometimes only between public providers (as in health care – unless waiting lists are too long). Vouchers have expanded "from above", not as a result of demand "from below". Consumers have even had to "learn" being consumers (Rostgaard 2006). Still, vouchers are very popular among voters who see it as an extension of social rights (Goul Andersen 2003). Public employees are critical of vouchers but often find it difficult to argue against them because users can choose public alternatives if they want. This may also explain why the media have seldom been critical of vouchers.

Until about 2005, Denmark was successful in containing costs for health care. As percent of GDP, health care expenditures were lower in 2005 than around 1980 (Goul Andersen 2007a). This does not reflect increasing user fees, but efficient budget controls. Since 2002, however, there has been increasing emphasis on patients' rights. If the public system cannot provide treatment within two months – by 2007/08 reduced to one month – they have the right to treatment at a private hospital. This has increased outsourcing to private hospitals, but at unit costs equivalent to those at public hospitals. Allowing the treatment delivered to depend on demand rather that deciding on supply tends to increase expenditures considerably, and political-institutional factors may pull in the same direction. Until 2006, counties were responsible both for financing and management of health care, but from 2007 elected politicians in the regions are only responsible for management. Arguably, this means that region-level politicians are turned into one-sided expenditure advocates. In the 2008 negotiations with the regions, however, the government has been more focussed on the need to control total expenditures in the health care sector, but it remains to be seen how it will work.

Finally, the government has encouraged a spread of private health insurance by making the premiums deductible for companies (”fiscal welfare”). This has implied a dramatic growth in this tax-subsidized fringe benefit. Of course, this may also provide some relief to public health care expenditures, but until 2008, the weakening of political control over total budget frames has tended to lead to a strong upward drift in expenditures.

The most significant marketization of welfare services has taken place in home help services. In 2002, municipalities were forced to calculate a unit price, invite private producers to compete for delivery, and provide the elderly with a free choice between public and private providers. Private “for profit” producers are gaining an increasing share of the market – some 20 percent of the “customers” by 2005 – but they are mainly in the field of practical assistance, so the share of the total number of hours worked has remained below five percent (Nielsen, Goul Andersen 2006). Free choice is popular (although not the highest priority), and user satisfaction is slightly higher among those using private providers; surveys reveal that they are considered somewhat more responsive and flexible. Private providers can also compete by offering additional service against payment – an opportunity which municipalities do not have. But this has remained quite limited.

It remains to be seen what will happen in child care. Unlike in Sweden, private “for profit” providers have failed in the field of child care in Denmark (Udliciteringsrådet 2004, 2005). Public attention and controls simply made it unattractive for producers. A reform in 2005 made it easier to establish private institutions which could decide on their own standards and impose higher user charges. It remains to be seen whether this will lead to the establishment of “luxury kindergartens” in rich quarters, and whether this will pave the way for private “for profit” interests, but by the end of 2007 it seems that more than 100 private kindergardens have been established[6].

Still, the most important change in this policy field is the obligation for municipalities to provide public childcare for anyone in need. Further, unlike in

[6] See http://www.tryktenyheder.dk/DK/12/private_boernehaver/2547/ and http://www.dr.dk/P1/orientering/indslag/2008/07/04/165235.htm

the 1980s and 1990s, when unemployed people were encouraged to have their children at home, the goal of integrating immigrants means that unemployed people are now increasingly encouraged to send their children to nurseries and kindergartens in order to learn the language better and in order to alleviate "negative social heritage" (Goul Andersen 2007c). Finally, as mentioned, user charges were reduced from a maximum of one third of the costs to a maximum of one fourth, but these limits are moving a bit upwards from 2008.

Like childcare, education belongs to the "social investment" part of the welfare state, and except for a few economists, even die-hard neoliberals haven't challenged the principle that education at all levels should be free of payment, at least if they provide some formal competences. Not even the highly generous student allowances have been seriously challenged. Further, new rebates on commuting and improved support for students with dependent children have been introduced.

By tradition, user influence in schooling is very high, comparatively speaking (OECD 2004). In the first place, all schools are directed by user boards with a majority of parents. Secondly, there is free choice not only between public schools in the municipality (and between municipalities if possible), but also between public and private schools. Since the 1850s Denmark has had a unique tradition of "free schools", which can be established for pedagogical, religious, political or ethnic reasons and can receive public support. The fees to be paid by parents constitute on average about 100 euro per month (OECD 2004). There are also a few boarding schools with upper-class recruitment, but these are the exception. Even though there are social biases in recruitment to private schools, they only reflect differences in education, not in income (Jørgensen 2007).

To sum up, the major institutional change since 2001 is the choice revolution everywhere in the public sector, guided by *new public management* philosophies, but "exit" is mixed with "voice", and at least until now, the choice revolution has in practice been more about providing an outlet for dissatisfaction and individual preferences than about transforming services to a marketplace.

Taxation

As mentioned, the Danish tax structure is unique inasmuch as social contributions and payroll taxes are virtually absent. The 1994 tax reform included the introduction of a "labour market contribution" of 7 percent. This should serve three purposes: to broaden the tax base, make income taxes less visible, and provide an opportunity to switch to a more Continental European tax system if necessary. It was meant to increase further, but it was immediately dubbed "gross tax" by the opposition. It became unpopular, and was only increased to 8 percent. Even though it is formally a social contribution and formally covers labour market expenditures, it bears little resemblance to social contributions: earmarking is purely formal, and there are no individual rights whatsoever attached to these contributions. The only resemblance is that the tax is levied only on labour income. By the same token, a "health contribution" of 8 percent introduced in 2007 is only a replacement for the taxes to the county level. This tax is levied on all incomes, however.

Since 1985 there have been efforts to lower taxation on labour (Albrekt Larsen, Goul Andersen 2004). This holds in particular for marginal taxes, which were at that time up to 73 percent but subsequently lowered to a maximum of 63 percent. In three subsequent tax reforms (1985, 1993, 1998) the tax basis was broadened by reducing deductions (in particular, the tax value of deductions for interests was reduced from 73 to about 33 percent). At the same time, VAT increased to 25 percent, and "green" taxes were introduced. Throughout the 1990s there were innumerable small changes in taxes. This generated much dissatisfaction, and as a response, the Liberal-Conservative government in 2001 introduced a "tax stop" which meant that any tax could only be reduced, never increased. This means that the government has been unable to provide alternative sources of financing, but it has nevertheless continued to lower taxes on labour. As a consequence, taxes on labour have become very moderate in Denmark (see table 2.2.1).

Table 2.2.1: Combined income taxes* as percent of gross wage expenditure for various households (AW = Average Worker***). 2006.**

Countries	Single			Married, 2 children, 100+67 % AW
	67 % AW	100 % AW	167 % AW	
Belgium	49.1	55.4	60.7	48.0
Germany	47.4	52.5	53.8	45.3
Hungary	42.9	51.0	56.5	41.1
France	44.5	50.2	50.6	43.9
Austria	43.5	48.1	50.7	40.4
Sweden	46.0	47.9	54.6	43.5
Italy	41.5	45.2	49.8	40.8
The Netherlands	40.6	44.4	46.0	39.3
Poland	42.5	43.7	44.8	43.2
Finland	38.9	44.1	49.9	38.4
Turkey	42.0	42.8	44.7	42.5
Czech Republic	40.1	42.6	46.1	37.8
EU-15	**38.1**	**42.6**	**47.7**	**36.6**
Denmark	**39.3**	**41.3**	**49.5**	**36.1**
Greece	35.4	41.2	47.9	39.3
Spain	35.9	39.1	42.6	36.3
Norway	34.3	37.3	42.9	32.9
UK	30.4	33.9	37.6	29.0
USA	26.4	28.9	33.5	22.3
Ireland	16.3	23.1	34.2	14.0

Notes: * combined income tax: income tax+employee & employer contributions less cash benefits; ** gross wage expenditures includes all expenditures for wages and social contributions or payroll taxes etc. paid by the employer; *** new definition of average worker, except for Ireland and Turkey.

Source: OECD 2007, Taxing Wages. 2005-2006, table 1.1, p. 42

Table 2.2.2: Marginal tax rates* for various households (AW = Average Worker). 2006.

Countries	Single			Married, 2 children, 100+67 % AW
	67 % AW	100 % AW	167 % AW	
Belgium	71.2	66.4	68.4	66.4
Germany	60.5	65.9	44.3	62.9
Hungary	53.1	76.3	62.8	76.3
France	66.8	55.8	59.6	52.0
Austria	57.3	57.3	41.9	57.3
Sweden	50.7	63.4	67.2	63.4
Italy	52.4	52.4	58.8	52.4
The Netherlands	55.2	50.6	52.0	50.6
Poland	46.0	46.0	53.4	46.0
Finland	54.4	54.8	58.9	54.8
Turkey	44.5	44.5	49.4	44.5
Czech Republic	47.5	47.5	55.9	47.5
EU-15	**50.3**	**52.7**	**54.6**	**51.7**
Denmark	**42.9**	**49.2**	**63.0**	**43.7**
Greece	44.2	54.1	60.6	54.1
Spain	45.5	45.5	37.0	45.5
Norway	43.3	51.3	51.3	51.3
UK	40.6	40.6	47.7	46.5
USA	34.0	34.0	43.3	34.0
Ireland	31.4	33.2	49.9	33.2

Note: * Marginal tax is the proportion of the last unit of gross wage expenditures paid for combined income taxes (see definition of these measures in previous table).
Source: OECD 2007, TaxingWages. 2005-2006, table 1.6, p. 52

Even though the main target of tax relief 2001-2007 have been low and medium incomes (the 63 percent marginal tax was maintained), the changes in this period deviate from previous tax reforms by being less distributionally neutral. The simple explanation is that tax relief since 2001 has been almost exclusively targeted to people in employment. This includes two important elements: First, an "employment deduction" of 2½ percent (from 2008: 4 percent) which should "make work pay". It is with a relatively low ceiling, but unlike in work benefits/tax credits in some other countries, it is not targeted to people with low incomes – it is universal. The other element is a significant reduction in the taxes for mid-level incomes. Apart from labour market contribution (8 percent) and average municipal taxes/health contributions (32.6 percent by 2007), income taxes include a bottom level of 5.48 percent, a medium level of 6 percent, and a top level of 15 percent. However, in subsequent reforms, the lower border of the 6 percent tax has been pushed upwards, and from 2009, it will be coincidental with the lower border of the 15 percent tax. In other words, there will be only two levels from 2009: 5.48 percent and 26.48 percent. The latter is levied on annual incomes above 45,000 euro (2008 level).

As can be seen from table 1, this leaves average taxes on labour at a quite moderate level in Denmark, just around the EU-15 average, except for people with relatively high incomes (167 percent of an average worker income). For instance, for an average worker, it is more than 10 percentage points below Germany. It is also considerably lower than in Sweden. When it comes to marginal taxes, the deviance is even more outspoken. Marginal taxes for low- and middle income families in Denmark are unusually low.

So far, Danish voters have increasingly refused tax relief. Until 1994, there was a small majority who preferred tax relief rather than improvements of welfare, if the economic situation would make it possible to lower taxes (Goul Andersen 2008c). As from 1998, there has always been a small majority that prefers improved welfare. When taxes were lowered in 2003 (implemented from 2004), the climate of opinion changed rather dramatically, as nearly two out of three who had an opinion would prefer improved welfare. And by 2007, only about 20 percent preferred tax relief, whereas about 70 percent preferred improved welfare. Immediately before the 2007 election, the government adopted a new tax relief for 2008-09 in order to make it difficult for the Social Democrats to campaign on a promise to cancel the tax relief already granted. However, the Social Democrats did campaign on this issue, and on this point, it was supported by a significant majority of voters. Still, it seems that many voters believed it would be possible to have tax relief and improved welfare at the same time, due to the favourable economic situation. This was in fact what was offered by the government which won the election by a small margin,

However, voter opinion is one thing, institutions are another. With a sudden increase in marginal taxes by 21 percentage points once the threshold for the highest tax rate is passed (this is currently the case for about 40 percent of the full-time employed), there will be enormous psychological pressure to remove or at least soften this transition. After the 2007 election, the government announced the appointment of a tax commission to come up with a proposal for a significant reduction in marginal taxes – erroneously with the support of the Social Democrats. There is a clear promise that property taxes should not be raised, which means that unless the government wants to experiment even further with unfinanced reductions of taxes in a less prosperous economic situation, it will have to find financing in green taxes and other highly regressive sources of taxation. As is most often the case in Danish politics, the outcome of this is completely unforeseeable, but it is obvious that the current trend is towards increasing inequality, and that Denmark is quite likely to become even more of a "tax heaven" (as judged from a neoclassical economic point of view) that it already is.

It should be added that even though the tax reforms of the Social Democrats were always fully financed (although not always from the first year), the basic trend towards lowering marginal taxes on labour had already been commenced by the Social Democrats. This also holds for corporate taxes, which were lowered from 40 to 32 percent by the Social Democrats, and further to 25 percent by the Liberal-Conservative government.

2.2.3. European integration and the Danish welfare state

The changes in taxation have been influenced by neoclassical economic thinking on the one hand, and by the perceived need to adapt to globalization on the other. It is difficult to decide how much should be ascribed to such discoursive factors or perceptions, and to distributional interests, respectively. But the fact that the Social Democrats have acted along the same lines (albeit while seeking to maintain the distributional status quo) is a critical case indicating that ideas and discourse play an important role. The Social Democrats had no distributional interests in changing the tax system, but came to believe that it would be more efficient, and found the necessary ways to avoid a loss in terms of distributional interests.

The same argument may also apply to the need for adapting the tax system to European integration: from 1989 to 1993, this was a recurrent theme in Danish tax discussions. And even if the argument was put forward by the Conservative-Liberal government for strategic purposes (in particular in a 1989 reform package proposal which was not adopted), it remains that the Social Democrats were also pulling in that direction. In particular, the difference between the Social Democratic tax proposals of 1989 and the reform package adopted in 1993 is revealing (Albrekt Larsen, Goul Andersen 2004). The Social Democrats perceived a need to adapt to an intensified European competition (income tax rates were explicitly compared in the 1993 reform proposal), and they seemingly also wanted to change the tax system institutionally, to make it more similar to the Continental European ones, or at least to prepare for having such an option. As mentioned, the motives at this point remain obscure, as they also hoped to make income taxes less visible. The European concern may have been put forward mainly for tactical reasons, as a sort of blame avoidance. Or politicians acting in an atmosphere of uncertainty may simply have been looking for some cues about where to go – as in later debates about globalization, which were usually not very concrete and to quite some extent guided by symbols.

However this may be, it remains that since 1993 concern for adaptation to the European Union has not played any significant role in Danish policy debates on welfare and taxes whatsoever. Indeed, it has rarely been mentioned at all, whereas arguments about globalization are often put forward. Even though there is no doubt that the EU increasingly influences Danish policy-making in broad terms (in particular in quantitative terms, see Togeby et al. 2003, 306-20), its impact on welfare and tax policy so far remains limited. As to tax policy, there have been some modifications in order to avoid excessive border trade, and there is from time to time some concern that the comparatively very high Danish taxes on automobiles and on interest and profits on pensions savings could come under pressure. But as to the latter, no action has been taken to harmonize the Danish rules of taxation (which would actually require higher income taxes that could bring the tax structure more in accordance with, say, Germany). Taking a broad view of the Danish welfare state, it is also striking that the institutional differences vis-à-vis the Continental European welfare states – after 35 years of EU membership – have been maintained.

Danish governments have rarely feared "social dumping", but on some occasions, they have feared "social tourism". This was most significant in 1973, when a residence requirement of 40 years was introduced in the legislation about the "people's pension". Also in relation to enlargement of the EU to the East has there been scepticism and certain precautions. But in relation to this enlargement and the economic consequences it might have, the otherwise somewhat "Eurosceptic" Danish population had few reservations. As far as solidarity is concerned, Danes have always been "good Europeans" (Goul Andersen 2002b) – and the main consequence of the precautions was soon recognized to be a disadvantage in the competition for migrant labour power from the Eastern European countries.

Generally speaking, the Euroscepticism of the Danes has strongly declined, whereas it has increased in the old member countries, so that the difference has largely evaporated (Goul Andersen 2002b). By and large, nowadays the idea of a particular Danish Euroscepticism is largely a myth among Danish politicians. However, according to Eurobarometer surveys, even more than in other EU countries, the Danish population is keen to maintain national decision-making on issues of welfare policy. Moreover, the wish to maintain the key characteristics of the Danish welfare state and the so-called "Danish model" for labour market policy is a shared preference for Danish politicians and the Danish population.

Whereas previously there have been exaggerated fears about the formal harmonization of rules in the EU, or about the impact of the decisions of the Court of the European Communities regarding the rights of migrant workers, the current situation in Denmark is rather the opposite: that such impacts tend to be ignored. At any rate, they have not been perceived as very important. Among politicians and at least among the more educated part of the population, there is also an increasing sense of being able to cooperate and to influence the situation, rather than having to adjust and protect national welfare institutions. This corresponds very well with the development of the Open Method of Coordination (OMC) as a method of extending cooperation beyond the relatively narrow constraints of the treaties. At any rate, the changes in the Danish position on EU social policy over the last 15 years may well be described as a move from "foot dragging to pace setting", as Kvist (2007) has expressed it. From 1973 and until the implementation of the European Common Act, the Danish position on EU social policy was dominated by "foot dragging". Along with other nations, especially the UK, the Danish government supported national sovereignty in social policy. But having taken some pro-active measures necessary to safeguard key characteristics of the Danish welfare state, and having realized that these key characteristics are not really threatened, Denmark has engaged positively in European cooperation – if sometimes with an exaggerated self-confidence that it is the other countries that have to adapt their policies.

In seeking to answer how EU membership has affected the Danish welfare state, recent developments in a number of the most central social policy areas, namely labour market, gender equality, social pension, and health care, are analyzed in the following section. As it will emerge, Denmark has largely supported the idea of a common European social model with room for country-specific systems and traditions.

Labour market policy

In the field of labour market policy, the so-called "Danish model" denotes a long established tradition within which the social partners are largely left alone by the political system to agree on labour market regulation through joint agreements. Although corporatist influence on legislation is declining, even on labour market reforms, the Danish labour market is only thinly regulated by the political system. For instance, Denmark has no legal minimum wage, but it certainly has a *de facto* minimum wage negotiated by the social partners. And to take the most extreme example, even the development of the future pension system has largely been in the hands of the social partners. Moreover, the Danish employment protection legislation is more liberal or "flexible" that in most other European countries. Briefly, the "Danish model" is different from Continental European and EU traditions of politically regulating the labour market. On the face of it, one might expect great pressure on the Danish model from the EU on account of this misfit between regulatory traditions. Even though the Danish model still stands strong, the more politically regulatory tradition of the EU *has* posed a challenge to the Danish model. The misfit has created what Jensen (2007: 223) calls a "strategic doubleness": on the one hand the social partners (especially labour) and Danish governments have supported joint EU-based rules that could protect against "social dumping". On the other, the Danish position has been to defend the Danish model of labour market agreements, trying to make sure that EU-regulations did not interfere with the substance of the Danish tradition.

The Danish position has not been constant, though. Both the social partners and the political system have started to become sceptical about the potentials for a common European labour market policy. It was a common belief that, in general, the Danish collective labour market agreements created better pay- and employment conditions. With its veto-opportunity in the Council, the Danish government managed, together with other sceptical nations, to fight off any regulation in conflict with the Danish agreements. This consensus of foot dragging broke down when the common market was created in 1987.

Both the Social Democratic Party (which actually voted against the European Common Act, partly for tactical reasons) and the labour movement took a new position on common regulation because of the fear that the free movement of goods, labour and services would lead to "social dumping" and financial pressure on member states with generous pay- and employment conditions. The new position by labour was dominated by the aforementioned dilemma: on the one hand an ambition to combat social dumping through joint EU-regulation, on the other a wish to keep the Danish collective agreements strong and autonomous. At first, the employer organizations maintained their traditional opposition to a EU labour market policy. Danish governments, however, more and more took the same position as the unions: to maneuvre between the wish to support the Danish model and the pressure from increasing use of majority votes in the Council, it was perceived to be necessary to adopt a more pro-active position.

One way of supporting the Danish model is through the mode of implementation of EU-regulation. Normally EU-regulation is adopted through national legislation, but in trying not to undermine the system of collective agreements, Denmark has sought to implement EU-directives by writing directives into collective agreements without further legislation. In some cases the Commission has demanded that directives be implemented through legislation, because not all wage earners are covered by the collective agreements. However, in general, directives concerning labour market regulations are implemented through the collective bargaining system (Jensen 2007: 225).

The difficulty of combining a common European labour market with a politically loosely regulated Danish labour market was exemplified by the recent EU-enlargement. The Danish government strongly supported the enlargement, but because of the fear of social tourism and social dumping, measures to regulate the intake of Eastern European workers were deemed necessary. Because the Danish system of collective agreements does not cover all wage earners, opening up the labour market to foreign workers was feared to put pressure on Danish pay- and employment conditions. In time one may expect regulation on Eastern European workers to be removed, as the fear of social tourism seems strongly exaggerated (Martinsen 2003). But the enlargement exemplified the weaknesses of the Danish model when faced with further European integration.

The increasing use of softer modes of regulation such as the Open Method of Coordination (OMC) is in line with the wish to preserve the Danish model of regulation. There is a relatively broad consensus that the European Employment Strategy (EES) has not exerted any considerable pressure on the Danish model (see e.g., Jacobsson 2003; Madsen 2003; Mailand 2006; Danish National Institute of Social Research 2002). Quite the contrary, the Danish model of "flexicurity" has recently come to serve as the Commission's "best practice". Generally speaking, the OMC is a policy instrument that fits the Danish position extremely well: it enables European policy coordination as well as diversity in implementation between the member states. Not surprisingly then, Denmark was a very active initiator and strong supporter of the EES when first adopted in the Amsterdam Treaty (Johansson 1999), and also later when it was boosted to top priority as part of the revised Lisbon Strategy (Kvist 2007: 203-4).

It is difficult to judge the impact of the EES on Danish employment policy as there is a strong resemblance between them. This explains why assessments have sometimes diverged, but the most recent comprehensive study concludes that the government has tended to follow the few recommendations it has received: "… recommendations are … taken seriously by Danish governments, as repeated attempts to have recommendations suggested by the Commission removed illustrated" ((Mailand 2006: 107). At any rate, the main reason for the lack of direct impact is not lack of support but rather the close fit between EES and Danish employment policy.

The change of government in 2001 did not change the Danish position on EES. The Social Democratic government (which was in office when the EES was introduced in 1997) was a strong supporter of a common European employment policy loosely regulated within OMC. The Liberal-Conservative government has been less eager to support life-long learning and active labour market policy, but there is no fundamental mismatch between the EES and the current government.

Even though Danish "flexicurity" has been heralded by the Commisssion as an example of best practice, there are different interpretations of what exactly flexicurity entails. The Danish conception is a narrow one: flexicurity is understood as "the golden triangle" between hire-and-fire flexibility, generous unemployment benefits, and an active labour market policy. The Commission's understanding of flexicurity is broader and in line with Wilthagen's multidimensional conception (Wilthagen 1998; Wilthagen, Tros 2004). This conception which seems to prevail is useful in the the Commission's attempt to save the EES as it enables a combination of member state diversity with joint principles for employment policy (Mailand 2007).

The EU does pose a challenge to the the Danish model of regulating the labour market by means of collective agreements between the social partners and a minimum of legislative regulation. Until now it has been possible to combine a proactive attitude to common EU policy on labour markets with a well-working system of collective agreements. With the growing use of softer regulation, and with Denmark pictured as a case of best practice, the Danish model does not seem much pressured from the EU in the foreseeable future. One policy area where the EU has exerted influence, however, is that of gender equality.

Gender equality

In the case of gender equality, Denmark might at first sight look like a least likely case for Europeanization. First, Denmark is often perceived as far ahead of its Continental and Southern European counterparts. Moreover, even this field used to be regulated through bargaining between the social partners. But here, the Danish model was seriously challenged, and Europeanization has had a quite significant impact on Danish policy on gender equality, especially concerning equal pay and equal treatment (Martinsen 2007).

When Denmark first joined the EU in 1973, there was no legislation concerning equal pay, and the Danish government decided that membership of the EU made legislation necessary. The government, however, did not concede to the Council of Ministers' interpretation of article 119 (on equal pay) of the Rome Treaty. Directive 75/117 stated that men and women are entitled to equal pay for equal work and *work of equal value*. The policy adopted by Denmark employed another interpretation, namely that the entitlement to equal pay covered equal work, stating in article 1: "Every person who employs men and women at the same place of work must pay them the same salary for the same work" (Law no. 32, 4. February 1976, translated by Martinsen [2007: 551]). This interpretation initially modified the impact of the directive on Danish gender equality policy, and was a way to comply with the social partners and the Danish labour market model. This interpretation, however, could not be upheld in the long run. In 1986, after appearing in 1983 before the European Court of Justice and losing its case, Denmark was forced to accept the fuller interpretation of article 119, a clear example of Europeanization in spite of resistance from national actors and interests.

The aforementioned change in the Danish labour union's position on European labour market- and social policy also affected the policy area of gender equality. The labour unions came to realize the possibility for creating workers' rights through Community law and bringing Danish cases to the European Court of Justice. The Court's decision in favor of the unions in the first case, the *Danfoss*-case, ended up overruling existing practices concerning the burden of proof in discrimination cases, and the ruling which became part of Danish law on equal pay in 1992 had great impact on all areas of gender equality (Martinsen 2007: 553-4).

The case of gender equality demonstrates that member states are not always able to moderate the impact of European laws and directives. The European Court of Justice has proven itself a decisive factor in strengthening laws on gender equality in Denmark. At first the Danish government was able to limit the scope of directive 75/117 on equal pay, but with the rulings of the Court this position became untenable. In the case of gender equality, EU-policies and the active use of the European Court of Justice by Danish actors have led to direct positive integration (Martinsen 2007; see also: Abrahamson, Borchorst 2002: 47)

Social security rights

Securing the rights of European migrant workers has long been a top priority in EU treaties. At this point, the social insurance model of the Continental welfare state is better than the Nordic tax financed universal model to handle the rights of migrant workers and their families. Further, Regulation 1408/71 only includes legally provisioned schemes and not private or collective agreements. Implicitly, the Nordic model of welfare is based on the assumption of a largely immobile workforce. This is basically in opposition to the EU-rationality of enhancing mobility across borders (Abrahamson og Borchorst 2004). However the fact that actual mobility has remained surprisingly low has made the entire issue much easier to handle. In particular, fear of social tourism has always proved entirely unwarranted.

In relation to 1408/71 the Danish position has basically been proactive ever since Denmark entered the EU in 1973. So far no infringement procedures have been enacted against Denmark, and Denmark is the only country with just one preliminary reference to the European Court of Justice (ECJ) regarding 1408/71. Once again, Denmark lives up to its reputation as a complying member state (Martinsen 2005: 1041). As mentioned previously, before joining the EU in 1973, Denmark changed the eligibility to pensions from Danish citizenship to a residence requirement. This was a simple way to make Danish social pensions more compatible with the *acquis communautaire* on intra-European social security (Kvist 2007: 199). Furthermore, the Danish social pension scheme now allows export of social benefits to people residing in other EU countries, also a direct consequence of accepting Regulation 1407/71.

The case of intra-European social security rights is yet another example of a change in position by the Danish government(s), from defence of welfare sovereignty to accepting the Commission agenda on extending Regulation 1408/71 to all European citizens and even possibly beyond. Martinsen (2003) argues that the change in position was due in part to a change in the assesment of impact on Danish public finances. This first led the government to argue strongly against the Commission's proposals, pointing to the potentially large consequence for public spending if foreigners who did not contribute through taxpaying were recognized as legitimate recipients of Danish social security. Once again the fear of "welfare tourism" played an important role in forming the Danish position on extending social rights to EU-citizens (especially third country nationals). The sceptical position was later abandoned because of changing risk perceptions. Martinsen (2003: 23-24) argues that the change in position was also due to an unwillingness to be the lone member state to block regulations.

Despite the fear of social tourism, Denmark has implemented community directives and legislation on 1408/71 to the letter. This strong tendency to compliance should not mask the fact that adaption has not been passive, neutral, or always immediate (Martinsen 2003, 2005). This is therefore yet another example of how national governments may successfully uphold their national social policy model despite the effects of EU membership.

Health care

Health care is another policy area where court rulings and Commission directives have led to policy change in Denmark. In April 1998 the ECJ stated its two landmark rulings, *C-120/95 Decker* and *C-158/96 Kohll* that made it irrevocably clear that the free movement principles regarding goods and services *did* influence the health care policy field. This was in contradiction to the Danish position that health care was not part of the free movement of services (Martinsen 2005). At first hand a working group established to interpret the consequences of the rulings for Danish health care policy acknowledged the impact of the Decker/Kohll rulings, but maintained that the rulings only applied to services with remuneration, which left out the entire public hospital sector. The report by the working group was accepted by the government and led to a policy reform, that allowed certain health care services (specialist medical treatment and dental care) to be purchased abroad (Martinsen 2005: 1043).

However, Denmark was not able to uphold its interpretation of what constitutes a service within health care. Once again the ECJ was the decisive force in broadening the scope of the Treaty. In the case *C-157/99 Geraets/Smits and Peerbooms*, the Court established that the notion of remuneration in the Treaty's article 50 also included indirect payment. With this clarification, the definition of services now also included public health care. Even though the lawsuit of *Geraets-Smits and Peerbooms* did not require immediate amendments to national legislation, it did have indirect effect in granting citizens the right of receiving treatment outside the contracted public hospitals if they are not able to provide the service within two months (Martinsen 2005: 1043-44).

The Danish concession to the Decker/Kohll-ruling may be viewed as yet another example of behaving pro-actively. Instead of waiting to see what multilateral consequences jurisprudence would create, the Danish government sought to define rather than be defined, as Martinsen (2005: 1049) puts it. The case of the Europeanization of Danish health care thus provides another example of how the Danish governments seek to modify the influence of EU on central social policy fields[7].

Coming to terms with the EU

No doubt the impact of court decisions has been larger than Danish governments originally expected. Also in the field of taxation, the Danish gov-

[7] More is under way in the field of health care, especially regarding choice of hospital treatment across borders, but it is much too early to predict the outcome, let alone the government's reaction.

ernment has experienced being seriously overruled in 1992 when a so-called labour market contribution (AMBI) was declared illegal and incompatible with EU rules of competition. However, the impact was negligible: in essence, the AMBI which had been introduced a few years earlier was nothing but a hidden increase in the VAT (concealed only for purposes of legitimation), and it was immediately replaced with an equivalent increase in the VAT. Also, in many of those cases that could be potentially threatening due to social tourism, the implications have turned out to be minimal in practice. In all likelihood, Court decisions will have further impact in the future. But the Court is not insensitive to serious arguments about the need to secure the financing of welfare systems. And the fears previously held among many Eurosceptics that the EU would threaten the generousity of Scandinavian welfare states were built on two mistaken assumptions: first, that Nordic welfare states are much more generous than other European welfare states; and secondly, that anybody should have an interest in preventing people from having a generous welfare state or high taxes. If anything, all interests run in the opposite direction: to prevent social dumping and to prevent undue tax competition.

In all these respects, both the Danish governments and the Danish people have come to terms with the EU. But looking back at the last 35 years of membership and its political discourse, one is forced to conclude that in the Danish case, the material and symbolic impact of the EU on changes in the Danish welfare state has been quite small. Occasionally, Denmark has been forced to take involuntary moves. And occasionally, national actors have been able to exploit higher EU standards as a vehicle for their own interest. The most important effect is perhaps the intensified exchanges of best practices and socialization into epistemic communities. But speaking of adaptations, the perceived necessity to adapt to globalization and demographic change has played a much more important role – alongside distributional struggles and changing power relations, of course.

2.2.4. Conclusion

These conclusions about the impacts of Europeanization also pertain to nationally induced policy changes. Looking at changes in Danish welfare policies in a 25-year perspective, one can say that apart from ongoing distributional struggles and (increasingly uncontroversial) adaptations of welfare services to double-earner families, the dominant tendencies have been the fight against acute economic problems and mass unemployment in the first part of the period, and attempts to be pro-active in relation to perceived future challenges in the second part. This has sometimes happened in a rather erratic way, and it does involve some significant institutional changes. But from an outcome perspective, the basic countours of the Scandinavian welfare model have not changed very much. Even in the case of the institutional changes in the pension system, there are pretty good chances that outcomes will not be very much affected.

In the 1980s there was widespread understanding everywhere in Danish society that “something had to be done”, and a large number of “unpopular” policy changes were actively supported or at least passively accepted in the Danish population. By and large, however, this period of retrenchment was one of cost containment rather than institutional change. True, some of the later trends may be traced back to the 1980s, but on the other hand, reforming towards a more universalist welfare state continued in that period.

The late 1980s witnessed, however, a paradigm shift in economic thinking – some might use the word “neoclassical” – mainly applying to labour market and tax policy. However, the Social Democrats to a large extent found more “social democratic” solutions that were compatible with the new paradigm, even though they moved away from its old social security paradigm towards an inclusion-through-work paradigm. This was continued by the Conservative-Liberal government which has put much more emphasis on conditionality, on “making work pay” – and on “protecting” the welfare state against “social tourism” as well as other problems perceived to be associated with immigration. Admittance of refugees and immigrants from outside the EU has been tightened a lot, and as far as social assistance is concerned, there are some tendencies towards a “dual” welfare state or “welfare for the Europeans”. But in other respects, immigrants are fairly well included in the welfare state (Goul Andersen 2007c).

As far as taxes are concerned, the conscious move towards lower marginal taxes and towards what was believed to be more “competitive” taxes started already under the Social Democratic government in the 1990s. The main difference after 2001 is that taxes were not only changed. They were also lowered, and the original insistence on financing “penny by penny” was replaced by the highly elastic “economic room of manoeuvre”. The result is significantly lower taxes on labour (both as regards average taxes and marginal taxes) than one might perhaps expect to find in a Scandinavian welfare state.

It is always difficult to disentangle the impact of ideas and perceptions on the one hand, and the impact of interests on the other, but the commonalities between Social Democractic and Liberal-Conservative governments may perhaps serve as an indicator of the impact of ideas and perceptions, whereas the differences may to a large extent be seen as an indicator of the impact of interests. Approximately the same can be said about the reforms of the public services inspired by New Public Management that have been adopted in the last 20 years.

To a large extent, such ideas have been shared throughout the countries of the European Union – and perhaps intensified by the increasing prevalence of soft law regulation. This also holds for the perceived need to cope with the future challenges of globalization and ageing. Unlike in the 1980s, the pressure of acute problems has been very low in the Danish case since the early 1990s. But the speed of welfare reforms has been rapid. There are few veto points in the Danish political system except voter resistance against retrenchment. Most reforms have been adopted in anticipation of future challenges, and it has proved possible to mobilize considerable acceptance – occasionally even support – behind changes such as higher pension age, even though the full impact has to some extent been concealed.

In the field of pensions, the Danish welfare state has found a rather "weird" solution in terms of a multipillar pension system that is difficult to understand, but seems to satisfy any demand the World Bank might think of while at the same time maintaining distributional justice. The Achilles' heel, however, is whether the coalition of interests behind the high minimum level will remain strong enough. As mentioned, a government-appointed Welfare Commission (2006) came up with proposals that were not adopted, but would imply a radical increase of poverty among pensioners. At any rate, the Danish and the other Nordic welfare states have become extremely different institutionally in the field of pensions (this is by itself a striking observation if one believes in convergence between welfare states), but the outcomes or impacts may very well be similar. Like the European Social Model, even the Nordic model is to some extent about functional equivalence more than about institutional similarity.

Speaking of outcomes, this is also where voters enter the model. Apart from pressures towards growth and resistance against deteriorations, almost any change – in particular institutional change – has been initiated by politicians and/or by policy experts. But voters certainly react to outcomes and constrain the possibilities of change. So far this seems by and large to maintain equivalence in outcomes, even though in a few respects (notably pensions) one could say that "everything had to be changed to maintain everything as it is". However, institutional changes may also have long-term impacts on voter preferences – intentionally or unintentionally. In several fields – from labour market policy over taxes to privatization of social services – new tracks away from Scandinavian equality and universalism can be imagined, and ones that might not necessarily be opposed by voters. But that's another story.

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Jolanta Aidukaite

3. The Estonian model of the welfare state: tradition and changes

Introduction

Estonia constitutes an interesting case-study in social policy, as in 1940 the country was annexed into the Soviet Union and spent the next half century under Soviet rule. After regaining its independence in 1991 Estonia at once started to introduce a market economy and Western democracy. As many other East-Central European countries, Estonia went through a period of massive privatization after the collapse of the communist regime. The accompanying high inflation and unemployment created a sense of declining material well-being (see EBRD 1998).

Nevertheless, Estonia's passage through that transitional period was more successful than that of its Baltic "sisters", Latvia and Lithuania, which started their own transitions in a very similar historical, economic and political situation (see e.g., Aidukaite 2005). Although the scope and depth of their problems did vary, the Baltic States managed to stabilize their economies and are currently experiencing fast growth in GDP (see CEC 2002). Indeed, the Baltic economies have the fastest growing GDPs in Europe, with Estonia the current leader (see Eurostat data), and they were all well placed to join the EU and NATO in 2004. However, despite Estonia's comparatively good economic indicators and GDP growth, along with its position among the most advanced new EU countries, Estonian society is still facing urgent social issues, such as poverty, income inequality, unemployment and mortality. Thus, Estonia, like many other East European countries, has undergone a process of social policy reform. But social policy issues have never belonged to the group of issues given top priority in the Baltic States. Instead, top priority revolved around the necessity of establishing a market economy and reinforcing political independence (Aidukaite 2004). Social justice was of second priority for the Estonian government and began to move to the forefront of Estonia's political agenda not until the successful integration into the EU and NATO (Lauristin 2003). Until 2002, the Estonian government was concerned mainly about enforcing full market liberalization and building the fundamental structures for successful economic growth, all the while ensuring a stable political environment and democracy. Thus, social issues were left behind in the belief that the market economy would solve them automatically, once it had started to function. The negative attitudes towards the paternalistic Soviet state, which meant to protect everybody in every situation without leaving any space for individual initiatives, created favourable conditions to move from a universal form of social provision to one that was more fragmented in nature (Aidukaite 2004). The EU's enlargement, through its promotion of social values and generous social policies, has returned the social dimension to the political agenda of contemporary Estonia.

2.3.1. The roots and development of national welfare regime, social values and its changes

Previous studies (Aidukaite 2004; Kore 2005; Poldma 1999) indicate that the first social security programs in the three Baltic States date back as early as 1919. Social security in the Baltics during the interwar period (1919-1940) resembled the Bismarckian system of social insurance. However, the number of insured persons was low and only permanent state employees had the right to a state pension. The money that went into the Pension Fund was mainly obtained from employer and employee contributions. Farmers were totally excluded from the social insurance system (Macinskas 1971). After the Second World War, as is well known, Estonia, Latvia and Lithuania were incorporated into the Soviet Union and were subjects to the same social policy regulations as the whole empire. Thus, Estonia experienced the Soviet social protection system during the period 1940-1991. The legacy of the Soviet protection system can be felt in Estonia to the present. Thus, some of the major features of the Soviet welfare system are worth reviewing. The Soviet system can best be thought of as an authoritarian welfare state based on compulsory employment with a huge redistributive mechanism. The state was the main provider of welfare for its citizens. Thus, the social security system's coverage was universal in the Soviet Union, albeit with rather low benefit levels. Everybody was guaranteed security in all cases of loss of working capacity, old age, invalidity, illness and the loss of the family breadwinner. This extensive social policy (full employment, free education and health care) and social security, with its huge redistributive mechanism, promoted class equality between the various social groups (Aidukaite 2004). Some studies, however, indicate that there was an upper class, namely, the so-called "nomenclature" that profited more from the benefits of the authoritarian welfare state than did other social groups (Deacon 1992; Ferge 1992; Poldma 1999).

All the features of the Soviet system were present in the social protection system of the independent Estonia in 1991, and they were transformed gradually. But Estonia was swifter in destroying the old social security system of the Soviet era, as compared to Latvia and Lithuania (see Aidukaite 2004).

One probable reason for this is that Estonia was the country most influenced by the culture and experience of the Nordic countries (particularly Finland). Also playing an important role was the desire to return to pre-war structures and join Europe's prosperous countries as soon as possible.

The development of social protection in modern, independent Estonia can be divided into two periods (Kore 2005: 8): 1991-2000, when new principles of social security were formed and new social insurance systems were created; and from 2000 onwards, a time of correction and further development of these systems (pension and health insurance, unemployment insurance, children and family support systems). The development of social security will be discussed more in detail in the following chapters.

The current system of social policy in Estonia can be described as a mixture of the elements taken from the basic security (where eligibility is based on contributions or citizenship, and benefits are provided at a flat-rate) and corporatist models (with eligibility based on labour force participation, and benefits are earnings-related). Weak elements of the targeted model (where eligibility is based on proven need, and the level of benefits is minimal) can be found, too (Aidukaite 2006). In general, it can be seen that the current system, when compared to the previous one, has changed considerably. Housing has become the private responsibility of the individual and the same is true, in part, for education and health care. The ideology has shifted from a full, state commitment to the safety of everybody in every situation to providing a safety net for its population, where people's primary responsibility is for their own welfare (Aidukaite 2003).

Indeed, individualism has become a common feature of Estonian society since the collapse of the Soviet regime. At present, the crucial question in Estonia pertains to what extent the state's role should be preserved, and to what extent it should be reduced. Since 2001, Estonian policy-makers and researchers have often pointed out the existence of "two Estonias". One is rich, well educated and well managed, while the other is poor. This has been one outcome of the transition process and its move towards a liberal economy, i.e., the fact that there are both losers as well as winners.

The shift to individualism in people's mentality and the decline of the labour movement, or, to be more precise, the decline in trade union membership and trade union influence, does nothing to promote the development of social rights in the Baltic countries. In fact, it hinders the expansion of social policies (Aidukaite 2003).

Overall, Estonia's welfare system can be referred to as a distinct post-socialist welfare regime. This regime deviates from the other three delineated by Esping-Andersen (1990) and is already gaining acceptance within comparative welfare state research (cf. Aidukaite 2004; Deacon 2000; Oorschots and Arts 2005; Kääriäinen and Lehtonen 2006). One previous study (Aidukaite 2004) of the social security systems of the three Baltic States has suggested the following main features of the post-socialist welfare state regime: high coverage, but relatively low benefit levels; and insurance-based schemes that play a major part in the system of social protection. This is not surprising, inasmuch as the former Soviet system was based on employment. However, the same programs cover everyone. In many cases, universal benefits still overshadow means-tested ones. Nevertheless, the relatively low benefit levels do not create enough incentives for people to be honest and declare their income for taxation. Even if the state plays a vital role in protecting its citizens from social risks, the market and the family are still two of the most important agents for guaranteeing an adequate standard of living for the population.

2.3.2. The main actors of social policy

The current system of social protection in Estonia is shaped by several factors, including: path dependency (legacy of the past), the political background (prevailing right-wing governance), and the impact of Europeanization (lessons learned from Nordic welfare traditions and political guidelines from the European Union) and globalization (advice and guidelines of such supranational agencies as the World Bank and the International Monetary Fund) (Aidukaite 2004; Trumm 2006; Trumm and Ainsaar 2007).

At present, in accordance with the State Government Act, the field of social protection is within the competence of the Ministry of Social Affairs. Within the area of administration of the Ministry of Social Affairs, two governmental agencies (the Social Insurance Board and the Labour Market Board) and two legal bodies – (the Health Insurance Fund and the Unemployment Insurance Board) are responsible for the administration of different branches of social protection (Trumm 2006: 7; Trumm and Ainsaar 2007: 191). The purview of the Ministry of Social Affairs covers the preparation and implementation of the plans to solve the state's social problems, as well as organization of public health protection and medical care, employment, the labour market and working environment, social security, social insurance and social welfare services, promotion of equality between men and women and coordination of related activities, promotion and support of sports activities for the disabled and preparation of corresponding draft legislation (the Ministry of Social Affairs of Estonia, http://www.sm.ee/eng/pages/index.html).

The state is the main agent in guaranteeing social protection in Estonia. However, its role has diminished as compared to the Soviet period. The private initiatives with the implementation of the private pension insurance funds have been increasing in Estonia. Nowadays, the citizens in Estonia have the possibility to choose between public or private providers of health care and education.

The role of municipalities has been increasing in Estonia since 1991. They are responsible for the development of social services. Individual responsibility for one's own welfare has increased considerably, in regard to the relatively low level of benefits and the availability of higher quality services provided by private actors.

Non-governmental organizations remain quite marginal, and so does the Church in Estonia. Indeed, these players have never been very influential (Lagerspetz 2002). The low level of civil society, in particular low membership in trade unions, with only 12 percent of the labour force belonging to trade unions, does nothing to promote social rights in Estonia (Aidukaite 2004).

The liberal right-wing coalitions that have prevailed since 1992 are another important factor explaining why Estonia did not move towards the comprehensive social-democratic model of social policy, but instead chose the more liberal approach towards social policy (Lauristin 2003; Trumm 2006). As was mentioned, social policy development never had strong political support in Estonia. The priority of the ruling right-wing coalitions has been the establishment of a free market economy while pushing social policy issues aside. The outcome of this is a proportional tax-system, the removal of subsidies, and the considerable decline of universal schemes in favour of the introduction of means-tested ones (Trumm 2006). The efforts of the social-democratic wing in the governments led by Prime Minister Mart Laar in 1992-1994 and 1999-2002 have succeeded in the implementation of some elements of a universal social security scheme concerning mandatory pension, health and unemployment insurance and universal family benefits. However, because fiscal policy in these coalitions was in the hands of right-wing parties, these schemes were never backed with appropriate financial tools (Lauristin 2003:9).

The influence of global pressures from the International Monetary Fund and the World Bank on social policy development in transitional countries is highly acknowledged in numerous studies (cf. Deacon 2000; Muller 2001). Estonia has adopted the three-pillar model of pension insurance propagated by the World Bank. Officially, the second and third pillars were developed to increase individual interest and responsibility in the pension system, as well as to avoid a drop in the pension replacement rate due to unfavourable demographic developments (MSAE 2002a). However, it could also be argued that the impact of global organizations, such as the IMF and the World Bank, has been crucial here. For instance, Casey (2004: 32) has pointed out that the Baltic countries were recipients of substantial World Bank loans. And although in no cases were these loans tied to pension reform, the countries' willingness to adopt appropriate pension reform made them "suitable" candidates for assistance. Thus, the implementation of the World Bank's recommendations is quite apparent. As Casey (2004) has highlighted, since the EU does not impose any specific concrete recommendations on social policy, it is not so very surprising that in the Baltic countries (as regards pension insurance) more of the "Bank" rather than the "European" model can be found.

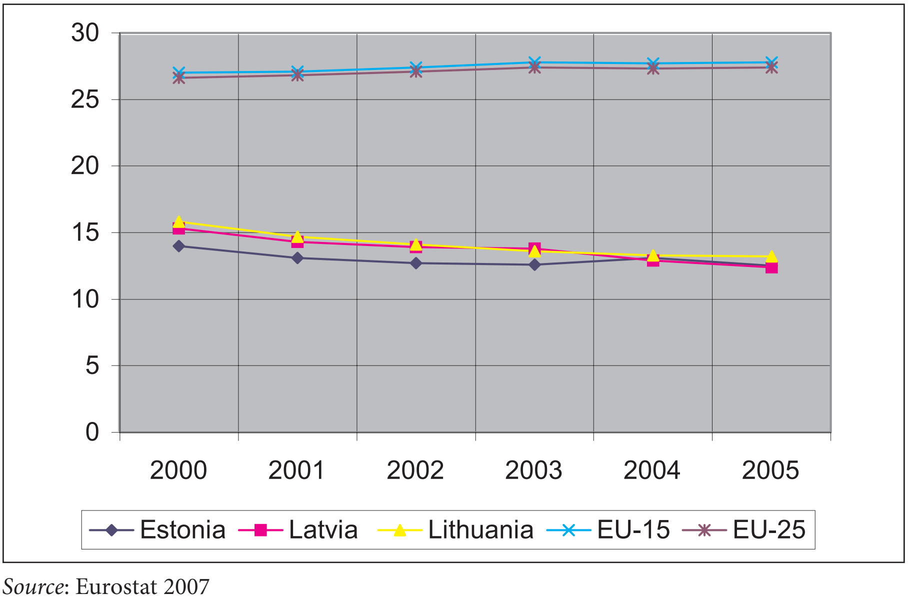
As concerns Europeanization, the influence is not so visible and straightforward (see Chapter 3 of this report). Nevertheless, the questions of social protection and social rights became especially important during the EU accession process in Estonia. For example the EU Employment Strategy and the Joint Inclusion Memorandum formed a frame for today's social policy in Estonia (Leppik 2005).

The discussion among Estonia policy-makers today is centred around the question: how to divide social responsibilities among the state, municipalities, private providers (profit and non-profit), families and individuals to make the social protection system more flexible, economical and sustainable (Kore 2005).

2.3.3. Social expenditures and revenues

Social expenditures on social protection tell a lot about the performance of a welfare state. Many previous studies demonstrated that countries which spend more on social protection have lower levels of inequalities and poverty, higher quality of social services and benefits, and consequently higher longevity of their populations and a higher standard of overall well-being. Estonia spends much less on social protection as compared to the EU-15 or EU-25 average (see Figure 2.3.1).

Figure 2.3.1: Total expenditure on social protection as % of GDP



Source: Eurostat 2007

Overall, the share of GDP spent on social protection in the three Baltic States is among the lowest in Europe (based on Eurostat data; see also Keune 2008: 13). Concerning per capita social protection expenditures, again the Baltic States are at the bottom as compared to the EU-15 or EU-25 (see Table 1). Estonia, similarly to most EU countries, spends the highest share of her social protection resources on old-pensions and sickness/health care. Their combined share is about 3/4 of total spending on benefits (Trumm and Ainsaar 2007).

Table 2.3.1: Total expenditure on social protection per head of population. ECU/EUR

Countries	2000	2001	2002	2003	2004	2005
Estonia	387.7	388.9	412.2	455.1	516.5	562.3
Latvia	392.3	396.8	404.6	393.1	388.6	400.7
Lithuania	418.3	420.0	446.2	477.5	520.0	584.7
EU-15	4663.8	4769.8	4895.0	5026.6	5099.2*	5165.9
EU-25	5446.7	5567.4	5700.3	5836.7	5918.5*	5993.9**

Notes: * provisional value, ** estimated value.

Source: Eurostat 2007

Social protection in Estonia is mainly financed by social tax contributions. The contributions for the health and pension insurance are paid by employers as payroll tax (20 percent for pension and 13 percent for health insurance) (Kore 2005). However, the financing of state pension insurance is not exclusively confined to social tax. National pensions, as well as different kinds of pension supplements and administrative costs, are financed from general state revenues. Nevertheless, the earmarked nature of social tax means that revenues from social tax are kept strictly separate from other state revenues (Trumm 2006: 8).

The state also covers from general revenues certain health care costs outside the health insurance system (e.g., medical assistance for uninsured persons, the costs of ambulance service, preventive and public health programs, etc.). Moreover, family benefits, state unemployment allowances, social benefits for disabled persons, funeral grants, social assistance subsistence benefits and state-provided social services are financed from general state taxes. Municipalities cover a cost for social services (Trumm 2006).

For a long time Estonia represented an example where the social protection system was almost exclusively financed by employers and by the central and local government structures. However, the shared responsibility between employer and employee increased when the second pillar of pension insurance (in 2002) and unemployment insurance (in 2003) were implemented. Nevertheless, employee contributions are still very low in Estonia as compared to other European countries. As Trumm and Ainsaar state (2007: 195), individuals in Estonia contributed only to the unemployment insurance scheme (0.6-1.0 percent of gross wage) introduced in 2003. Such an example is unique in the whole European Union, even compared with other countries where the share of individual contributions is also low: Lithuania (6.1 percent in 2003), Sweden (8.8 percent) and Finland (10.9 percent). In Estonia the share of employers' contributions is the highest in the EU, as stated by Trumm and Ainsaar, and constitutes 79.2 percent of total contributions, which include individuals, government and others. Conversely, the share of government contributions in Estonia (about 20 percent) is one of the lowest in the European Union, exceeding only by Malta (19.4 percent).

2.3.4. Country-relevant social problems, social policy institutions, social policy, reforms and challenges 1990-2006

Demographic developments, family formation patterns and family policy, gender issues

At present, Estonia's social policy is shaped not only by economic constraints, but also the ageing of the population has put enormous pressure on the systems of social protection. A number of authors have emphasized the steady negative tendencies in population growth in Estonia since 1991 (see e.g., Lauristin 2003; Trumm 2006; Trumm and Ainsaar 2007). The reasons for the depopulation of Estonian society include the declining birth rate, high mortality among young men and children from accidents and diseases caused by stress, and loss of the more active part of the younger population, which has emmigrated to the West in search of education and better paid jobs (Lauristin 2003). The negative demographic development characterized by the shrinking and ageing population has deeply affected developments in pension insurance and family policy in Estonia (Trumm 2006; Trumm and Ainsaar 2007).

For such a small nation as Estonia, this negative demographic development is the most threatening social trend. Therefore, family policy has always been a priority in Estonian social policy (see Ainsaar 2001; Lauristin 2003). Estonian policy-makers seek to address all major motives of family policy. Namely, family policy in Estonia is meant to increase the birthrate, reduce poverty among families with children, and increase gender equality.

Overall, given the reasons for its family policy, Estonia looks quite akin to the social-democratic model with the overall ideological support of a dual-earner family model. Nevertheless, this conclusion should be treated with caution, since it is difficult to label this country as having a dual-earner family policy. Services are still not developed enough and benefit levels are relatively lower, as compared to developed Western welfare states (Aidukaite 2004). Ainsaar (forthcoming) ascribes Estonia (according to its family policy measures) to the group of countries with extensive legislation, but relatively low income levels. This is because, as Ainsaar argues, the rather well developed legal social protection system for families with children does not replace the substantial loss of income during child-rearing years. Nevertheless, the situation is becoming better and better each year. Poverty among children has been decreasing, and this might be explained by the increase in family benefit replacement rates. However, some observers indicate that the decrease in poverty among children might be explained by the increasing overall well-being of the population due to the country's successful economic performances, as well as to the decreasing number of children in families (see Kore 2006; Trumm 2006). Nevertheless, the positive effects of family policy should not be downplayed. The Estonian family benefit system is as ambitious as in any other well-developed welfare state.

Estonia has inherited a rather underdeveloped family policy system from Soviet times: gender equality in particular was not suitably addressed then. Thus, family policy underwent major reform after the collapse of the Soviet regime. It is interesting to point out that Estonian family policy is more universal and comprehensive in its character as compared to other Baltic states (Latvia and Estonia), although in 1991 all three Baltic states started with the identical family policy inherited from Soviet period.

Estonia has employment support schemes like maternity and parental leave; transfer support schemes like child-care benefits and child allowances; certain schemes for single parents and large families, as well as benefits for orphans and for parents on guardian duties. In Estonia earnings-related parental leave was introduced as late as in 2004. The parent who is on parental leave receives child-care benefits related to salary that replaces 80 percent of the previous gross wage for the first eleven months. However, mothers in Estonia are granted a child-care benefit that is flat-rate, residency-based, and paid until the child's third birthday. An additional amount of child-care benefit is paid to families with more than one child less than three years old and families with three or more children between three and eight years. Estonia still retains from the Soviet period an allowance for single parents, one that was abolished in Lithuania and Latvia. Estonia also boasts a universal child allowance that is payable to every child residing in its territory. This kind of allowance is paid up to the child's sixteenth birthday or (in the case of daytime study) up to nineteen years of age. These allowances increase with the number of children in a family. It can be briefly noted that there are various social services (child-care and elderly-care facilities) for families as well as children and some tax credits for parents (tax-free income) in Estonia (for further details, see the Ministry of Social Affairs of Estonia 2004a, b; Trumm, Ainsaar 2007). During Soviet times, the day-care system for pre-school children was very extensive in all three Baltic states. However, the enrollment in kindergartens dropped considerably in Latvia and particularly in Lithuania. A drop in child care facilities was also observed in Estonia, but it was much more modest than in the other Baltic states (Aidukaite 2004). Since 1997 the enrollment in childcare has started to rise again, in 2000 reaching a level of 79 percent for children between three and six years old (Ainsaar, forthcoming).

Although child care facilities were cut back (particularly in rural areas), Baltic women are doing rather well regarding employment. Their labour market participation rates are high as compared to Western standards. However, if in terms of the employment rate Baltic women might appear to be winners in the transition, their success does not necessarily stem from social policy. For the well-developed kinship network in Baltic societies also may help high employment rates. The kinship network is part of the informal social security, which is well developed in societies where formal security arrangements fail to function predictably or are not insufficiently developed. The informal help from grandparents, other relatives or family members, can offset the lack of adequate childcare. Namely, grandparents quite often help young families take care of their children, and this enables mothers to take paid employment. The necessity of two incomes in the family quite often also forces women to return to the labour market as soon as possible after giving birth to a child. It should be also kept in mind that birth rates are very low in Estonia and the other Baltic states, which tells us that, because of economic hardship, Baltic women often choose paid employment over giving birth to children.

Taking into account housing problems and relatively high unemployment, together with the risk that more children in a family will contribute to the deterioration of these families' living conditions, the number of births has been decreasing in the Baltics[1]. However, some studies indicate that the number of births is decreasing not only because of the above problems, but also because of changing family values that lead to the postponement of starting a family. New formulas for the family (like cohabitation) are becoming more and more socially acceptable, as are divorce and remarriage (Pranka 1999; Kutsar, Tiit 2002).

While developing family policy in Estonia, policy-makers were also concerned about gender equality in the family. The study I carried out in 2004 revealed that Estonian policy-makers were very much concerned with developing family policy not only in regard to the low birth rate, for gender equality was also seriously taken into account. Thus, universal family benefits in Estonia seek not only to reduce poverty, but also to be a mother's or a child's independent income. Therefore, this can contribute towards higher equality within the family. It is clear that this family support system is formally oriented towards equality, universalism and solidarity, without making a distinction between the rich and the poor.

Although family policy seeks to increase gender equality, still more needs to be done in this area. It is possible to choose which of the parents may take

[1] The women's average salary in Estonia amounts to 73 percent of the men's average income (SIDA 2002: 56).

parental leave, although cases of the father taking parental leave are very rare in Estonia. In fact, it is more rational for the mother to stay at home since men's wages are still higher than women's in Estonia.

In order to increase gender equality on the labour market, it is very important to provide parents with various services that can help them participate in paid employment, e.g., an increase in work-training/retraining programs and longer, more flexible opening hours for kindergartens. This is something very much needed in Estonia today, more than just cash benefits.

The reform of the family support system in the Baltic states has been mostly driven by economic realities, previous social security structures, advice from global organizations, and policy-makers' backgrounds and understandings of possible reform. Estonian policy-makers were collaborating mostly with Scandinavian countries, in particular with Finland, in developing family policy. Thus, it is not surprising that family policy in Estonia has a universal character (Aidukaite 2004). However, the question as to whether universal benefits are the best alternative for combating poverty in transitional economies is debatable. Previous studies (Aidukaite, 2004) show that recipients evaluated universal family benefits as less positive than targeted benefits in Estonia and Latvia. In Estonia and Latvia it turned out that universal benefits paid up to the child's 15th or 16th birthday found little approval among social benefits users. Those benefits very much diminished general satisfaction with the overall family benefits system in those countries. This is because the monetary inputs of the universal child allowance into the family household are very low. Universal child allowance in Estonia amounts to only 3 percent of the average salary for the first child, and for the second it is 6 percent of average earnings (Aidukaite 2004). Nevertheless, the Estonian government has ambitions to increase child allowances in a future, and this of course would contribute towards greater solidarity in society and higher satisfaction with family policy.

Labour market development (employment, unemployment, labour mobility and flexibility) and policy towards work: job creation, ALMP policy, …

The employment rate declined in Estonia during the first decade of the transition. However, from 2000 it started to go up again (see table 2.3.2). The explanations for this can be found in the booming Estonian economy. Lauristin (2003) states that more jobs were created in the service sector and in the tertiary sector (finances and trade). Unemployment also started to go down at the beginning of the XXI century (see table 2.3.2). However, if a rise in employment was observed in the service sector, in the primary sector (agriculture, hunting, forestry, and fishing) and secondary sector (mining, processing, energy, construction, gas and water supply) a decline was noted (Lauristin 2003).

Table 2.3.2: The employment and unemployment rates in Estonia in comparison with the EU-15 and EU 251997-2007, %

Indicators	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Estonia employment	·	64.6	61.5	60.4	61.0	62.0	62.9	63.0	64.4	68.1	69.4
EU-15 employment	60.7	61.4	62.5	63.4	64.0	64.2	64.4	64.8	65.4	66.2	66.9
EU-25 employment	60.6	61.2	61.9	62.4	62.8	62.8	63.0	63.3	64.0	64.8	65.8
Estonia unemployment	9.6	9.2	11.3	12.8	12.4	10.3	10.0	9.7	7.9	5.9	4.7
EU-15 unemployment	9.8	9.3	8.6	7.7	7.2	7.6	7.9	8.0	8.1	7.7	7.0
EU-25 unemployment	·	9.3	9.1	8.6	8.4	8.7	9.0	9.0	8.9	8.2	7.2

Source: data base of Eurostat 2008

Unemployment was a serious problem in Estonia during the first years of independence. Today the unemployment rate in Estonia is comparatively low and amounts only to 4.7 percent, while the EU average is 7.2 percent. Accession into the EU has lowered the level of unemployment in Estonian society. Some of the labour force migrated to the richer EU countries to look for a job. This created a labour shortage in the country and remarkably reduced unemployment. At the same time, with the inflow of investments from the EU, more jobs were created in the service, financial and construction sectors. The implementation of active labour market policies may have also lowered the unemployment rate, as has the introduction of unemployment insurance. In the following discussion we are going to review the previous and current problems related to unemployment in Estonian society in more detail.

Previous studies have pointed out the high youth unemployment rate in Estonia, something that is related to the low quality of training in vocational schools (see Lauristin 2003). As Lauristin states, unemployment in Estonia is mainly structural — there are job vacancies, however, there are no qualified labour forces that can fill these positions. The Russian-speaking minorities, who have low Estonian-language skills, are also over-represented among the unemployed. The need for the implementation of active labour market strategies to cope with unemployment was obvious. Estonia's biggest task in catching up with the "old" EU countries was in overhauling its underdeveloped active labour market policies. In order to solve problems related to high unemployment, active labour market policies (training and re-training programs, as well as entrepreneurship subsidies to start private businesses) have been a priority among Estonian policy-makers since 1997 (Trumm, Ainsaar 2007).

Estonian society is also suffering from regional unemployment. The area surrounding the city capital is well developed and attracts a lot of foreign as well as national investment. Consequently, unemployment is low in and around Tallinn. But this cannot be said for other regions of Estonia, in particular those which are over-represented by ethnic minorities. Estonian researchers and policy-makers do hope that the implementation of the EU structural funds can help to solve problems related to regional disparities in unemployment (Lauristin 2003).

Although, unemployment was rather high during the first years of independence in Estonia, unemployment benefits were and still remain modest. Moreover, the duration of entitlements to support are short compared with the practices in several EU member states (see Tiirinen 2000). In order to increase benefits for the unemployed, the Estonian government introduced unemployment insurance in 2003, including contributory financing (cf. Aidukaite 2006; Trumm, Ainsaar 2007). This has increased the expenditure on the social protection of the unemployed to approximately 0.7 percent of GDP (Trumm, Ainsaar 1997).

Until 2003, the unemployment benefits in Estonia were financed by the State Budget. Currently, unemployment insurance involves two tiers. Financing for the first tier comes out of the Unemployment Insurance Fund, while the second tier is still funded by the State Budget. This second tier provides security for those who do not qualify for unemployment insurance benefit and is means-tested. Estonia's conditions for qualifying for unemployment benefits are the least strict as compared to the other Baltic states (Latvia and Lithuania) (see Aidukaite 2004). It is sufficient to have been at work or in a similar activity for at least half a year during the past twelve months. For those who cannot qualify for employment-related insurance the state pays an unemployment benefit on the basis of proven needs, as already noted. In Estonia unemployment benefits are paid for 180 to 360 days, depending on the length of the insurance period, while the flat-rate means-tested benefits (for those who do not qualify for earnings-related unemployment insurance), are granted for up to 270 days (MSAE 2002a). Estonia's flat-rate unemployment benefit in 1999 amounted to 8 percent of the average salary (Aidukaite 2004). According to new amendments, the unemployment insurance benefit currently amounts to 50 percent of the individual's previous wage during the first 100 days of unemployment (MSAE 2002a). Thus, unemployment benefits are still low by Western standards[2]. According to Lauristin (2003: 4), Estonia's unemployment benefit is the lowest in Europe, forming less than 10 percent of the average net salary. This can explain the low take-up rate among unemployed. According to the Ministry of Social Affairs of Estonia, in 2002 the take-up rate among the unemployed was about 51 percent.

Previous detailed examinations of unemployment insurance in Estonia (see Aidukaite 2006) revealed that Estonia offers a mixture of the corporatist and targeted models of social insurance, the former expressed in the attempts

[2] For example, it may be noted that unemployment insurance in Sweden in 1990 amounted to around 75 percent of an industrial worker's wage (Carroll 1999).

to increase the replacement rate for unemployment benefits, employer-employee cooperation and eligibility based on labour market participation and contributions, and the latter in eligibility based on proven needs.

Old-age and disability pensions

Economic constraints and an ageing population put enormous pressure on the system designed to protect the elderly in Estonia. Retired people currently make up around 16 percent of the population in Estonia (Lauristin 2003). The proportion of elderly people is expected to increase further (Muller 2002). In these circumstances, the Estonian government has raised the retirement age in order to maintain sufficient supplies of labour. Currently the retirement age for both sexes in Estonia is 63. Furthermore, in response to the unfavourable demographic situation, Estonia opted for privatization of pension insurance in order to ensure the financial sustainability of the pension insurance. Estonia implemented the three-pillar pension reform model propagated by the World Bank. The first pillar is a compulsory, state-managed, non-funded scheme, based on current contributions or taxes (pay-as-you-go). The second pillar is a compulsory privately-managed and funded pension scheme and was implemented in 2002. The third pillar is a voluntarily-funded private pension scheme and started to operate in Estonia in 1998 (for further details on pension reform in Estonia see Casey 2004; Paas et al. 2004: 32-39; MSAE 2002a, 2004b).

The literature (cf. Aidukaite 2006; Lauristin 2003) suggests that it is the first pillar that still bears the main burden of old-age payments in Estonia: it encompasses the largest proportion of retirees and is the most heavily financed. However, the introduction of the second and third pillars shows that private responsibilities within welfare systems have been growing. Thus, Estonia has old-age retirement schemes that are largely employment-related, based on contributions. However, a maximum and minimum level of pension has been introduced: in addition, Estonia has flat-rate pensions for those not eligible for an employment-related pension. This flat-rate pension is non-contributory and financed from general tax revenue. The qualifying conditions for the employment-related pension is the retirement age, being insured under the pension scheme for at least 15 years, the social insurance contribution period and amount. For those who are not eligible for employment-related benefits, citizenship or residency is the main criterion for access to the flat-rate pension. Thus, the take-up rate and coverage are almost 100 percent in Estonia. However, the replacement rate is maintained at low levels and accounts for only 30-40 percent of the gross average wage (see Lautistin 2003; Muller 2002). This is low according Western standards. It needs also to be kept in mind that in the Baltic states the general level of wages is low as compared to the old EU countries. Thus, as Regnard (2007) demonstrates, among the member states and the candidate countries, statutory minimum wages in 2003 varied between 92 and 1570 euros per month. In Estonia, the monthly minimum amounted to

230 euros. Of the 21 European countries that were measured, Estonia occupied 16th place (Regnard 2007, Figure 1, Figure 2).

The restructuring of the economy does not allow raising pensions as fast as the elderly would like. However, reports show that pensioners are not the poorest part of the population (Trumm 2006). Due to indexation, pensioners are relatively protected from poverty (Kore 2005).

Thus, as my research has shown (2006), taking into consideration the low replacement rates and high take-up, one can characterize old-age pensions in Estonia as falling within the basic security model, meaning that the same program covers all those insured. Eligibility is based on contributions or on citizenship (residence). The benefit levels are usually set at a flat rate, however benefit levels can vary to some extent. The United Kingdom, New Zealand, Canada, the United States, the Netherlands, Switzerland, Denmark and Ireland exemplify the basic security model. This model increases demands for private insurance (see Korpi and Palme 1998). With the implementation of the second and third pension insurance pillars, the high-income groups have the possibility to protect their standard of living through private insurance.

The social benefits for disabled people are financed from the state budget in Estonia and administered by the Social Insurance Board (Kore 2005; Trumm and Ainsaar 2007). Social benefits for disabled people have been expanded in 2001 to include (Kore 2005): disabled child allowance, disabled parents allowance, education allowance, disabled adult allowance, caregivers allowance, rehabilitation allowance, in-service training allowance.

During Soviet times disabled people were largely placed into institutional care and were kept isolated from society. Currently, the situation is changing. However, much remains to be done in this field.

Health status and health policy

When it comes to health satisfaction, Estonian citizens are among the most unsatisfied with their health in Europe. Among the 27 European Union countries surveyed in 2002, Estonians were on 24th position according to health satisfaction. Below them were only Latvians, Hungarians, Bulgarians, with Romanians at the very bottom (Eurobarometer data 2002). Longevity is another important indicator to measure health care success or failure and to measure the state of the overall health of a given country's population. As reported by the Ministry of Social Affairs of Estonia (2004), life expectancy in Estonia is ten years lower for men and 5 years lower for women than the average for the European Union. The primary causes of death are cardiovascular diseases, malignant tumors, injuries and poisonings (MSAE 2004c: 10). Residents with low income and lower levels of education or unemployed people are more likely to be sick and use health care services more often than others in Estonia. Gender and regional differences also occur in the use of health care services. Namely, women more often use health care services, but not hospital treatment, than men. The residents of rural areas more often visit a general practitioner than do urban residents, although the latter see a specialist doctor or a dentist much more often than do rural inhabitants (MSAE 2004c). Thus, it is clear that poorer residents have lower health status than those with higher income. These studies also indicate that Russian minorities in Estonia have lower health status than those of native Estonians (see Leinsalu 2002; Leinsalu et al. 2004).

Estonia opted for health care reform to solve the problems related to the health of the population. As did other Baltic states (cf. Jakusovaite et al. 2005 about health care in Lithuania and problems related with Soviet experience), Estonian society inherited a centralized health care system that delivered a mainly inefficient health care management and evinced poor resource allocation and quality of services. Additionally, the informal gifts to doctors and corruption of medical personnel were also brought over from Soviet times into the health care system of the independent Estonian.

Thus, Estonia was first among the Baltic states to replace the Soviet "free of charge" healthcare system (which was fully funded from the state budget) with health insurance financed from social insurance contributions (Lauristin 2003; Kore 2005). As reported by Kore (2005), health insurance in Estonia is defined as a compulsory system of health that covers the expenses of medical treatment and provides compensation for pharmaceuticals and cash benefits in the case of sickness, injury, pregnancy and childbirth. Therefore, everyone whose employer pays social tax into the health insurance Fund (which became a public institution independent from the government in 2000) is ensured in the case of sickness. However, those who have no insurance coverage, such as pensioners, registered unemployed persons, dependent family members of the insured persons (including children under the age eighteen and students in full-time schooling), caregivers of infants under the age of three, caregivers of disabled children or adults, and pregnant women are also covered by the health insurance according to the principle of solidarity (Lauristin 2003: 6).

Nevertheless, seven percent of the working age population in Estonia are not insured and are entitled only to a first aid in the case of emergency. Municipalities partially cover the expenses of medical treatment of persons without insurance (Kore 2005).

It should be also noted that as a result of health care reforms, the family doctor system has been implemented in Estonia. This is a system similar to that in Germany. Almost all residents are registered at the family doctor's of their own choice (MSAE 2004c). As reported by Kore (2005), the number of family doctors has been increasing each year. For instance, in 1995 there were 104 family doctors, while in 2001 the number increased to 557.

In terms of satisfaction with the health care system, Estonians were on 19th place among the 27 EU countries and Turkey (Eurobarometer data 2002). Based on that same data, it is justified to state that although Estonian society has gone through the reform of its health care system, it is still necessary to do more in this field. As Lauristin points out (2003), problems still persist in Estonia's health care, including the rising cost of medicines, and the low wages of physicians and nurses. Mistreatment of patients is also a common complaint in Estonia. These problems create constant dissatisfaction with health care. The poor financing of health care does not allow all the problems to be solved effectively.

Education development and policy

Estonian society can be labeled as highly educated. The literacy rate in Estonia is 99 percent, as reported by the Ministry of Social Affairs of Estonia (2004c). The share of people in the age group 29-59 having at least secondary education is 88 percent. The number of students in higher and vocational schooling is increasing each year. Estonia is also a country of information consumption, actively using the advantages of a modern communication infrastructure. In fall 2003, 43 percent of the population had regular access to the Internet (Lauristin 2003:6).

However, some negative tendencies are also observed. Namely, the share of individuals with only basic or unfinished basic education is increasing, as is the dropout rate of students from schools, already reaching about 7 percent of pupils (Lauristin 2003; MSAE 2004c).

Nevertheless, even if the Estonian government is aware that the country's future progress can be aided in increasing the high level of education, the education system at present is not diminishing social disparities. In fact, it is increasing disparities between various regions and social groups (Lauristin 2003). It need also be mentioned that Russian minorities without sufficient knowledge of Estonian language are particularly disadvantaged in this respect. Thus, it is not surprising that in the area of education, the government places strong emphasis on creating opportunities for children of non-Estonian speaking families to study the Estonian language at no cost during the year preceding the commencement of primary school (see MSAE 2004: 18). In order to better integrate Russian-language school graduates into society, emphasis is also placed on the improvement of the professional skills of teachers employed at schools in Russian-speaking communities (see MSAE 2004c: 27).

The prestige of higher education is great in Estonia. The citizens and the government know that education is a key to improved well-being. Studies show that people with lower education have lower standards of material well-being in Estonia (see Aidukaite, 2006). Thus, competition for access to the best high schools and universities is growing, with almost 70 percent of eligible young people attempting university education each year. Nevertheless, the reforms in vocational training and higher education are still underway. The reform is meant to make vocational training more attractive. Moreover, priority is going to be placed more strongly on industrial specialties based on contemporary technologies that are in such demand in contemporary Estonia (Lauristin 2003).

Poverty, social exclusion, social activation and inclusion policy

Numerous studies have demonstrated that countries which have generous and well-developed welfare systems have low levels of poverty and income inequality. Relevant examples of this are Sweden, Norway and Finland. Countries that have less developed and less generous social policies have higher income inequalities and higher poverty rates (cf. Korpi and Palme 1998). Poverty and inequality have increased dramatically in Central and Eastern Europe since the collapse of the various communist regimes. Estonia was no exception. According to numerous reports (Eubusiness 2007; Trumm 2006; United Nations 2006), Estonia's income inequality is among the worst in the EU, "where the wealthiest quintile as an average has an income six times exceeding the average income of the poorest 20 percent of the population" (Trumm 2006: 23 – see also table 2.3.3). A worse situation is observed only in Lithuania, Latvia, Poland and Portugal (Eubusiness 2007). Income inequality as measured by the Gini coefficient (35.8 in 2003) also shows that income inequality has increased in Estonia since the collapse of the Soviet regime. However, the fellow Baltic countries, Lithuania (36) and in particular Latvia (37.7) have slightly higher income inequality (see table 2.3.3). The high Gini coefficient[3] implies that Estonia has a relatively high poverty rate. Eurostat data confirm this. The at-risk-of-poverty-rate (defined according to Eurostat methodology as 60 percent of median equivalent disposable income) in Estonia in 2006 was 18 percent. This is higher that the EU average of 16 percent.

Table 2.3.3: Gini coefficient and average net wages in the Baltic States

Countries	Gini index 2003	Gini index (Soviet period) 1988/89	Inequality of income distribution 2007	2007/2008 Human Development Index ranking
Estonia	35.8	23.0	5.5	44
Latvia	37.7	22.5	7.9	45
Lithuania	36	22.5	6.3	43

Source: Central Statistical Bureau, 2001; United Nations 2006; http://hdr.undp.org/en/statistics/

The data above indicate that although wealth and wages have been steadily increasing in Estonia, certain groups of the population still remain in poverty. Previous studies (UNDP 1999, 2001) have indicated that living conditions have deteriorated particularly for those with low education, the unemployed, single parents, the elderly, and families with three and more children. The

[3] The Gini coefficient measures the degree of inequality in income distribution. Its value ranges between 0 and 1. The higher the Gini coefficient (the closer its value to 1), the higher the income inequality in a given country.

recent analyses of poverty carried out by Trumm (2005, 2006) have also revealed a rather traditional structure of poverty. Namely, single parents, the unemployed, those with low education, young people and retired living alone and households with many children are at the highest risk of poverty. Among them, young people living alone or working-age singles are at the highest risk of poverty, where about 40 percent of single young people are living in poverty (Trumm 2006). This speaks volumes about the inefficiency of labour and social policies. This also shows that salaries are still low in Estonia and it is difficult to survive on a low wage alone. The best situation, as reported by Trumm (2006), "is that of childless couples in working- or retirement-age […] in the case of retired couples, the poverty rate is only about a third of that in the population as a whole" (p. 25). Since the retirement pension is gradually rising in Estonia, poverty among the elderly is decreasing slightly.

The situation reported above can be confirmed by other studies. In 2005 I found in Estonia that people who are of a younger age, married/cohabiting, having a university degree and being native Estonians are "winners" in the transitional process. People of an older age, single and with lower education are "losers" in contemporary Estonia. It is also worth noting that according to Statistics Estonia (2004), only 14.3 percent of the Russian-speaking minority fell into the upper income bracket, compared with 22.6 percent of Estonians (quoted by Eubusiness 2007).

The social policy system is designed to mitigate poverty and inequalities in a given society. The relatively high-income inequality and poverty in Estonian society indicates that the social policy system is not able to cope with social problems effectively. According to Trumm (2006), the current level of inequality indicates the particular inefficiency of the system in redistribution of resources and the provision of equal opportunities. Nevertheless, the role of social transfers (e.g., pensions, child and unemployment benefits, etc) in poverty reduction is undeniably important. In the absence of any social transfers, the poverty risk would be over 40 percent in Estonia, instead of the present 18 percent. This means that more than one fifth of the Estonian population is lifted out of poverty by the social transfers. However, pension payments carry the main burden in the prevention of poverty (Trumm 2006: 27).

Poverty cannot be measured by low income alone. Thus, French researchers developed the concept of social exclusion that has become the prevalent definition used in the European Union. According to this definition, low income is not regarded a sufficient cause for being labeled poor, but rather issues of membership and participation in broader society are regarded as the main reason for being labeled poor. The poor, according to the concept of social exclusion, are those who are excluded from ordinary living patterns, customs and activities regarded as normal by others in society (cf. Abrahamson 2007). Social exclusion is a relatively new term and field of policy action for Estonia. Nevertheless, the analysis based on data from the European Commission's Eurobarometer

Survey carried out in 2002 reports a high level of perceived social exclusion in Estonia – 18 percent of the population, which is 1.5 times higher than the average for the EU-25 (see table 2.3.4). The degree of polarization of perceived social exclusion in Estonia is much higher compared to the EU-25 average and the socio-demographic factors are significant determinants of social exclusion (e.g., people over 55 years have reported perceived social exclusion three times often compared to those 15-24 years old, which is the biggest age-specific differences in the European Union – Trumm 2006: 28-29).

Table 2.3.4: At-risk-of-poverty rate after social transfers

Countries	2000	2001	2002	2003	2004	2005	2006
Estonia	18	18	18	18	20*	18	18
Latvia	16	·	·	·	·	19*	23
Lithuania	17	17	·	·	·	21*	20
EU-15**	15	15	·	15	17	16	16
EU-25**	16	16	·	15	16	16	16

Notes: *break in series, **according to Eurostat estimates.
Source: Eurostat data

Another important indicator to measure poverty is the degree of material deprivation. As reported by Guio (2005), in the current list of common (EU) indicators of poverty and social exclusion used in the context of the Open Method of Coordination on social inclusion, primary focus is on indicators of relative income poverty, defined in relation to the distribution of income within each country. Nevertheless, questions are raised concerning the ability of the existing portfolio of indicators to satisfactorily reflect the situation in new member states as well as differences between them and the old member states. Thus, the material deprivation measures, based on various dimensions (economic strain, enforced lack of durables and problems with housing), have become supplementary measures in evaluating and implementing social inclusion policies in the EU. The latest data of the European Commission (reported by Guio 2005) demonstrated that Estonia is among the EU-25 countries with the highest deprivation indicators, together with Lithuania, Latvia, Poland, Bulgaria and Romania. 28 percent of citizens in Estonia cannot afford a meal with meat, chicken or fish every second day (if they so want). Around 35 percent in Estonia cannot afford to have a car, but would like to. The proportion of people that declared problems with accommodations (dilapidation of windows, doors and floors) is 40 percent. These figures are much higher that the EU-15 average.

Thus, despite the many impressive achievements of the almost two decades of Estonian independence, social problems such as income inequalities, high material deprivation and social exclusion are still urgent issues to be solved in the future.

2.3.5. European integration and the national welfare state

The impact of EU social legislation on national social policy

Numerous studies have acknowledged that the EU's impact on the development of social policy in a given country is of a limited scope (cf. Keune 2008; Palier and Guillen 2004; Rys 2001a, 2001b). According to Rys (2001b: 185), "the EU does not impose on member countries any specific hard law rules on social policy". Studies stress that EU accession procedures are only interested in the financial aspects of the social protection system (see Rys 2001a, b; Wehner et al. 2004). This means that the impact of the EU on social policy reform might be difficult to detect. The influence of Europeanization can be mainly assessed, as stated by Palier and Guillen (2004: 204), through the concept of "cognitive Europeanization" – i.e., a way for policy-makers to construct attitudes and perceptions towards social problems and to tackle them.

When it comes to Estonia, several researchers (Lauristin 2003; Leppik 2005; Kore 2005) have pointed out that the direct influence of EU social legislation on Estonian social policy has been rather limited. The desire to achieve membership in the EU was the main goal of national policy and one of the most influential variables, in that it stimulated Estonia's desire to achieve astonishing results in various fields of economic and political life. However, regarding the field of social policy, indirect influences are most readily detectable. One of these is the ratification of the European Social Charter in 2000, through which Estonian policy-makers accepted European social values in the field of social policy. According to the priorities set up by the European Social Charter, Estonia's social policy as a new member of the EU should follow the recommendations stated below (Lauristin 2003:10):

- raising expenditures in the social sphere (as was noted previously, the expenditures on social protection in Estonia are among the lowest in the EU);
- making efforts to raise the living standard of the whole population. The most effective means here is more productive and decently paid work. This will counteract labour policies based on the hope of preserving cheap labour as an attraction to foreign companies;
- increasing the role of active measures in labour market policy, interrelating labour market policy and regional policy, developing cooperation between labour market institutions and the education system;
- raising cost efficiency and the quality of heath care for improving public health;
- expanding the support for families with children and for the elderly, in terms not only of cash benefits, but also of better services.

Overall, Estonia should strive to achieve the level of generosity, high quality and efficiency of the Western welfare states. This, however, cannot be attained right away. The joint efforts of the state, governmental and non-governmental organizations, civil society and individuals themselves are required in order to achieve this.

Thus, among the economic and political criteria set up by the EU, the ratification of the European Social Charter was required. Another condition was to ensure the financial sustainability of pension insurance. However, the EU did not have any common pension policy, so there were really no suggestions or recommendations on how pension policy (threatened by the population's rapid ageing) should be reformed in order to ensure financial sustainability (Leppik 2005).

Impact of the Open Method of Coordination

The Open Method of Coordination – established in order to further greater co-operation in the area of social protection among the EU member states – is aimed at helping them develop their own social policies through the process of learning about the best practices. At the same time, it takes into account the specific local conditions of a given country, where the new social policy measures are to be implemented. The Open Method of Coordination refers to a mutual feedback process of planning, examination, comparison, and adjustment of the social policies of the member states. Emphasis is on "policy learning" and spreading best practices in a broad variety of policies such as employment, education policy, pension reform and so forth (Wehner et al. 2004).

The impact of the OMC on social policy reform in Estonia is rather ambiguous. Trumm (2006) claims that the European Employment Strategy (EES) and social inclusion of the OMC forms a strong framework for Estonia's social policy development today. Nevertheless, the extent to which the EES influenced the content of national employment policy is not clear. In Estonia, the EES discourse on the importance of giving precedence to active rather than passive labour market policies, resulted in higher expenditures on labour market policies. The expenditure grew by 54.8 percent in 2005 compared to 2004. However, the proportion of GDP devoted to labour market policies is still very low in Estonia and amounted to a mere 0.15 percent, which is extremely low compared to the average of 2.33 percent for the EU-15 (Keune 2008: 13).

As reported by Leppik (2005: 107), "based on Government statements, Estonia is likely to stay in the group of countries that prefer to keep social and tax policies in the national competence as far as possible. This position entails saying 'yes' to the OMC, but 'no' to increasing the legal competence of the EU in the field of social and tax policies. Obviously, this view relates to the position held by successive Estonian governments (in spite of changes in political coalitions) to maintain the economic competitiveness of the country". Thus, it is not surprising that even Estonia was involved in the OMC in the field of pension policy. However, the three pillar model for pension insurance was implemented by the WB, which meant more liberalization in the social protection system and consequently a move away from the European social values of solidarity and universalism. On the other hand, the main concern of the "old" member states in discussions on the OMC was how to increase the financial sustainability of their pensions without really proposing other solutions for pension policy reform.

However, positive signs of the OMC's influence in Estonia can be observed. As stated by Leppik (2005), application of the OMC has undoubtedly improved policy coordination between employment policy and pension policy, and between social inclusion policy and pension policy. It also enriches domestic policy debate by bringing new dimensions to it and providing a new framework for comparisons. For instance, promoters of higher social rights in Estonia can point out low replacement rates for pensions as compared to the EU-15 average. This kind of comparison can work as an empowerment tool for some of the domestic interest groups. Trade unions and NGOs (e.g., pensioners' and disabled persons' organizations) have used the "European argument" in their requests for higher social protection (Leppik 2005: 107). Thus, in the long run, the indirect impact of the OMC might make considerable impact on the development of social rights. This is an optimistic prognosis. However, taking into account the altogether low level of civil society in Estonia, the prevailing right-wing political coalitions, the increasing impact of globalization, as well as the government's will to maintain the economic competitiveness of the country by decreasing the legal competence of the EU in the field of social and tax policies, the OMC's impact remains quite marginal to date.

It should be also admitted that as Lauristin (2003: 10) nicely pointed out, "contradictions between the high expectations of people, inspired by Western standards of welfare, and Eastern European living standards cannot be overcome only through better social policy. This is a challenge for the continuing development of Estonian society as a whole".

Relevance of EU concepts and programs

It is worth mentioning the Phare (and Phare Consensus) programs, which provided technical assistance during the country's period of candidature. These programs have primarily helped to build the competence and administrative capacity of civil servants in the social policy field. Nevertheless, the impact of Phare programs on policy choices has been very limited, and even those cases rather concern more policy implementation than the actual policy itself (Leppik 2005: 104).

Indirect influence from other areas, especially from the economy

There can be no doubt, but that the economy and the welfare state are intertwined. In a study of welfare state/economy relations, Esping-Andersen

(1994) came to the conclusion that the welfare state is not something opposed to or in some way related to the economy. Instead, it is an integral element in the organic linkage of production, reproduction, and consumption, none of which can survive without the others. The decreased economic output in the three Baltic states (Estonia, Latvia and Lithuania) is undoubtedly a significant factor in explaining why these states have trouble catching up with the West. The dramatic decline in GDP, the financial crises, and high inflation during the first years of independence (see European Bank 1998) and the rapid GDP growth and stabilization of financial sectors (see European Commission 2002) made and still make an impact on the affordability of the welfare states of those countries. However, even in developed capitalist countries, successful economic performance cannot fully explain the differences between welfare state regimes. The rapid economic progress in Estonia over recent years has not necessarily brought an expansion of social policies toward a more universalistic approach. The political will to move towards a more egalitarian society is necessary. It also should be mentioned that at present, the transformation of social policy in Estonia is determined not only by budgetary constraints, but also by such significant factors as the population's ageing.

Overall, social policy is shaped by a diversity of forces, particularly in transitional countries (Aidukaite 2004). The welfare state's development should be studied as if embedded in the societal, economic, political, cultural and historical aspects of a given society, taking also political, economic and cultural globalization and Europeanization into account.

National discussion on the European Social Model and European social policy, perspectives

Estonia is one of the former Soviet republics that never wanted to be part of a communist regime. Therefore, after the fall of the Soviet empire, all values propagated by the Soviet state such as equality, universalism and high state responsibility and involvement in the individual's life, were abandoned as alien to Estonian people. This is because the Soviet state did not create economic prosperity for its populations. Belief in the free market economy and neo-liberal economic values was and still are rather strong. This affected the current stage of Estonian social policy. The major tasks for Estonia's governments, ones which were strongly supported by the entire population, were to join the EU and NATO, so as to free themselves from the fear of being drawn back into bad experiences again. The Soviet past was taken as an absolute "bad" and the Western world and culture, which is sometimes represented by the American free-market economic paradise, was taken as an absolute "good". Although, Estonians claim to be very close in cultural values to the Nordic countries, in particular Finland, the negative experiences of the Soviet paternalistic state, which was taking care of everybody in every situation, without leaving much room for initiative on the part of the individual, created a situation where social values such as equality for everybody and solidarity among classes, which are features of many Nordic societies, were to some extent abandoned (cf. Aidukaite 2003 on Estonians' views on distributive justice). Only with the EU's enlargement, were the European social values propagated through the concept of ideal-typical European Social Model taken seriously into account in Estonian political discussions on social policy. The sharp inequalities generated by the free market economy during the period of transition created social and political tensions in Estonian society, ones which needed to be solved in order to proceed further with the successful reforms. The entrance into the EU – a community of affluence, democracy and solidarity – stimulated hope for a better future in the social field. The well-known Estonian scientist and social policy maker Marju Lauristin describes just this.

A need for the new and socially focused paradigm in politics was one of the most popular themes during the election campaign of 2003, and it was stressed even more during the EU referendum campaign of August and September 2003. The main slogan of the official "yes" was that as a member of the EU "life will become better" for the ordinary citizen. The expectation that accession to the EU would change the Estonian political agenda and bring a more favorable solution towards social issues was explicitly expressed in the TV address made by the president of the Estonian Republic on the eve of the referendum (Lauristin 2003: 9).

2.3.6. Conclusion
Is European integration a convergence factor in the field of social policy?

The collapse of the communist regimes in Central and Eastern Europe and the economic-social restructuring that followed has also coincided with the increasing impact of globalization and Europeanization in the XXI century. At present welfare state systems of the postcommunist countries have to deal not only with internal pressures, but also with external influences, such as the EU and other global organizations (the IMF and the WB). Scholars and policy-makers have been talking about the crisis of the European welfare model and the overall shift towards more liberal ideas when it comes to social protection. Currently the rhetorical question – can the European social model, whatever form it takes, be applied to the emerging global community? – is on the agenda of social policy researchers and policy-makers. The enlargement of the European Union in particular has sharpened this debate, since the new EU countries joined the EU with less generous and relatively unstable welfare systems.

Many previous studies that examined Eastern Europe observed the welfare state's development as falling (following Esping-Andersen's [1990] or Titmuss' [1974] typologies) within the liberal or residual regime (see Ferge 1997, 2001; Standing 1996), in which welfare is based on a mix of social insurance and social assistance, and a partial privatization of social policy. Yet, as those studies underlined, the attempts to reform have come up against a legacy of what was essentially comprehensive social policy. However, recent studies seem to be far more optimistic. Manning (2004) offers a comprehensive comparative overview of the social policy systems of the eight Central and Eastern European countries (including Lithuania) that joined the EU in 2004. He ends with an optimistic note that "while eight new EU countries (Estonia, Latvia, Lithuania, Poland, the Czech Republic, Slovakia, Slovenia, Hungary) may not have the same potential for rapid development that has been the experience of Spain and Ireland since joining the EU, it would appear that the new CEE members are currently poised for a period of economic growth, and dynamic and flexible policy making, with an improving social base which may look quite positive after a further 10 years of EU membership" (p. 231). The overview of the social policy system of Estonia also allows for an optimistic prognosis. The Estonian social policy system was transformed in a more residual way during these years of independence; however, it still remains quite comprehensive. Family policy, with its universal benefits, forms a very strong basis for solidarity among classes and gender equality. The social protection system is still quite universal, as it gives a basic security to everybody. Overall, Estonian social policy exhibits all features of the developed welfare states. However, benefit levels are still lower than in the old EU countries. Nevertheless, it is possible to detect some positive trends in this field – benefit levels have been increasing gradually, as was illustrated by the example of pension insurance and unemployment insurance.

This paper reveals that Estonian social policy is rather comprehensive in its coverage and overall ideas about children and gender equality. These lessons have been learnt from the Scandinavian countries and Finland. At the same time the influence of liberal ideology has impacted to some extent the development of the welfare state in Estonia, too. Estonia seems to want to combine both "an American dream" of the free market economy and universal ideals about the family and children and gender equality.

European integration no doubt helps hold Estonian social policy to solidarity and a more universal character. And its influence might be felt even more in the years to come. The comprehensive structures inherited from Soviet times are still deeply rooted in Estonia's social protection system, which also keeps the Estonian social security system in a universal track. The Soviet system inherited from the past was undemocratic, but highly universal and comprehensive. This system was transformed in line with liberalism, but not completely so. Estonia's citizens reject the idea of a strong paternalistic state, but they still want to have a universal and comprehensive social protection system.

Thus, this paper ends on the optimistic note that the European Social Model will survive, and that it points the way to the future for Estonian society.

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4. France's national model of the welfare state: tradition and changes

Introduction

The social protection system *(Sécurité Sociale*) and its organization is a very important part of contemporary French identity and civilization. Public opinion is very sensitive to developments in these areas. The general sentiment is that of satisfaction with the existing system. Reform projects are generally considered to be attempts to limit its existing advantages.

The developments in European integration are not well known or discussed in France. Their social content is ignored, something which increases the suspicion that the "liberal" European orientation advocates a minimalist social model that would limit today's generous social protection coverage. However, the ineffectiveness of the domestic system is also quite often ignored. There is little public discussion of the weaknesses of the French *Sécurité Sociale* as compared to other European countries, and little discussion of the potentially positive impact of European integration on the situation in France. The aim of this text is to explore the realities and particularities of the French social protection system from the perspective of European integration. It is based to a large extent on recent administrative and institutional reports, along with research about national debate on specific social protection topics.

The first section is devoted to the system's historical background and a general description of its philosophy. This is crucial to understanding the violent rejection of past reform projects and the evolving approval for the social project. The roles of the state and of social partner organizations, associations and NGOs are described to elucidate both the mechanisms for, and the institutional and traditional obstacles to development. The structure and main characteristics of all social security sectors are reviewed in an effort to critique their efficiency and evaluate them from the perspective of European integration.

Four features are particularly apparent:

- The *contributive* tradition of basing all social benefits on work, and linking them with wage-based contributions.
- The *state's independent* social protection structures (though recently this independence is only formal).

- The *complex nature* of the system, which results from a variety of factors, including: its historical evolution; a "sedimentation process" that added new layers into the existing system rather than replacing them; the increasing range of social protection coverage.
- The *incoherent* institutional structure and management that combines highly centralized and decentralized decision and management units, and mixes the real and nominal responsibilities of the state and social partners.

The second section gives a statistical overview of recent developments in social protection issues: demographics, the labour market, old age and disability pensions, along with health, education and social inequalities. This paper tentatively evaluates the development of and challenges to policy making in these areas, ever underlining that France's dynamic demographics and specific labour market and employment situation distinguish her from the majority of European countries.

The third section discusses the interactions between the national welfare system and European Union attempts to harmonize European social welfare models. Though relatively absent from national debates, this issue has become more and more important in national legislative frameworks as a result of European directives on integration. However, the possibility of truly harmonizing European social systems is a debatable and controversial matter.

The French system has been shaped over the course of more than 100 years. Both internal social forces and external models of social protection have contributed to its development. It represents a complex mixture of different institutional configurations and offers a valuable "experimental model" for seeking possible solutions for the European problems of diversity and complexity.

2.4.1. The roots and development of the national welfare regime and the evolution of social values

The roots of social protection and social values.

The state as an actor in social protection and specific social policies appeared relatively recently in French history. Until the mid-nineteenth century, the "actors" in the arena of social protection were essentially family networks and, to a lesser extent, various forms of corporations. Apart from these neighborhood organizations, the only "authorities" that took care of people confronting lifetime difficulties were ecclesiastical institutions, rather than state or local authorities. The "social question" of the nineteenth century was posed late in France, after it was raised in more industrially developed countries like Great Britain and Germany. The reason for this relative delay seems to be the unique integration of French industrial development with the rural environment, based on symbiotic industrial and rural activity and the seasonal migration of rural populations. In France, more than in other industrialized countries, industrial and agricultural work has been organized along seasonal lines and assumed by peasant-workers who performed both functions (Joint-Lambert et al. 1994).

The development of state intervention in matters of social protection occurred in three stages:

- from 1841 to 1890, when the state faced increasing pauperization in becoming progressively active in various forms of social protection;
- from the late nineteenth century to the end of World War II, when the state took on an expanded role as a social insurer; and
- after World War II, when concepts of the "Social State", "Welfare State" and "Social Instigator" became more prominent (Donzelot 1984).

During the first period the main values guiding state social action centered on public health problems and protection of the most vulnerable workers. Legislation on child labour passed in 1841 launched the protective role of the state. Earlier, there had been no direct state intervention on such matters in the private sphere. This situation was a consequence of principles inherited from the French revolution of 1789: the independence of the law; equality under the law; and individual responsibility. These principles militated against radical state initiatives that could be considered intervention in the private sphere, *ergo*, as encroachments on individual liberty (Furet 1988). Here we face a very real tension between opposing ideals. On the one hand, we have the "right of individual freedom", protecting individuals against state abuse. On the other hand, we have the necessity for a "social right", and creating social benefits associated with direct state intervention. It was only under the extreme pressure of revolutionary conditions, economic crisis and unemployment, that in 1848 the state attempted to guarantee work to all citizens (Louis Blanc in 1848). This decision was followed by the creation of national workshops which employed up to 100,000 workers. Implicitly, the right to work was to be guaranteed for the first time. But the state quickly abandoned the project because of legal obstacles and a lack of resources.

During the second period (1890-1945) the development of state social protection was a consequence of very rapid industrialization accompanied by rural market liberalization and culminating in a very serious crisis between 1880 and 1890. During that period the real proletariat had been expanding dramatically. The interdependence of different social groups, as a consequence of specialization and the division of labour, changed the perception of the nature of social solidarity. Social solidarity became a necessity not only for vulnerable individuals, but for entire social strata formed by the phenomenon of the division of labour. In this context, and in keeping with the French republican tradition of avoiding state responsibility in the social sphere, the idea of social insurance was an excellent compromise between the need for protection and institutional obstacles to it. State intervention could be limited to the institutionalization of workers' representation, and insurance could be used to cover the social risk. 1898 legislation on occupational accidents can be considered the real origin of social protection based on social insurance in France. This point marked the beginning of the progressive substitution of social insurance for some of the work contract guarantees. It also created an opportunity for the development of trade unions and reinforced their role in the organization of work relationships. Employers partially liberated from the responsibility of coverage for certain occupational risks were ever more committed to economic rationality and to building their own organization to protect their interests. The culmination of this trend was in 1930, when the role of social insurance was expanded to encompass social risks, and adequate institutions for social protection were established. This process was instigated by the state, which, consistent with the old republican emphasis on individual freedom, continued to avoid direct responsibility.

The third period (1945-1973) opened the "welfare state" era. The new 1946 constitution stipulated that all individuals and families are guaranteed the right to all necessary means to their development. It also specified that everybody should work and everybody should have the possibility to obtain a job. People unable to work should be helped by the nation and guaranteed decent living conditions. The terrible experience of World War II, which required the mobilization of the state and the entire population, associated with the experience of Keynesian economics, showed that the distribution between state and citizens of responsibility for social protection and improvement of the economic situation can be a fruitful means of organizing social welfare. From the economic point of view, it meant that social protection can be considered also as a growth factor and not only as a cost. From the social protection perspective, it pointed out the limitations of the social insurance technique to cover social risks in contrast to a more universal concept of "social security" based on the collective solidarity of the whole society. "Social rights" were progressively substituted for the "social insurance" concept.

The rapid expansion of the welfare state, fed by continuous economic growth and full employment in the sixties, led to expanded social coverage of various social categories, such as the self-employed, farmers, and shopkeepers. However, this did not mean that the whole population was covered by a social protection system in that period. Moreover, the solidarity principle, the basic notion of the welfare state, was not integrated into institutional structures. Several branches of social insurance (health, retirement, family) were maintained and even reinforced as a method of institutional funding.

Since the very beginning of the welfare state period (1945), institutional solutions have also been associated with the inherited tradition of participation by trade unions (or more exactly, social partners). Social systems are run with the direct collaboration of so-called "representative trade unions" that share responsibility with the state for social systems management.

Exceptional economic growth and institutional reform efforts reduced the considerable lag in French social protection efforts (measured as GDP share) as compared with other developed European countries. The early seventies, associated with the simultaneous strong economic growth and expanding social protection sector, were probably the apogee of the French welfare system. The 1974 oil crisis, increasing inflation, and unemployment closed this period and started a new one, during which trends in social protection have resembled those of the past. This represents a response to the present economic crisis (growing unemployment, poverty, exclusion), rather than to demands for expansive development to meet social needs.

The end of the long period of prosperity (*trente glorieuses)* came with the deep economic crisis of the mid-1970s and considerably influenced the development of social protection. Rising funding needs – caused essentially by high unemployment, and later by the problems of an ageing society – called into question the limits on state intervention, the rules on participation in management by social partners, and especially the rules for funding the system based mainly on employment contributions. The debates on reform – and hence the reforms which have been realized since then – have their origin in the breakdown of the seventies.

Evolution of the social protection model

Historically, the French social protection model is a result of three traditions of different forms of social assistance or risk prevention. All of them, to differing extents, are present in today's system, even if their respective weights have changed considerably.

- *Individual foresight.* This concept was inherited from the 1789 revolutionary principle of individual liberty and was based on the accumulation of individual savings. Wage earners, a developing group, should save to preserve themselves and their families from the risk of poverty and to achieve social mobility. This ideology, based on the liberal principle of *free choice,* was quite popular until the beginning of the XXth century
- *Assistance–insurance response.* The origin of this approach was the XIXth-century need to address the situation of impoverished workers and those unable to work. The responsibility for such social assistance went to territorial public institutions. Indeed, from 1889 assistance was to be delivered on the local level as close as possible to the concerned individuals. Further, under the subsidiarity principle, it was available only as the very last resort, when there was no other help possible, such as employment or family support. The importance of these regulations is that they reflect recognition of public responsibility for economic assistance.

At the same time, the concept of insurance as a means to manage social risk was developing. First workers' savings were covered by mutual insurance and then other types of risk were included. Only certain social groups and corporations were involved in this mutual insurance, and it represented only limited principles of solidarity. Over time, the limited nature of this partial solidarity resulted in the state becoming involved as a full actor in the arena of social assistance and insurance. 1898 legislation on industrial accidents and old age was the very first step toward state recognition of the social risks that did not involve an explicit individual error. The first mandatory old age pension insurance for workers and peasants was established by a 1910 law. The contribution was divided between employers and employees and was capitalized. Both the trade unions and employers' organizations opposed this legislation: trade unions criticized the calculation of workers' contributions according to wages, and employers considered it to be state intervention in the field of their responsibilities. Universal mandatory social risk insurance was introduced not until 1930 on the Bismarckian model (almost 50 years later than the original), with insurance and professional components to coordinate between employers and employees as the basis of the system. (Joint-Lambert et al. 1994).

The main characteristics of this system were:

- Mandatory social protection based exclusively on work affiliation, thus limited only to workers, and more precisely to wage earners with remuneration lower then an established ceiling, beyond which individual foresight savings were considered sufficient to cover social risk.
- The insurance principle with contributions proportional to wages and benefits proportional to contributions. Under this type of contributive system, the larger the contribution, the larger the benefit.
- Coverage of health risk, old age pensions, maternity benefits, and disabilities. Coverage for occupational accidents and family benefits were added in 1932.
- Administration by social partners: employees and employers having free choice of insurance agencies.

• *The Welfare State - the comprehensive protection concept.* After World War II, two options appeared for the development of social protection – to follow the German Bismarckian system of insurance and social partners, or to turn to the more universal system proposed by the Beveridge plan in 1942. The principles of Beveridgean philosophy of social protection were shared by most French political actors in the postwar period:

- Universality – covering all risks for the entire population rather than only for wage earners;

- Uniformity – equal protection according to basic needs (instead of proportionality), and financed by uniform contributions;
- Unity – public management of the whole system by a national institution (ministry of social security);
- Integration – social protection as a common public measure in the three main domains of social policy: minimum income guarantees; health protection policy; and full employment policy (Joint-Lambert et al. 1994).

The French policy response to this dilemma was a compromise. Despite the will to go far beyond the pre-war system by implementing elements of the Beveridge plan (economic policies with the objective of full employment, protection of the whole population against social risks, minimum income guarantees, centralization of the social security institutions, etc.), this objective was not possible to achieve. Diverse segments of society, such as corporations (e.g., the self employed or farmers,) or beneficiaries of specific social protection systems (e.g., railway or electricity industries) did not want to be incorporated into a general, common, integrated system. Similarly, high wage earners did not want to join a system which, through redistributive mechanisms, would not guarantee them sufficiently high retirement pensions. Finally, certain political parties and trade union organizations rejected the idea integrating various independent social insurance institutions into one state-run agency. In fact, combining two different objectives – the proportionality of social benefits to the income lost (Bismarckian insurance principle) and the universal minimum income guarantee (Beveridgean principle) – were difficult to realize during that period. Later trends, however, have clearly been toward comprehensive coverage of social risks, especially with RMI (minimum income 1989) and the CMU (generalized health coverage 1999).

2.4.2. The French system, its philosophy, its structure, and its actors

As a consequence of the historical compromise of the 1945 law organizing the social security system in postwar France, the French "Sécurité Sociale" is a weak union of many "regimes" (schemes) controlling the main social risks, especially health issues, unemployment, and the demands of retirement and family. It is organized on the social insurance principle with many specific exceptions, and is complemented by certain universal benefits, like family allowances or, more recently, by generalized minimum income guarantees and health coverage.

The whole system is organized in independent social security units (*caisses*), formally run by the state's independent social partner institutions, but under state control. It is funded mainly by proportional, mandatory contributions based on wages, but also by progressive taxes and contributions proportional to income (CSG, CRDS). With certain exceptions, such as those related to health and family, the benefits are generally not income proportional, but are based on social minimums (Minimum Income – RMI, Lone mother benefit – API). However, the old age pension system, built entirely on the *pay as you go* principle, guarantees a relatively large degree of proportionality between contributions and benefits. This proportionality principle is particularly visible in its second mandatory pillar. Unemployment insurance benefits are also proportional to the last employment income, but are limited in time. All French residents contribute to all these systems and may be their beneficiaries.

An individual's situation depends on the specific scheme membership. There are about 120 "main schemes" (régimes de base), about 138 comple-mentary mandatory schemes, and more than 300 complementary non-mandatory schemes. The complementary mandatory schemes concentrate essentially on old age pension insurance (the second pillar). There is one basic general scheme covering the large majority of wage earners. There is also a large number of special schemes for different corporations (railway, urban transport, central bank, etc.). Inequalities among scheme benefits can be significant, especially as far as retirement rights are concerned (retirement age and replacement rate). The multitude, diversity, and relative complexity of these particular schemes are perhaps some of the major reasons for difficulties in reforming and unifying the social protection system, particularly in its old age pension branch.

Despite the resistance of social partners, the recent evolution of the French protection system has involved the state's gradual assumption of the role of a controlling and funding partner, accompanied by increasing universality of the entire system. Rapidly increasing unemployment has compromised the financial foundation of the system based on wage contributions and has necessitated more funding from direct and indirect taxes. However, despite these financial constraints on its evolution, the main principles and values of the French system remain unchanged, namely:

- The important political role of social partners in different forms of social protection management, even if the state plays the essential role in the management of financial equilibrium. Some reforms have been rejected, because they seemed to reduce social control of the system in favor of the state.
- The principles of complementarity, individual responsibility, and foresight: expansion of universal benefits has not reduced the need for complementary individual, private insurance. For example, the health system is based on the principle that only a fraction of health costs are covered by social insurance. In order to be entirely covered, the individual has to subscribe additional, non-mandatory private health insurance (often proposed by enterprises or non-profit mutual insurance companies).
- Work remains the main reference point for eligibility. Even the law guaranteeing universal minimum income (RMI), largely of Beveridgean

inspiration, was completed by the “inclusion” into labour market obligation. This obligation has never been really respected, but it is very significant for the commonly accepted principle of there being a more or less explicit counterpart for any benefit.

Administration of the Social Security system was originally organized through a network of relatively decentralized and independent units (*caisses)* corresponding to the many coexisting social protection schemes, and was run by representatives of employers and employees. It has progressively been centralized, however. Since 1945 it is the state and state administration that have played the main role in organizing the legal framework, in financing, reforming and controling the entire social protection system. They also supervise the activity of all social security institutions. However, the administration of social security still preserves many characteristics of autonomous national and regional public institutions. The main scheme (though not the only one) is organized in four formally autonomous *caisses nationales* (family, health, old age pension, unemployment) run by social partners. They are represented on the regional and department level by several hundred autonomous institutions.

The territorial institutions have become important in certain social security activities, especially since the 1983-1986 decentralization laws. They essentially run the local social assistance systems, but also control some specific health institutions – particularly in the public health domain (protections for maternity, disabilities, old age, and physical and mental dependency).

Traditionally, non-governmental institutions and associations play a very important role in health protection and particularly in the *sensu stricto* social sector. They cover up to 12 percent of health and sanitary activities (hospitals, blood transfusions or drug and alcohol addiction treatment institutions). They represent almost 50 percent of social assistance for the aged, families, children or the disabled.

It is particular to, and very representative of the social protection philosophy of the French health system that a large number of mutual insurance institutions partially finance health cost reimbursements. These are non-governmental, non-profit associations that have a special legal status (*Code de la mutualité*). They can be assigned by the social insurance general scheme administration to manage individual health insurance. This is a non-mandatory system, allowing the purchase of insurance covering health costs not reimbursed by the general scheme. Indeed, generally no more than 70 percent of medical costs are covered by the social insurance general scheme, and mutual insurance covers up to the remaining 30 percent of individual costs. About 60 percent of the population is covered by this complementary mutual health insurance (see table 2.4.1 for health expenditure distribution structure).

Table 2.4.1: Funding structure of health expenditures, %

Items	2002	2005
Social Insurance	77.1	77.1
State and local authorities	1.4	1.3
Mutual insurance	7.3	7.3
Insurance companies	2.8	3.1
Foresight institutions	2.6	2.5
Households	8.8	8.7
Total	100.0	100.0

Source : Ministère de la Santé et des Solidarités, DREES, Health Accounts

2.4.3. Social expenditures and revenues

Expenditure

In 2005, social expenditures estimated in national accounts represented 29.6 percent of France's GDP. There has been a constant progression in these expenditures since 2000 (3 percent per year in real terms). This is about 2 percentage points above the European Union average and is among the member states' highest rates. Its major share is spent on old age social transfers (44.1 percent), followed by health protection (35.3 percent). Maternity and family protection is given 9 percent of the total, employment 7.4 percent, housing benefits and subsidies 2.7 percent, and social exclusion 1.5 percent. More than 80 percent of these expenditures are paid by social security insurance and only 19 percent by other institutions (public social transfers, essentially on the local level, mutual insurance, health and retirement complement employer schemes).

Revenues

66 percent of total social protection expenditures in 2005 were financed by social contributions paid as a fixed rate of work incomes. The share of specific "social" taxes (like CSG, CRDS) is 19 percent, and those of different public contributions about 11 percent. The last one corresponds to a large extent to the transfers from local authorities and recently this has been increasing more rapidly than all other sources of financing. When compared with other countries of the European Union, the funding structure for France's social protection is characterized by a very high share of employer-employee social contributions (6 percentage points above the EU average) and one of the lowest direct tax shares.

Table 2.4.2: Macroeconomic indicators, France

Items	Value		Trend	
	1993	2005	Index 1993=100	Average annual change in %
GDP in billions of euro GDP per inhabitant in euro	•	1,710 22 272	129 121	2.1 1.6
Disposable income per inhabitant in euro	•	17 862	122	1.7
Final consumption expenditure of households per inhabitant in euro	•	15 203	123	1.7
Adjusted disposable income* per inhabitant in euro	•	22 445	120	1.6
Final consumption of households per inhabitant in euro	•	19 786	121	1.6
Compensation of employees per employee in euro	•	39 442	114	1.1
Wages less employee's social contribution – including CSG** – per employee	•	20 782	113	1.0
Employment in thousands Employment rate 15–64 years Unemployment rate	22,462 59.3 11.1	25,028 63.1 9.9	111 • •	0.9 • •
	% of GDP		Difference in percentage points	Average annual change in %
Investment (housing excluded) (1995 prices)	14.0	16.1	+2.1	14.9
Housing investment	4.2	4.2	0.0	4.1
R&D expenditures***	2.4	2.2 (2004)	- 0.2	2.2
Social protection expenditure	26.4	29.6	+3.2	•
Education and training expenditures****	6.6 (1990)	6.9	+0.3	•
Government deficit	-5.9	-2.9	-3.0	-3.5
Government debt	45.7	66.6	+20.9	•
External balance for goods and services (2000 prices)	+0.7	-1.3	-2.0	0.8

Notes: * Adjusted disposable income is the total of disposable income and individual consumption expenditures of general government that are public expenditures directly aimed at households, like public education expenditures, reimbursements of medical expenses, etc. ** CSG - Contribution Sociale Généralisée; direct tax contribution, goes towards funding health care. *** from OECD 2004 data. ****Education and training expenditures include public and private expenditures for pre-primary, primary, secondary and tertiary education and for training.

Source: CERC, 2006

2.4.4. France: social problems, social policy institutions, social policy, reforms, and challenges, 1990-2006

Demographic development, family formation patterns and family policy, gender issues

Demography

The French demographic situation and its evolution is characterized by a high and increasing birth rate, declining death rate, and moderate immigration.

For more than one hundred years, the demographic situation in France and its evolution have very often been at the center of political and economic concern. Decreasing fertility since the end of the nineteenth century, First World War casualties, and post-baby boom drops in the birth rate were the principle direct reasons for specific population and family related policies. This long tradition has enjoyed strong support from the population. It is difficult to evaluate the extent to which very generous and diverse policies aiming to increase the birth rate have really influenced today's demographic situation, but France is now one of a very few European countries that have relatively high fertility rate dynamics. As in other countries, the childbearing age in France has risen considerably since the seventies. Today's first child is arriving almost five years later than in 1975. Moreover late motherhood (after 40) is much more frequent than in the past. The completed fertility rate (number of children born per woman in a cohort of women by the end of their childbearing years) is above 2 for the 1964 generation. This number is expected to remain quite similar in the future (Prioux 2005). With 800,000 children born every year (100,000 more than 10 years ago), and with declining death rates, the French population will be growing, unlike the populations of some other European countries. Infant mortality dropped below 4 per 1000, more than 2.5 points below the level 15 years ago, and this is among the lowest rates in Europe. Life expectancies in France of 77 for men and 84 for women are among the longest in Europe. Since 1994, the life expectancy has increased more rapidly for men (by 3 years) than for women (by 2 years) (Richet –Mastain 2006). Geriatric health has also improved, with the average age to which an individual retains good health being age 72 (69 for men and 75 for women). However it remains slightly below the Swedish, Spanish and Italian level (73 years – OECD 2006). French birth and death rates have been among the four best since the nineties, and were just behind Ireland in 2005.

Migration flows have had only minimal effect on the demographic structure and situation. Since the beginning of the nineties, the migration balance has been oscillating between 40,000 and 110,000 persons. Both the number of French living abroad and the number of foreigners living in France have increased. The precise number of foreigners living in France is difficult to estimate. The adjusted census data evaluate the number of foreigners living in France as being a little less than 5 million (8 percent of the total population) with an average increase since 1990 of 54,000 a year (Borrel 2006).

The impact of these immigrants on the evolution of the demographic pattern in France does not seem to be very significant. The fertility rates of women born abroad used to be much higher than that of French-born women. The fertility rates of immigrant women after several years in France converge with those of French-born women (Legros 2003). However newcomers can have significantly higher fertility rates during their initial period of residence in France (Toulemont 2004).

France, like other European countries, is facing the problem of an ageing population with long-term declining natural growth and fertility. The French baby boom generation will in the next decade be entering old age. When compared with other countries, this demographic boom was more important and more durable. Thus, the effect of the ageing of these cohorts will be more significant and will last longer than in the majority European countries. The other characteristic of the French demographic situation is its relatively high proportion of the young (under 20) cohort.

By 2010 these tendencies of young and ageing cohorts will put France on the highest European levels of labour market demographic dependency, defined as the proportion of both over 65 and below 20 in the total population (41.1 percent, for 39.3 for EU-15 countries).

Even in the relatively short period since 1990, the changing demographic trends also have impacted family and household structures. The number of people living alone or in single-parent families has increased considerably. Nation-wide, the number of households has increased by 11 percent and the average number of persons in the household dropped from 2.6 in 1990 to 2.3 in 2004. This is not only the effect of ageing and the consequent breaking up of the family unit as a life-cycle phase, for it also concerns younger generations and is particularly significant in the 20-29 age group.

Another trend is the increasing diversity of family structures. The number of traditional families (couples with children) has been diminished considerably (by 14 percent since 1990), while all categories of single persons (with or without children) and couples without children have increased. The number of marriages has steadily diminished, with free unions or formal cohabitation unions (PACS) increasing. The latter represent today almost 20 percent of traditional marriages.

The most rapidly growing phenomenon is the number of births that take place outside official unions. In 1990 30 percent of children were born outside marriage and in 2005 this increased to more than 48 percent.

About 18 percent of marriages contracted in 2005 were concluded between a French and a foreigner partner. The age of first union has been increasing steadily. It was 31 for men and 29 for women in 2005 (28 and 26 respectively in the early nineties).

In 1999 two out of ten families with children were single parent households. One out of ten are recomposed families and their number has increased by 10 percent since 1990. More than 15 percent of children were living in single-parent families (11 percent in 1990) and 8 percent in recomposed families (7 percent in 1990) (Richet –Mastain 2006). At the same time the number of children living outside of their family (without a mother or father) diminished by 18 percent, probably as a result of family re-composition. The dominant model of a single-parent family is a single mother (63 percent) and less frequently a single father (37 percent). On the other hand, fathers recreate families more frequently and more rapidly than mothers (54 percent and 39 percent respectively) (Barre 2003).

Family Policy

As mentioned above, it is difficult to evaluate to what extent the observed demographic tendencies were at least partially the result of family policies which have always aimed to enhance both the birth rate and the well-being of both children and families. These policies were originally more oriented towards population development concerns, with mainly horizontal redistribution tools (from childless households to families with children through universal family allowances and pro-family individual tax reductions). Over time, more and more income redistributive policies were implemented to improve the situation of poor families, with a tendency to limit universal, horizontal redistribution mechanisms. The development of minimum income based transfers, increasing the weight of means-tested benefits, played this role together with enlarging different forms of maternal leave and child-care facilities. It has also always been a priority of family policy to conciliate mothers' child bearing and professional activity with well-developed child care and early childhood education facilities (*école maternelle*). Similarly, family rights, limited in the past to the traditional forms of family structures, are being adapted to new and less conventional family compositions.

The development of more individualized measures (e.g., for young adults and students) has focused on filling the gap in assistance for children between 20 and 25 who are still dependent economically on their parents, not working (unemployed), and not eligible for minimum income benefit (RMI).

Despite its expansive coverage and relative generosity when compared with that of other countries, the family policy of France is very often considered insufficient, especially in helping the poor, resolving housing problems, caring for very young children (0-2 years old), and often ignoring the presence of the first child.

The family monetary direct transfers are almost 40 billion euros (about 2 percent of GDP). This does not include strictly family-oriented non-monetary benefits like “école maternelle” (95 percent children from 2 to 6 participate in this program) or decentralized, regional child-care and specific family programs. Nor does it contain the main individual tax reductions (especially the very significant family income split rule). This share is relatively stable in time.

French family policy is one of the richest and most diversified in Europe. These characteristics make comprehensive evaluation difficult (Thélot, Villac 1998). This is certainly one of the main axes and tools of income redistribution and social policy. It more or less follows the rapid evolution of family structure and values.

Gender issues

Despite of the legal equality between men and women in France, the traditional gender roles in the family and society – and real sex discrimination – are still a reality, as they are in many other European countries. Some gender inequalities in favor of men have been eliminated or reversed (like life expectancy), but many persist, especially in the labour market, in political life, and in family life, despite significant progress and efforts.

The majority of France’s population is female (51 percent) with a life expectancy (83.8) that is 7 years longer than for men. This is a real advantage, even if it is one of the main reasons why the majority (60 percent) of 8 million single persons are women (Colin et al. 2005). However there are many domains where the situation is still unfavorable for women, despite the very clear convergence with the situations for men. For example, female participation in the labour market has continually progressed, approaching the level of men and reaching 80 percent for the 25-49 age group. However, women are more often in temporary unstable jobs – twice as frequently as men. The gender work “division” is still very typical – women working much more frequently in the services, while men dominate the sectors of construction and industry. Two out of three managers are still men, and only one out of five top managers is a women. In public administration, women represent almost 60 percent of employees, but only 13.5 percent occupy high management positions.

Increased participation in the labour market does not mean that women are working less at home, especially when children are present. Traditional division of work is still present in the family, with women spending much more time on domestic tasks, often as a partial substitute for professional work. The time spent working at home is twice as high for women as for men (4.5 hours and 2.3 hours respectively in 1999). The evolution is slow – domestic work time has been decreasing for women, although it has not been increasing for men.

In politics, the place of women is still modest, but it has been increasing since 1978. Following the last parliamentary elections (2007) women represented 18.5 percent of Assemblée Nationale, compared with 12.3 percent after the previous elections (2002). Progress is more visible in the proportional European Parliament, where 44 percent of French delegates are women (32 percent on average for other countries). Parity between men and women has almost been reached on the regional council level (47 percent female). This is a consequence of the "parity law", which since 2000 has imposed parity between men and women candidates in regional elections. Gender parity was been an important issue in both the presidential and parliamentary elections of 2007, with the promise of significant female participation in the government.

French legislation is relatively advanced in guaranteeing gender parity and protection against gender discrimination. In reality, traditional distinctions persist, despite the slow evolution towards equality. Traditional gender divisions in professional, political and family life are still largely present and are often explained by individual choices influenced by traditional values.

Labour market development

Labour market

For many years the labour market in France has presented many unique characteristics when compared to the other European countries, as in her low employment rates and high and stable unemployment, particularly among young and aged people. In 2005 the employment rate for those aged 15-64 was 63 percent – 2 percentage points less than the average for the European Union's countries before the 2004 enlargement (EU-15), and was thus among the lowest observed values. The situation has improved since the beginning of the 1990s (4 points higher in 2005 than in 1993), but to a less extent than in the EU-15 countries (5 points higher since 1993). The labour market presence of those aged 55-59 is particularly low (58 percent in France, with a European average of 67 percent). After 60 only 14 percent of people are working (36 percent in the EU-15), mainly because of the low legal retirement age in France (60). The policy encouraging early retirement has been limited, but it still remains as a solution for enterprise restructuring. Raising the employment rate among the elderly has recently become one of the major employment policy objectives. The employment rate for youth aged 15-24 was 29.3 percent in 2006, and was therefore among the lowest in the EU-15 (39.3 percent).

The low employment rates have been coupled with very high unemployment, which has regressed slightly since 1993, but was still at a very high 10 percent level in 2005 and remained among the highest in Europe. Even the traditionally strong trend of women's participation has declined when compared with other European countries since 1993. However, female participation still remains higher than the European average (73 percent in France, 69 percent in the EU-15 in 2005 among females of the 25-54 age group). Though traditionally relatively low, the women's part-time employment rate has increased from

23.6 percent in 1990 to 30 percent in 2005. More than 30 percent of these part-time jobs are employer's constrained working time rather than a woman's choice (ONPES 2006).

Job creation (or, the employment growth rate) in France over the period 1993-2005 (0.9 percent per year) was close to the EU-15 average, but very modest when compared with countries like the United Kingdom, the Netherlands, Finland, and Spain. The increase has been of more than 2.6 million (almost 3 million extra wage-earner jobs and 0.4 million fewer self employed).

Work Mobility

Change in the geographical distribution of unemployment and job creation can influence residential and professional mobility. The most significant and clearly identifiable job-search-driven mobility is that of interregional movements of the population. The most economically dynamic south and south-west regions of France have significantly increased their share in the total population (by 0.3 percent), and the northern regions' share has diminished by the same percentage. More generally, residential mobility has considerably increased over the last two decades. Since 1994 more than 12 percent of the French population has changed housing each year. This has been the most significant increase over the last 50 years (Baccaïni 2005). This mostly concerned young people (20-29), less frequently the elderly.

Professional mobility (from one job to another) depends to a large extent on age and qualifications. Since 1990 mobility has been most pronounced in the 20-40 age group with very significant amplification of this phenomenon over the last 6 years. Young and less qualified are obliged to move because of their job characteristics, i.e., their short term and poorly protected contracts. The more qualified and older move more often than in the past to obtain better remuneration conditions, rather that to look for a job under unemployment constraint (Amossé 2002).

Flexibility

French work-time organization is relatively rigid when compared with other countries. Labour legislation regulates daily, weekly, and annual working time with few possibilities for employers and employee to change it. The French distribution of working hours shows a very high concentration when compared with other countries (Evans et al. 2001).

This situation is very stable over time. However, the 35-hour work-week norm introduced in 1998 should have brought the possibility of more flexible working hour management by introducing their annual adjustment accompanied with overtime hours restrictions. The 35-hour work-week law was partially amended in 2002 by giving employers some tax compensations for the increased costs of the 35-hour work-week, but without significant effects on work time flexibility.

Policies against unemployment: working time regulations and social security funding

Since the beginning of the 1980s France has typically had one of the highest unemployment rates among European Union countries. It was never below 8.5 percent, and often above 10-11 percent. Only Spain and Greece experienced worse situations. This means that French unemployment is a consequence of structural problems in the labour market's functioning.

During the postwar period of full employment, labour market policies were developing measures to help the fluidity of supply/demand adjustments. The system of compensation for unemployment periods was introduced in 1958 (UNEDIC) on the social insurance principle and under the responsibility of social partners. It aimed to compensate the relatively short unemployment periods by a wage-level proportional benefit. These benefits were guaranteeing relatively high replacement rates even for short affiliations. Until the dramatic increase in unemployment at the end of the 1970s, this system (financed by social contributions based on wages) had no deficit problems, but its role was limited to income compensation for unemployment.

With the rising unemployment rate, new policies were commenced more and more frequently. At the beginning, in 1980, the measures undertaken aimed at the reduction of the participation rates of certain categories of workers. The first group targeted was that of workers aged 50 or more. They were offered various early retirement schemes. Similarly, mothers with numerous children were offered special parental leave allowances or home child care benefits (free choice allowance PAJE). On the other hand, the response to rising long-term unemployment was the introduction of different forms of work contract subsidies, as well as development of more or less general training and education programs.

The importance of these policies has gradually been reduced. Since the 1990s a new employment policy has been developed in two directions:

(i) Different forms of *working time reduction* employment policy: legal working time reduction with many associated employer-oriented incentives, the development of part-time. The latter was obtained by the reduction in employers' contributions for part-time jobs when compared with full-time ones. The multiplication of part-time jobs as a consequence of this measure contributed to the multiplication of unstable job situations and the increase of employer-imposed part-time (part-time or nothing).

(ii) *Lowering direct working costs* for employers through the substitution of wage social contributions by general proportional direct taxes (CSG). This measure (linked to the insurance origin of social security) was also motivated by the necessity to increase incentives for low-skilled workers' employment and better distribution of the effort of social sector financing between the active (workers) and the non-active (retired, pensioners).

These policies – considered passive and indirect – have not had a clearly positive impact on growing unemployment. One of the reasons for this was their relative volatility and very often changing parameters, as for example the reductions of social contributions for low-income workers. Work-time reduction evaluations are also difficult, and depending on the study, the increase in estimated net jobs is very large.

Since 2001 several decisions have been taken to amplify the active role of different instruments used to decrease unemployment:

- All the successive reforms of unemployment insurance have aimed at giving the existing system more *back to work* incentive by modulating the duration of benefits with respect to affiliation duration and to age. The follow-up procedures were reinforced with possible sanctions.
- Individual support procedures were introduced in 2001 and reinforced in 2005. They define a certain number of services (interviews, advising, targeting), establish the levels of intervention ("self-service", "individual support", "stepped-up support").
- General training services for the unemployed. These measures also existed in the past, but still suffer from a lack of coordination and reliable *ex post* evaluation.
- Subsidized jobs: alternate work and training contracts, specialization contracts, contracts "for the future" (non-market sector only), minimum work income contracts, (market sector only)… The large number of subsidized jobs differ very often only with respect to the source of their funding.
- Governance clarification: the aim is essentially to integrate many dispersed responsibilities, especially at the institutional level, but also between local and central actors. The often confusing French unemployment protection system is probably the most difficult to understand among those of all European countries. Different parts of the system are defined independently by different state and local institutional actors and social partners' organizations.

Difficult evaluation

Evaluating the reform's impact is difficult mainly because of the lack of the concrete data necessary. Crépon et al., (2005) compared the rates of shift from unemployment to work measured on the individual level before the 2001 reform and past reform period , but they did not find significant change. More robust results could be found only for certain homogenous sub-populations.

Debauche, Jugnot (2005), in analyzing the rate of durable out of unemployment flows between 1996-2001 and comparing the results with simulated results for the post-reform period, do not find any statistically significant effect (CERC 2005a)

Further investigations will perhaps allow more convincing results and conclusions.

Table 2.4.3: Average standards of living* and evolution of purchasing power, by social category of the household's reference person

Social categories	Living standards in 2004 (euro)	Annual average evolution 1996-2004, in %
Farming household	14 126	2.2
Craftpersons, shopkeepers, and heads of companies	21 537	2.1
Managers and higher intellectual professions	28 619	1.2
Middle-level professions	19 224	1.2
White-collars	14 905	1.3
Blue-collars	14 183	1.6
Retired persons	17 294	1.1
Unemployed persons** who have never worked and other non-labour force participants	13 237	2.2
The whole population	18 030	1.6

Notes: * The standard of living or equivalent income of a household's person is the disposable income of the household divided by its size measured in consumer units. ** Unemployed persons are classified as labour force participants according to their previous profession; those who have never worked are classified as other non-labour force participants.

Sources: INSEE-DGI, Enquête sur les revenues fiscaux 2004 (Taxable Income Survey 2004)

Old-age and disability pensions

Old age pension

The total expenditure on old-age and survivor's benefits in 2003 was about 12.6 percent of GDP, close to the European average (12.4 percent). Of course the importance of spending depends on both the number of eligible persons and on the pension benefit level. From this perspective France again is in an average position. Since the beginning of the 1990s this share has increased by about 0.3 percentage points.

Today's old age pension system has been created and developed throughout the whole postwar period. At the very beginning of the Social Security system (1945) the basic *pay as you go*, generation redistributive pension system was created. It was very quickly (1947) completed by conventional complementary schemes that were less redistributive. They were meant to respond to the need of higher retirement income coverage for average- and high-wage earners, as agreed by the social partners in line with the *pay as you go* principle. The basic system (first pillar) is a mixture of the contribution and solidarity principles, but the complementary one (second pillar) is entirely proportional to the amount of paid contributions.

The improvement of both contributive and non-contributive coverage by the various coexisting schemes has been a permanent characteristic of the French old-age social protection system. The individual convention-based complementary schemes were conjoined and have become mandatory since 1972.

The creation of an old-age minimum income (*minimum vieillesse*) in 1956 was a major step towards the enlargement of the noncontributive old-age minimum income protection for all persons aged 65 and more. It was not connected with employment record. The steady trend of improving retirement conditions observed since the end of WWII culminated with the lowering of retirement age from 65 to 60 in 1981.

The developmental period since the end of the war led to a total change of the relative situation of aged people in society. The retirement system has been almost completely generalized, incomes for the aged have risen considerably, with the result that old-age is no longer a major poverty factor. The disposable income of household heads aged more than 65 has risen throughout the postwar period and in 2005 it reached almost 80 percent of the total household population level . This evolution has not been disturbed by the general decrease in purchasing power in reference to old-age pension benefits since the beginning of the nineties (table 3).

Worsening demographic perspectives, particularly important in the *pay as you go* system and as regards the economic situation since the late eighties, have imposed new constraints on the development of pension systems (CGP 1991). Since the beginning of 1990, a set of reforms has tried to limit the growing deficit of old-age social schemes. First, the price indexation of all pensions replaced the system index on wage evolution, hitherto more advantageous for pensioners. The contribution period to obtain a full pension benefit was extended to 40 years from 37.5 in 1993 for the private sector.

Discussions, reports and more or less mature reform projects have grown in number over the whole period of 1990-2005. But after the 1995 special regime reform project, there were more reports and discussion than action (reports by Charpin, Teulade, Taddei et Balligand-de Foucauld, creation of Pension Orientation Council – COR). However, only few modifications were made to the system until 2003. In order to face current funding needs a new universal proportional tax was created (Contribution Sociale Generalisé – CSG). For the future, in expecting an increase in expenditure on old age pensions, the government in 1999 set up a special reserve found (Fond de réserve pour les retraites – FRR).

It was not until 2003 that a larger reform was voted through. It essentially concerned the increase of the contribution period, giving full pension eligibility, penalties in the case of earlier retirement, and a "prime" in the case of later retirement. Moreover, the reform introduced the price indexation of pensions, incorporation of other-than-wages income into the formulas for pension computations. The next step should include a similar reform for special schemes in public transport and public services.

The main drawback of the current system is the complexity and diversity of pension schemes, institutions and benefits. There are three main types of mandatory pension schemes:

- The universal scheme (Regime Général), with basic and complementary pillars, both *pay as you go* funded for all wage earners is run by many different institutions with their own specificities.
- Specific schemes for different categories of the self-employed with their special institutions.
- "Special schemes" covering different categories of workers in public and semi public sector with large differences among them.

This situation creates large individual disparities and generates a complex situation in the case of diversified professional trajectories.

The system is also very rigid with respect to the age limit between activity and retirement with serious constraints on individuals' choice to work or retire after the age of 60.

For many years the average pensions were rising because of favorable proportions between contributors to the schemes (active workers) and beneficiaries (pensioners) and an increase in women's labour market participation. The benefits from these tendencies are now almost completely exhausted, which limits the margin of maneuver. Generally, the replacement rates between work and retirement have been relatively stable over the period. However they are highly dependent on the duration of the individual's professional activity (and on its trajectory and change) with the financial adjustments in the system. All simulations of the system's evolution show a decrease in these rates if there is no compensation made by increasing contribution or by very high economic growth combined with an increase in productivity.

Today's debates and proposals for the improvement in old age pension funding stress more than in the past the necessity to increase the full ("normal") retirement age, to combine work and retirement and to develop old age saving programs.

Disability pensions and old age dependence

The disability expenditures (as measured by integrated national accounts) represented in 2004 1.9 percent of GDP, 0.2 percentage point more than in 2000 (1.7 percent of GDP). The disability expenditure's share in total social expenditure was 6.4 percent in 2004. About 23 percent of the total disability expenditure is devoted to disability pension payments (Bechtel J, Duee M. 2006). The existing disability protection system is a scheme based on social insurance, but solidarity mechanisms funded by state and local budgets are also present. Its principle is both economic and medical: helping to face the employed person's diminished work capacity whatever the reason, whether accident, illness, or child handicap. Three degrees of work incapacity are distinguished, with proportional compensation specific for each of them. The benefit is computed as a percentage (maximum 50 percent) of the 10 best earning years (limited to a ceiling level). The benefit for an assistant can be obtained in the case of the highest disability category. This system operates only until the age of 60. After this age the retirement schemes apply. Work is not forbidden if it is compatible with the present disability. It is possible to concurrently draw both a disability benefit and a wage, albeit within certain limits.

The solidarity scheme applies for all persons having physical or mental handicaps. Two decentralized institutions manage the system: CDES for children and the COTOREP for adults (over 20).

The approach is to a large extent individualized and benefits are modulated with respect to the need for third party assistance. The basic benefit for children is not means-tested, while it is for adults. Disability rights are periodically revisable.

A relatively recent challenge is the rising problem of old-age dependency. The ageing population increases the risks of dependency and of its duration. Special protection schemes were established for persons aged 60 and more who need assistance (PSD, AAH) in order to help them stay at home rather than in specialized institutions. These benefits are given after the decision of special socio-medical commissions.

The growing need for society to address the issues of disability led to the creation in 2004 of CNSA (*Caisse Nationale de Solidarité Autonomie)* – a new institution for financing diverse forms of help for the disabled. Its role was enlarged by the 2005 law on the equality and participation of disabled people. The objectives of CNSA are :

- to finance assistance for disabled and dependent persons
- to guarantee the equal treatment of all disabilities on the national territory.
- to audit and inform in order to control the quality of service for eligible persons.

Estimation of the number of those eligible is difficult and is determined by dependency criteria. On average it may be reckoned at 800,000 in 2005 with the prospect of a 25 percent increase over the next 15 years.

Table 2.4.4: Funding structure of health expenditures, %

Items	2002	2005
Social Insurance	77.1	77.1
State and local authorities	1.4	1.3
Mutual insurance	7.3	7.3
Insurance companies	2.8	3.1
Foresight institutions	2.6	2.5
Households	8.8	8.7
Total	100.0	100.0

Source: Ministère de la Santé et des Solidarités, DREES, Health Accounts

The health sector is organized (as describe in the first chapter) on the social insurance principle linked with employment status. The funding is based on mandatory, fully proportional contributions on employment activity incomes and completed by direct, proportional tax on all revenues.

Health status and health policy

The most important change in health care since the early 1990s was the introduction of universal health coverage (CMU) in 1999, available for all legal permanent residents for whom insurance affiliation is not possible. Access to health services was only slightly limited by the recently introduced referring doctor system. However the general scheme does not cover total patient health care expenditure. Only very serious and long-term diseases are fully reimbursed. For example, the typical reimbursement rate is 70 percent of the conventional cost of a doctor, 35-65 percent for medicine costs, 60 percent for clinical pathology laboratories, and 80 percent for conventional hospitalization. Dental and optical services are on average very badly reimbursed. The difference between real costs and social security reimbursement can be covered by non-mandatory private insurance, most frequently a mutual insurance company.

This complementary insurance is very popular in France and can be integrated into the general system's reimbursement procedures, but the individual charge for it and associated advantages can depend on incomes, employers' voluntary contributions, and also on particular characteristics. That is why complementary insurance can be a source of different ways for redistributing health costs, depending on its characteristics. This is also the reason why it is difficult to estimate individual net participation in health expenditures. However, the comprehensively estimated individual cost participation is about 9 percent of the total average real cost (see table 2.4.4). Beneficiaries of the CMU (universal health coverage) can ask for the free, means-tested complementary scheme.

Like the situation in other countries, France's is also characterized by a constant increase in health expenditures as a share of GDP. The distribution of the overall costs on the system's various actors has remained largely unchanged over time (table 2.4.4).

Health status

The most general indicator of health status – life expectancy – is higher in France (77 and 84 for men and women respectively) than the European average (DREES 2006). However, the difference between men and women remains large (7.5 years on average between 1990 and 2006), although it is slightly decreasing. Infant mortality is very low, down to 3.7o/oo in the last years. Over the recent period life expectancy has grown in France more because of the lengthening of life beyond the age of 65 than to the decrease in infant mortality. In this perspective the situation in France is also better than the European average. What is more important is that this lengthening of life concerns years in good health, without disabilities.

However, the French situation is characterized by one of Europe's highest mortality rates before the age of 65. The causes are cancers, cirrhosis and psychological troubles associated with alcohol consumption. High risk behaviors, accidents and suicides also contribute to this result.

The general health survey (CREDES 2002) shows a good self-evaluation of health status among the French population, naturally diminishing with age (graph 1). The comprehensive average appreciation is 8/10 with more than 9/10 and 6.5/10 respectively among those aged less than 25 and more than 65. Men systematically declare slightly better health status than women. The evolution of favorable opinion has been slightly decreasing over the last years for the population aged 65 and more, and has been stable for other age categories.

Mortality among the young (less than 25) is low until the age of 15, after which it increases considerably because of accidents and suicides. During the active period (25-65) increasing health troubles are linked with sight, dental and, particularly for women, mental problems. After the age of 65 health concerns increase – especially as regards joints and metabolism diseases, in addition to serious sight and dental problems.

Health inequalities

In France there are important regional disparities in life expectancy: the north, northeast, northwest, and center regions have higher mortality indicators than the French average, and especially with respect to the west, southwest, southeast, and the region of Paris. One of the important factors explaining these differences is the relative level of development.

Other disparities appear with social and income categories. The difference in life expectancy at the age of 35 between managers and blue-collar workers is seven years, both for men and women. Moreover, this difference should be increased by at least one year, if the longer disability period for workers is taken into account.

Persons in vulnerable economic situations (RMI, CMU beneficiaries) have health problems more often. The children of blue-collar workers more often suffer from dental problems, obesity, and eye diseases (DREES 2006).

The consumption of medical services differs with respect to the social category: managers or high-income social categories more often go to specialized clinics, while workers or low-income categories use hospital services instead (DREES 2006).

This type of behavioral difference can very often be linked with the reimbursement system and optional complementary coverage quality: the hospital is certainly the most convenient place for the basic type of complementary coverage and the cheapest means in the absence of this coverage.

Health policy issues

As during its beginnings, the current health protection system has been developing as a trade-off between individual and the collective concerns.

Individual rights and the private property non-violation principle are a source of criticism and debate. The place of public health policies between the individual insurance philosophy and the state intervention/national solidarity-based principle has been discussed broadly. The Social Security founded in 1945 is the attempt to conciliate these traditional oppositions: the preservation of work-related individual insurance affiliation and the development of the hospital is the main tool for the health services' universal accessibility. Thus, it is the well-equipped hospital system, with developed research and education activities, that should become the main vector of health care and progress in the health protection. The "carte sanitaire" (health care charter), the institutional planning tool established in 1991, should guarantee equal access to public health care services throughout the country.

Simultaneously, the traditional private sector (essentially doctors in private practice) will have to adapt to the developing socialized health sector. The long tradition of doctor-patient relationships lent to the moral engagement to deliver health care to everybody who needs it and ask for remuneration with respect to the patient's economic situation. This is the way the informal redistribution between patients was operating.

The 1927 convention on doctors in private practice established the following rules:

- Patients have a free choice of doctor
- Doctors have the full freedom in making prescriptions (no constraints on prescriptions)
- The amount of the doctor's remuneration is fixed by an agreement between the doctor and the patient. The doctor is paid directly by the patient.

The difficult coexistence problem of the socialized and private medical sectors has been solved by successive formal agreements between the organizations of doctors in private practice and the Social Security. Since the 1971 convention, the complex rules and procedures have been adopted to fix acceptable (for Social Security) doctors' rates, preserve the patient's free choice of doctor, and prescription freedom for doctors. Doctor's adherence to the convention opens the possibility for patients to be reimbursed by Social Security on the same conditions in the public and private sector. There is no obligation for doctors to join the convention, but no convention means no Social Security reimbursement for his patients.

This complex multi-stage system (social insurance, private complement, state funded universal coverage) suffers from serious regulation, control and governance problems. Thus, the current health protection policy has been torn between the efforts to improve universal access to medical services, their quality and the regulatory measures to control the excessive rise in costs.

During recent years these problems have been amplified by quickly increasing health care costs as a consequence of both the more and more expensive medical techniques used, and the population's ageing – with longer dependency or long disease periods. However, no deep reforms or system philosophy changes have been undertaken. The state socialized sector has been enlarged by the introduction of the CMU (universal medical coverage), but at the same time several economic measures have been taken to limit the rising costs of the system:

- downward revision of the medicines and some medical services reimbursement rates or restrictions linked with the introduction of the doctor referring system
- the modifications in the funding mechanism, essentially by raising the direct tax contribution (CSG).

Table 2.4.5: Pupils and students in education and expenditure on education, 1990-2004

Education levels	1990			2004		
	Pupils and students (000's)	Expenditure billions (euros 2004)	Expenditure per student* (euros 2004)	Pupils and students (000's)	Expenditure billions (euros 2004)	Expenditure per student* (euros 2004)
Preschools	2 644	·	2 800	2 610	·	4 400
Elementary	4 309	·	3 400	3 976	·	4 600
Primary	6 953	22.3	3 260	6 586	30.6	4 600
Secondary**	6 155	37.6	6 260	6 086	52.7	8 530
Tertiary**	1 719	13.6	7 310	2 333	19.7	8 630
Total	14 827	73.5	4 920	15 004	103.0	6 810

Notes:
* The way expenditure per student is defined changed in 1999. In particular, foreign departments were included. So, 1990 and 2004 figures are not fully comparable.
** Apprentices are distributed according to the education cycle (secondary or tertiary) they are enrolled in.

Source: MEN-DEP (DEPP 2005)

The current (2003 law text), purely medical public health policy priorities are:

- the national plan against cancerous diseases
- the national plan to limit the health consequences of violent acts, high risk and addictive behaviors
- the national plan to prevent environmental risks to health
- the national plan for quality of life improvements for persons with chronic diseases
- the improved treatment of rare diseases.

Despite its complexity, and growing and persistent access inequalities, French public opinion considers the health system very good. Its commendable quality as a whole was also recognized by the IHO (International Health Organization).

Education development and policy

The education system is considered one of the main factors for creating equal opportunity. The rich history and tradition of France's mandatory public school system (Jules Ferry's 1882 law) is viewed as a key component of social promotion and cohesion.. The tax-funded centralized public sector is dominant at all education levels, but private institutions can be integrated into the system on the basis of mixed private-public funding. Almost 17 percent of all primary and secondary level pupils are in the private sector.

The age of obligatory school attendance is from 6 to 16. The system is composed of 4 education levels:

- full pre-school level (age 2-5) with 26 percent participation rate at age of 2 and 99.8 percent at age of 3
- primary level
- secondary level
- 2 parallel university levels: selective ("grandes écoles") and open (universities).

The total expenditure on education grew over the 1990-2004 period by almost 40 percent, and its share in GDP increased from 6.6 percent to 7.1 percent. Until 1995 the main factor behind increasing expenditure was the longer education period per child. When compared with other developed countries, France is spending a relatively high share of GDP on primary and secondary education (4.2 percent), but its university level spending, at 1.4 percent of GDP (OECDb), is among the lowest. The comparison is less favorable in terms of per pupil or per student expenditure.

The whole system is based on the division into sectors, which means a very limited possibility for public school choice. Theoretically, this should guarantee the children diversity in their classes. It was also supposed to promote equal opportunity and better overall education level. However the results in terms of the number of under-performing pupils and the overall performance of the education system are much criticized. The main concern over the last decade has been that of the system's inefficiency and incapacity to provide basic knowledge and qualifications to all children.

Criticism is also directed at university education. Generally overcrowded, the free-access university system suffers from a lack of means and of coherent development policy. The failure rate during the first two years of studies is about 20 percent. Only 37 percent of students get a diploma (full or partial). For those who successfully complete university studies, the prospects for employment can be very uncertain, depending on the initial study choices.

On the other hand, the "grandes écoles", selective engineer and business schools, have much more comfortable budgets to form an elite student population. In this sector the failure rate is very low and post-studies unemployment as a problem is practically non-existent. However, in reality these schools offer a very limited access to underprivileged social classes (Albouy, Waneck 2003).

The disparities and inequalities have frequently been analyzed and criticized. The social inequalities at schools can be shown even at the pre-school, "ecole maternelle" level. (for example Jeanthaeu, Murat 1998), and they continue at the primary level (Duru-Bellat et al. 1993). The probability of failure in mathematics (a highly selective subject) for a pupil from the underprivileged social classes is 4 times higher than for a pupil from more privileged social classes. Such failure is the main factor for repeating classes. In France among 15 year-old pupils 38 percent repeat classes at least one time, to be compared with the OECD average of 14 percent.

The education system generates social inequalities in two dimensions:

- the high rate of early failure, more frequent in disadvantaged social categories, reduces the study duration beyond the mandatory age of 16
- specific education trajectory choices at the beginning of the secondary level prevent later choices of more promising education paths.

However, the share of one generation having obtained a secondary level diploma increased from 44 percent in 1990 to 62 percent in 2004.

The general conclusion of many debates over the last years points to the necessity to make the system more efficient in terms of education level and education access, reducing social inequalities, but also using very large expenditures more rationally. Over the last 20 years almost all reform attempts (both from left-and right-leaning governments) have been rejected by very strong opposition, namely by the national education trade union organizations making the policy applications extremely difficult.

The recent national report on education (Thélot (red) 2004) showed that it was not difficult to identify the weaknesses of the system and what should be improved, but there is still no consensus on how to proceed.

This report highlighted also the main objectives and priorities for public education:

Primary and secondary level

- to help all pupils and students succeed by education, teaching, integration, and promotion
- to guarantee during mandatory schooling that every pupil gets a basic background of knowledge as personalized as necessary and possible
- to make second degree choices more adapted to assure future success and help pupils achieve their aims
- to increase voluntary policy in reducing school inequality by improving social diversity

- to improve the range of possibilities for school staff by more individualized means of distribution and governance rules
- to improve teachers' qualifications and adapt to the current needs in teaching
- to build new relationships rules between the school and pupils' parents
- to open the school to new partnerships with social services, civil society and administration.

University reform necessities

- to lower the student, failure rate especially by helping them in the right study choice
- to invest massively and give more means to the universities, in order to reach at least the average OECD level, diversify funding sources
- to give more autonomy to develop individualized and locally adapted teaching projects. Improve the university governance
- to clarify and redefine implicit and explicit selection mechanisms at the whole university level sector, diversify with more university programs oriented to the labour market.

Table 2.4.6: Poverty rate 1970-2004

Years	Threshold at 50%	Threshold at 60%
1970	12.0	17.9
1975	10.2	16.6
1979	8.3	14.2
1984	7.7	13.5
1990	6.6	13.8
1996	7.2	13.5
2001	6.1	12.4
2002	6.0	12.2
2002 amended *	5.9	12.0
2003	6.3	12.0
2004	6.2	11.7

Note: *Because of methodological changes in 2003 the estimation of the poverty rate of 2002 has been amended.

Sources: INSEE-DGI, surveys Revenus fiscaux

Poverty, social exclusion, social activation and inclusion policy

Poverty is a multidimensional phenomenon which is usually measured by a set of relative monetary or non-monetary measures. Poverty measures are relative to both time and space, which always gives a partial view of what we would like to know about people's material and social living conditions (in terms of a conventionally chosen norm). We limit here our comprehensive insight to the monetary aspects of poverty in relation to the employment status prospects and social protection role in its evolution (CES 2007). The most popular 50 percent median income threshold to determine the poverty level shows the French share of poor at 6.2 percent in 2004, one point less than in 1996, but a little bit more than the 2002 level (5.9), the lowest over the period. A similar general decreasing tendency is observed with a 60 percent threshold measure (table 5).

This monetary poverty level is close to the European average, between the Scandinavian countries, Austria, the Netherlands with lower rates – and the United Kingdom, Ireland, Italy, Portugal, and Greece with higher rates. In 2002 the risk of poverty was highest among single persons aged up to 59 and single-parent families. Since the beginning of the 1990s the large families' poverty status has improved, as has that of single young adults (<30). It is for single persons above the age of 30 that the poverty risk has increased the most considerably since the mid-1990s, and even doubled for those among them who were aged more than 60 (ONPES 2006).

This situation shows the more general tendency toward change between younger and older generations since 1990, when the pensions' price indexation system caused slower pension growth when compared with the incomes of the working population. This essentially concerns unemployment or underemployment, which is the origin of poverty among the populations of working age and low pensions among the elderly. The multiplication of part-time work situations, especially for low-skilled workers, contributed to the relatively new phenomenon of the poor worker. This indicates that poverty prevention policies should pay more attention to more frequent, imposed by employers, part-time jobs (CERC 2006).

The system of social transfers has a large influence on poverty status, especially in the case of unemployment or special family situations (lone parents). It is among lone person households with unemployed or among unemployed couples where the impact of social transfers is the most significant, particularly when children are present. In these cases the social and fiscal transfers can increase income-measured well-being status up to 100 percent for lone parents, 69 percent for couples (both unemployed and having children), and 30 percent for lone unemployed persons (ONPES 2006).

Anti-poverty policies

Even if unemployment is not a synonym for poverty – there are poor workers and relatively rich unemployed – the principle objective of social measures taken against poverty was to develop different forms of support for lasting full-time employment. Different work-poverty oriented programs may sometimes be considered contradictory. For example, the minimum income guarantee allowance (RMI) – which should have played both the role of safety net and a back-to-work contract – was not really a useful tool in promoting work. It contributed in certain cases to an increase in the risks of "inactivity trap". On the other hand, this low level does not allow beneficiaries to move beyond the poverty line.

Several more active and clearly pro-work or back-to-work policies have been implemented over the last 20 years. Four types may be distinguished:

- increasing economic incentive to work, especially in the well-identified situations where working was less profitable than assistance. The pro-employment benefit was introduced in 2001 to support low wages and help maintain the part-time employed, lest they shift to unemployment. Another program allowed means-tested benefits to be maintained in back-to-work situations in order to increase work profitability. Even if the existence in France of a "poverty trap" generated by the tax-benefit system, is difficult to prove ((Margolis Starzec 2005), these measures incite employment search and facilitate an escape from unemployment and poverty.
- creating jobs and increasing work demand by lowering work cost: several measures were taken to lower work costs, mainly by decreasing mandatory employers' contributions, especially for those with low qualification and earning low wages.
- developing specific group-oriented measures where there is a particularly high level of unemployment, particularly for youth (education, training and special contracts).
- individually addressed subsidized non-market contracts.

Evaluating all these policies is of course difficult, but the limits of each can easily be observed. Their efficiency depends on propitious overall economic growth. However, it is clear that in the case of persistent or structural poverty (i.e., unemployment) only the individualized, multidimensional approach – combining monetary incentives with training programs and special contracts – is necessary. Employment coaching programs with monitoring could certainly improve the aid system's efficiency.

The evolution of social exclusion and inclusion policies

Like in many other European countries, the socio-economic situation's evolution and the inefficiency of pro-work or anti-poverty policies contributed to developing various forms of exclusion defined as the persistence of poverty, long-term unemployment or limited fundamental rights access. Measuring this is not easy, because comprehensive and reliable indicators are difficult to define. According to the practice of ONPES (National Observatory of Poverty and Social Exclusion), poverty or unemployment persistence is evaluated by the number of social minima beneficiaries or the duration of the period when the social minimum is maintained. Access to fundamental rights is measured by access to health services, participation in the education system and the availability of social housing. The evolution of these indicators over the last 15 years shows a decreasing trend for all of them.

The more qualitative analyses show that many non-monetary factors still contribute to the difficulties in escaping from poverty or exclusion. This includes very low qualifications (often even illiteracy), job search costs, family and work conciliation, and housing cost problems when the distance is large to regions to with better employment opportunities.

This means that the inclusion policies should have a large spectrum of measures more adapted to the individual situations.

2.4.5. European integration and the national welfare state

Impact of EU social legislation on national social policy

The European social initiatives are mainly normative and based on the subsidiarity principle, without any direct public service. Hence, they are by nature very different from the national approaches. The rules for European institutions do not allow the substitution of national social systems or their components by the supranational European models. Only in the hypothetical case when the European common initiative is able to achieve some objectives *and* the individual national efforts would be insufficient or impossible to fulfill the same task, could a European social program be implemented. This residual role of European institutions in the social sector leaves the entire responsibility for social protection to the Union members individually (article 149,150 TCE). The "proportionality" principle also limits the European Union's role to just the "necessary" intervention level, leaving individual countries maximal room for action. That is why the "soft" directives and encouragement to the coordination policies between member countries will dominate, and not legislative convergence at the EU level.

Since the adoption in 1961 of the European Social Charter by the Council of Europe, its ratification by France in 1973, and expert monitoring system implementation in 1993, respect for this charter has become the only supra-national obligation of social rights and social protections. The Community Charter of the Fundamental Social Rights of Workers was less exhaustive, limited to workers only, but without any obligatory character. The recent Nice Treaty has not changed the situation fundamentally. Rather, it only enlarged the Charter's application to the whole population. In the context of the Union's labour market integration, this rests in the field of work and workers' protection, where the specific European Union efforts to define common norms were the most significant. Many directives have treated work and labour questions like work conditions, workers' expatriation, working time, wage discriminations. The work and labour markets are the only domains where the common policy principles and objectives have been defined. The Lisbon council enlarged these questions to the problems of poverty and exclusion.

Other areas of social protection have been treated less systematically and in terms of minimal norms and convergence objectives. However, the adopted norms for social protection represent a part of Community *acquis* which prevent the possibility of social regression, but do not exclude improvements to the national social protection system beyond the defined norms.

The influence of European legislation on a country's own social policy evolution should be seen as a consensus or reciprocity process. These are the

European country representatives who are proposing and negotiating different directives and reforms of the social sector. This was for example the case with the labour law legislation, where France was both the initiating and applying party for common norms.

European legislation has influenced several areas of the social domain. The most significant are: labour law and labour market questions, anti-discrimination policy, free population movements, and public health policies.

Labour law and the labour market

- The rules for social dialogue and collective negotiations have been formally modified to fit the new European norms. In particular any labour law reform proposal should be discussed and negotiated collectively with the social partners' professional organizations. Adopting this rule means that every reform project should allocate the necessary negotiation time before the parliamentary vote.
- The French norms on maximal work time duration were replaced by more open legislation including the minimal rest periods.
- The inter-enterprise national and international workers' temporary assignments conventions allowed the application of minimal European norms also in France.
- In the Health and Security at Work field the traditional approach in terms of technical norms and obligations was substituted by European inspiration risk evaluation analysis promoting the foresight type approach.
- In the employment policy domain, the European Employment Strategy significantly reoriented the French pro-employment approach focusing on activation policies, or more generally on the priorities in back-to-work policies, reforming unemployment benefit. For example, relatively more attention is paid now to the problem of the *employment* rate's evolution, rather than to the *unemployment* focused labour market approach.
- The number of European programs in developing vocational training contributed to generalize the life-long training approach and to adapt the funding of management and vocational training in France.

Anti-discrimination policy

The principle of equal treatment and monitoring discriminatory practices were reformed along the lines of the European approach. The formal equality principle is completed by a pro-active anti-discrimination policy. More attention is paid to the new fields of action (reinforced minorities protection, for example), more frequent use of penal procedures (CJCE) and creation of independent administrations to control the respect of the law (HALDE, Haute Autorité de la Lutte Contre les Discriminations, created in 2005).

Free movement of persons

Social protection obstacles to the free movements of persons have been partially removed, influenced by application of European initiative on the general availability of the health protection system on the territory of the European Union. With the European Health Insurance Card (EHIC), French citizens abroad can be treated in health care institutions just as in France, but under local conditions. The centralized compensation system between countries allows recovery of expenditures by local social security units. This system's major advantage is the simplification of reimbursement procedures and in certain cases improvements in health services standards.

Public Health legislation

European Union legislation has influenced many new public health regulations, in particular in development of institutions for prevention, monitoring and health risk evaluation. The recently created the Institut National de Veille Sanitaire (INVS) is the European network member for monitoring the risk of infectious diseases. Together with the ECDC (European Center for Disease Control) the system allows more efficient national risk evaluation, elaboration of action methods and also, if necessary, an adequate concentration effort on the European level.

The Open Method of Coordination (OMC)

The evolution of the European Union and its institutions has often been criticized for the relative "social deficit", especially when European integration brought new competition risks to traditionally protected national markets. The slow coordination of social protection is still an obstacle to free market developments, especially in labour force mobility. The European institutional framework has not progressed in this domain. Member countries still preserve total sovereignty in social institutions, organizations, and funding. The concept of the Open Method of Coordination (OMC) is the step by step, flexible implementation method to establish acceptable standards for the future common rules in specific social security sectors. It is in employment, inclusion and in old-age social protection where this method was the most widely used. In 2006 the social inclusion and pension sector were unified in order to be conjoined with the social treatment of long-term diseases.

The impact of the OMC on employment policy, social inclusion policy and on the recent reforms of the old-age pension system in France is discussed in the next section.

The impact of the OMC on employment policy

European employment policy through the OMC has modified the French approach, but it was also influenced by the French contribution to it (IGAS 2006). Its essential axes – labour market activation policies, human capital investments and the flex-security principle, combining both individual adaptations to market needs and social guarantees for workers – were convergence points for national policies in France, as they were in other European countries. The measures taken in France on behalf of increasing the employment rate, the pro-work and training incentives reflect this. However, it is sometimes difficult to ascribe this convergence tendency entirely to the OMC. International debates with major contribution from the OECD also influenced today's relative consensus along these lines with respect to earlier (1997-2002) European employment programs that were more concentrated on the improvements in workers' employability and adaptability.

The impact of the OMC on social inclusion policy

The most important effect of the OMC on French exclusion-inclusion policy was the integration of equal opportunity and anti-discrimination programs into anti-exclusion policies. This has even become a political priority. The "social cohesion law" of 2005 and equal opportunity legislation of 2006 were inspired by these principles. The inter-ministry coordination programs for inclusion (2004) were more or less influenced by the OMC transversal approach. However, the OMC inclusion and French PNAI (National Action Plan for Inclusion) are characterized by a general, strategic approach without any hierarchical priority structure. It is an exhaustive list of desirable actions without precise time-scheduling and funding. It confirms the necessity of encouraging work participation as much as possible, accessing fundamental social rights, combating all kinds of discrimination, and organizing the necessary institutional coordination. The lack of more precise expectations for results, along with associated questions about indicator definitions, are serious drawbacks for the evaluation and implementation of various projects.

The limited impact of the OMC is also aggravated by difficulties with integrating it into the specific, decentralized, local social protection structures.

Even though it is too general, and lacks a hierarchical, priority structure with quantitative objectives, the presence of the OMC maintains attention on the explosive subject of inclusion-exclusion problems, contributing to more sustained action, independent of the national political and economic situation. It enabled fuller avenues of expression for NGOs and concerned associations.

The impact of the OMC on old age social protection

In Laeken (2001), the OMC method was applied to the questions of old age pensions reforms.

Three principles of this initiative were articulated as:

- pension *adequacy* (preservation of conditions for the elderly that are proportional to conditions during the period of their participation in the workforce;

- financial *sustainability,* achieved as a result of the high employment rate and the preservation of appropriate levels of contribution by active and retired populations; and
- *adaptation* to the modern economy, societal and individual needs, efforts to secure gender neutral treatment, and permanent full information .

The influence of these principles on recent reforms in 2003 of the French pension system was not very significant, as the reforms had been contemplated for a long time. However, thanks to the OMC concepts measures to increase employment rates for people above the age of 55 were included in the project, as were measures to improve gender parity and guarantees for financial sustainability. The pension appropriateness principle was the French contribution to the common program and was already present in the philosophy of the national system. This principle, associated with adequate monitoring indicators (replacement rates), is a good example of the process of reciprocity between national and European programs in the OMC procedures.

An important effect of OMC directives is to expand the challenge of reforming old age pensions to the social questions beyond problems of pure financial equilibrium.

The relevance of EU concepts and programs

Almost absent from European initiatives until the end of eighties, the social question effectively entered the European Union agenda after the 1997 Luxembourg summit on employment policy. It was confirmed as a priority at the 2000 Lisbon summit on social reforms. These relatively new but important initiatives have not displaced the principle of national competence and responsibility in social protection questions. Thus the nature of the European Union's role in reforms of the social protection sector has always been distinct from national approaches. By convention and common member agreements, it is limited to complementarity with respect to the full national sovereign governance. The importance of its function is limited to rules on coordination and the identification of points of convergence. It establishes minimal norms and procedures in reference to fundamental human rights and the satisfaction of social needs. However, there are clear limits to the convergence and harmonization of national social security systems. The European Union's current efforts in the arena of social security are still constrained by extremely diverse national institutions and traditions. They can adapt to certain limits through external and internal socio-economic evolution, but only those consistent with their own philosophies and procedures. This is particularly the case with the French system, which has changed as a consequence of economic and socio-demographic pressures, but only within the framework of its own specific institutional rules and methods. The European influence can be integrated in decision-making mechanisms and adopted only if it is not in conflict with national traditions and institutional philosophies. On the other hand, European coordination procedures help to promote the convergence process by transferring national system concepts to the European level and by building a consensual basis of common values and methods. In fact, European Union proposals and platforms for the coordination of discussion are both very good tools to revisit the principles of national systems by confronting them with social protection norms and needs from the perspective of European integration. Moreover, they can serve as a basis for a supra-national legal framework for social security in the future.

The principle drawback of the current procedures for convergence or harmonization is the lack of a universal vision for the future European system. And that is something which would focus debate.

Indirect influence from other areas, especially from the economy

National social protection systems are, in a certain sense, a reflection of both the economic evolution and the social traditions of a given country. The needs of, development of, limits to, and perspectives for social protection depend on past and present expectations for a country's performance and capacity to face periods of economic or social crisis. Social protection has always been a component of developing and organizing the necessary support for workers, but also for employers. The traditionally distinct universalistic, corporatist, or residual social protection models represent different forms of social response to needs for assistance in professional or family life, as well as with problems of health and old age. The European social protection history shows how much very *different* solutions have been adopted *in similar* economic and social context.

The following factors of the social and economic environment, ones common to all European countries, are the most often discussed in France as objective reasons for the difficulties in convergence and harmonization.

- The integration of Europe is a very new context, requiring changes to member nations' traditional structures and organization. In France this is particularly controversial because the social protection sphere is considered to be better developed than elsewhere. *Public opinion* suspects *a priori* that measures to achieve convergence or harmonization are likely to worsen rather than improve the current situation.
- *Differences in the organization of national social actors and in processes and conventions for social dialogue* can be serious obstacles to harmonization efforts.
- The increase in workers' mobility must be accompanied by appropriate procedures to ensure the compatibility of social rights consistent with the differences among countries. The portability of the capital of national social rights is the expected response.
- *European enlargement* to countries with different levels of social organization and well-being makes the construction of European social pro-

tection more complicated and urgent. The high, absolute differences in labour costs, including mandatory social protection, create a significant risk that standards will converge at lower levels, rather than maintaining existing general coverage, especially in richer countries. However, for most new Central and East European member countries, this essentially reflects a gap in standards of living, a problem which should progressively disappear if the high growth rate continues. Their social protection standards and coverage are relatively high, with comparable proportions of contributions for social protection.

- In the context of *globalization,* large differences in labour costs and social protection coverage represent more serious destabilizing factors for high labour costs in European countries. The changes in import-export and production structures are inevitable, and carry potentially high social costs. The response should be to accelerate internal European harmonization, to develop common social coverage standards, and to implement an adequate common financing scheme.
- National public finance questions, and particularly *budget deficit* (current or accumulated in the form of debt), is another constraint on national social protection funding, often leading to socially unpopular cuts in social spending and undermining the credibility of European reforms.
- An ageing society is another factor necessitating *intergenerational adjustments* for both pension and health sectors and generating extra expenditures not compensated by sufficiently high economic growth.
- The health and old age pension questions implicate not only social, but also economic and financial stakes. Developments in the *health industry and services* market and interest in the *financial sector* in social insurance funding make the economic and financial sectors *de facto* powerful actors.

Perspectives on national discussions of the European Social Model and European social policy

The general national debates on European issues and integration are practically absent from large public opinion fora. Important political events are almost the only occasions during which the European Union's integration and development issues are considered. These sporadic and brief political debates in the electoral context do not change the general sentiment that national and European questions are distinct, often reflecting mistrust or fear (Herbillon 2005).

In the post-Nice treaty (2000) and pre-referendum period the French president and government launched several exceptional discussion fora and debates on the future of Europe. Many regional and local meetings were organized on this topic. In 2001 the parliament organized special sessions devoted to Europe's future perspectives. Also in 2001, the Conseil Economique et Social (CES) devoted a special session to European issues. The CES is a socio-economic council that provides an official forum for social partners and institutional actors.

This rare, intensive discussion period closed at the end of 2001 with the conclusion that the European debate clarified issues and considerably reduced the conflicts between Eurosceptics and Europhiles (Brabant G. 2005).

This exceptional period of activity has not been followed by more regular open debates until the failure of the vote on the proposed constitution of the European Union.

Experts and researchers have made rich contributions in terms of concepts and critiques, but their impact has been limited to their specific academic or institutional worlds because their ideas have not been effectively disseminated to the larger public (AFSE 2005).

Barbier J.C and Theret B. (2004), analyzing different aspects of the European social protection model, conclude that the development of different national models confronting similar socio-economic problems will not necessarily lead to internal institutional convergence or to European harmonization. It is difficult to predict the evolution of the structure of the specific, complex and heterogeneous French social system, but it will certainly be influenced by the development of European institutions.

The voices of NGOs or social partners also are often inconsistent and charged with traditional conflict between liberal and regulationist ideologies. The harmonization consensus ideas on Social Europe are frequently considered a concession to the "liberal Europe " and rejected with the claim of convergence at the highest level of social protection, rather than at its lowest level, limited to the basic safety net. However these debates hardly offer a broad, coherent long-term perspective for an acceptable program for European social sector unification.

Public opinion, observed through polls and surveys, has adopted a slightly more open attitude towards European social reforms, even if there is a general fear that European integration could lead to deterioration rather than improvement in social protection coverage and guarantees (Herbillon 2005). Generally, the French are highly attached to their national social model, often judging it superior to those elsewhere. They believe French social policy should be maintained. Asked more precisely, however, 79 percent are not hostile to the idea of European harmonization of social legislation, and 43 percent think it is necessary (BVA/SIG 2004). 74 percent believe that the best strategy for harmonization would be to adopt the French social security model in the whole enlarged European Union (Louis Harris/AOL Libération 2004). However 52 percent of those interviewed would accept European social laws less advantageous than French ones and 34 percent expressed the opinion that it would be better to abandon the European social project rather than accept the lowering of social protection standards (Louis Harris/AOL Libération 2004). The majority of the French population (57 percent) believe that social policy should remain in the national domain and 67 percent think the same about social protection (SOFRES/Fondation Robert Schuman pool, April 2004).

2.4.6. Conclusion

The French *Securité Sociale* system, confronted by changes in the economic and social environment, has adapted over the recent past. Political decisions to enlarge coverage and improve social protection have been made in several sectors (health, ageing, disability…). They mark an evolution from contributive, work-based eligibility towards the principle of universal welfare.

The structural crisis in the labour market and the ageing of the population appear to be the most serious social constraints generating long-term funding difficulties, and contributing to the budgetary deficit and debt accumulation. The pursuit of financial equilibrium has resulted in increases in work-based taxes, with negative consequences for work costs and competitiveness, and contributing to the risk of labour market deterioration.

The search for solutions is concentrated essentially on attempts to modify or reform the national system. The perspective of European integration is absent as a political reference and is not perceived as an opportunity. It is considered rather as a constraint on, or even as a danger to the national system. Public opinion and the political establishment harbour fears about the liberal reforms which might result from the European convergence process. More radical positions consider social protection a quintessentially national problem, with European harmonization as a means for different national systems to coexist.

Paradoxically, however, this is a weakness of the European Union social program, and one which is often criticized. In this context European harmonization is expected to guarantee the high levels of national social coverage and to extend them to European Union territory, at least in the case of work mobility. The portability of national social rights is a possible response to this concern.

All European countries are confronted today by similar social protection problems, with greater or weaker intensity in specific sectors. The Social Security and budget deficits in France, linked with structural dysfunctions of the labour market, are the most significant French characteristics. But individual national responses can be very different, even in the case of identical social problems of similar intensity. The question is how the European Union can overcome the obstacles to extending similar social protection standards to the whole Union, despite large difference in standards of living and concepts of national welfare.

The existing social protection models are often classified into 4 categories: *Continental* (based on professional insurance and guaranteed wage substitution revenues); *Anglo-Saxon* (with universal minimal coverage); *Scandinavian* (incorporating a high level of universal coverage with complementary professional benefits administered by social partners); and *Mediterranean* (largely integrating the multigenerational family solidarities). These models are sufficiently different to justify the convergence method as the necessary approach (Sterdyniak, Muet 2005).

The proposed Open Method of Coordination makes attempts in this area, but progress is slow. Its main advantage is a dialogue allowing the step by step search for reciprocal solutions: adaptation of both the reference base and the national programs.

France with its very complex and diversified system, its long history of evolution and adaptation, incorporates elements of all the European models described. She can be a source of inspiration for portability and inter-scheme compensation methods in the construction of paths towards a common European social reference. The French system could be used as an "experiment model" in exploring means of convergence.

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5. The German welfare state: tradition and changes

Introduction

Within the European Union, Germany is still *the* "social insurance state" *par excellence*. In 2007, 46 percent of the *general* government's outlays ran through the various social insurance schemes, and they disbursed roughly two-thirds of total social expenditure (according to national calculations). Social insurance spending amounted to more than one fifth of GDP, which signifies the substantial impact of these social security institutions on the economy and people's living conditions. The predominance of the institutionally segmented social insurance system stems from the still effective Bismarck legacy that made Germany the prototype for a comparatively large but transfer-heavy welfare state. The strong reliance on earnings-related contributions – the combined rate paid by employers and employees standing at 39.8 percent in 2008 – is widely regarded as the major weakness of the arrangement, hampering employment growth that, in turn, would ease the financial stress of social insurance and state budgets.

Since about the mid-1990s, we have observed intensified efforts to transform welfare state institutions. Three directions of reform are distinguishable. First, wage replacement schemes, traditionally aimed at status maintenance, are being reoriented towards basic protection for pensioners and unemployed. Furthermore, the strategy of reducing the labour supply in view of increased open unemployment after 1974 was abandoned in favor of activating social policy. Instead of income support, the focus is now on a maximum integration of (long-term) unemployed, older workers and mothers into paid employment. Finally, in order to make welfare state financing more employment-friendly, there is a shift away from social insurance contributions towards a higher share of tax-funding, mainly out of the federal purse.

Although we have seen *unprecedented* institutional changes, particularly after 2000, political attempts to arrive at an employment- and family-friendly "Post-Bismarckian" shape of the welfare state are still constrained by a combination of unfavorable and interrelated factors: Low economic growth rates in almost all the years after 1992, picking up not earlier than 2006, resulted in an almost stagnant employment level and enlarged the "problem load". The costs of unification continue to be an impediment to attaining an overall balanced public budget and narrow the opportunities to further shift welfare state financing away from contributions. Finally, within given political structures in Germany, drastic (and sometimes even small) reforms require a high degree of consensus among the political actors involved, and party politics has notably slowed down (if not recurrently foreclosed) changes in the welfare state edifice. Larger leaps of policy change are only possible when, temporarily or on a certain issue, party competition is neutralized by a tacit or actual "Grand Coalition" of the two large political parties, and that is the way the substantial reconstruction of the German welfare state occurred.

In the following section the traditional traits of Germany's welfare state arrangement are highlighted. That arrangement became increasingly exposed to both internal and external challenges after the sudden end of full employment in the mid-1970s. Reform efforts, mainly incremental at first, surged after the millennium and have entailed a transformation of certain policy areas within new paradigms. Therefore, in the third section I will look into the more recent developments in four social policy domains – health and long-term care, pensions, labour market, and the family – in order to evaluate to what extent the social insurance state has already been remodeled. The fourth section deals with the relationship between Germany and the EU and explores both the influence of EU policies and strategies on the national welfare state and Germany's response to EU social policy initiatives. The concluding section provides some propositions on the course of Germany's welfare state development in the light of a (common) "European Social Model".

2.5.1. The German social insurance state as we knew it

Right from the start in the 1880s, the system of social security in Germany centered on wage laborers, and further development was based on the concept of a "standard employment relationship" (*SER*). *Labour policy* was the first of three hierarchically ordered institutional elements of a security structure grouped around the *SER*. Through the interplay of state intervention into the working of the labour market (regulatory policies), the achievements of collective bargaining and the rules of social custom, the labour contract was incrementally enriched with individual and collective status rights regulating dependent labour and its exchange (Hinrichs 1991, 1996)[1]. As a norm and the

[1] *Regulatory* policies protect the laborer *at* work and, thus, aim at lasting *marketability* of their labour power. In comparative accounts of the welfare state, the regulatory dimension of national labour market regimes has been a largely neglected area of "politics against markets' (Esping-Andersen 1985) or as a component of "de-commodifaction'. In contrast to Anglo-Saxon countries, German social policy textbooks also regularly deal with labour laws (like dismissal protection, safety and health at work, regulation of working hours, co-determination rights of workers etc.). Eduard Heimann, an early theorist of social policy in Germany, even argued that, with the exception of unemployment benefits, those regulations protecting workers' earnings capacity were more important in dismantling capitalism than social insurance schemes and other programs distributing benefits in cash or in kind (1929/1980: 242-3).

(once) predominant reality the *SER* implies continuity and stability of employment with not more than short interruptions of gainful work. This is supposed to be dependent work, bound to directives, that is performed as a full-time job based on an unlimited contract from the end of education until retirement at a certain age. Second, resting upon employment at "standard" conditions, but separately organized, *social insurance schemes* provide wage replacement for well-defined circumstances, namely, when typical risks of wage labour occur and workers are temporarily unable to earn a market income (sickness, unemployment) or are no longer expected to do so (invalidity, old age). *Poverty policy* constitutes the third institutional component within the *SER* arrangement. Securing subsistence through employment has priority over benefits from the social insurance schemes, and reproduction through employment is as well the normative point of reference of supplementary social assistance, showing up in the access to this benefit type. While social insurance benefits are dependent on prior contribution payments and cash benefits are calculated according to former earnings regardless of individual need, subsidiary assistance benefits are regularly lower and subject to a means test. The developmental logic of social policy as based on the *SER* concept was to broaden the population in the "first-floor" social insurance schemes – by including new categories of contributors/beneficiaries, extending risk coverage and increasing benefit levels – and thus to depopulate the "basement" of poor relief.

As a societal arrangement of production and reproduction the *SER* was clearly gender biased because it assumed that, ensured by collective agreements, a full-time job (even at the lowest wage rate) delivers a "family wage", i.e., an income sufficient to maintain the needs of a nuclear family. Social insurance schemes stabilized the emerging *male breadwinner family* insofar as own and derived entitlements were regularly high enough to cover the needs of dependants, as well. Thus, not much attention had to be paid to the social security of predominantly female workers in atypical or marginal employment, who provided merely a temporary or supplementary income. In this way, the *female homemaker family* was constituted as the opposite side of the coin, which largely rendered unnecessary state provisions for child and elderly care and thus impeded the continuous integration of women in the labour market. Instead, cash transfers (child and housing allowances, tax advantages) met the income needs of family households during certain phases of the life course.

It is expedient to look into the institutional features of social insurance schemes, the core of the Bismarckian welfare state, along four dimensions (see Bonoli and Palier 1998). The information given below relates to the situation around the late 1970s, which represents the end of expansionary development, but includes the long-term care (LTC) insurance schemes which came into effect not earlier than 1995 (see section 3).

(1) Starting with *financing*, the revenues of all social insurance schemes by definition stem mainly or completely from earnings-related contributions,

unrelated to individual risk, and are equally divided between employers and employees. They are levied up to certain earnings ceilings (higher for the unemployment and pension scheme) and above that no entitlements to cash benefits are earned. However, from the outset tax subsidies have been a funding component in the pension scheme and, recurrently, the federal government had to cover deficits of the unemployment insurance scheme. LTC insurance and the health care scheme (until 2003) always met their expenses solely out of contributions, and all schemes operate on the pay-as-you-go principle. On behalf of the recipients of cash benefits the respective scheme actually transfers contributions to other schemes (e.g., from unemployment insurance to the sickness funds, the pension and, nowadays, also to the LTC scheme). Due to this financial interdependence, rule changes in one scheme (e.g., of the contribution rate) often affect the financial status of other schemes, as well.

(2) In general, *access to benefits* is dependent upon prior contributions paid out of actual earnings. Most members of the schemes are compulsorily insured. The sickness funds and the public pension scheme may also be joined voluntarily (e.g., by self-employed), and employees with earnings above a certain ceiling (in 1980, 1.3 times the average of gross earnings) may either remain voluntary members of the statutory sickness funds or opt out and seek private insurance cover. Beginning with blue-collar (industrial) workers in the 1880s, the extension of mandatory coverage to further categories of the gainfully employed was almost completed by the end of the 1970s. In contrast, LTC insurance started as an almost universal scheme, requiring membership even for those who had voluntarily taken out private health care coverage. This scheme and also the sickness funds provide in-kind benefits to dependent family members (who are exempted from contributions) with no earnings or earnings below a certain ceiling. Their eligibility rests upon the coverage of the principal person insured. The pension scheme also offers "derived" benefits for survivors of a deceased worker/pensioner.

(3) Regarding *benefit structure*, cash benefits clearly prevail (nearly two-thirds of the social insurance schemes' expenditure in 1980), and in all schemes they are related to former earnings. The equivalence principle (individual equity) is most strictly applied in the pension scheme because the length of covered employment counts as well. Nevertheless, before the implementation of a series of pension reforms beginning in 1992, several provisions were included in the benefit formula which, in order to attain a socially adequate pension, produced additional entitlements for periods with zero or low earnings. The *level* of earnings-related benefits is meant to ensure status maintenance, although the replacement ratio varies across the schemes. No income losses occur to workers whose sickness lasts less than six weeks and, after the employer's wage continuation ends, sick pay regularly amounted to 90 percent of net earnings in 1980. That year, the target replacement rate (*net*) for a "standard pensioner" – which assumed an insurance career of 45

years and always having earned the average wage – stood at 70.3 percent. Unemployment insurance benefits, paid up to a maximum of 12 months, amounted to 68 percent of former earnings until 1984 (the level of indefinitely paid *tax-financed* unemployment *assistance* benefits was 58 percent). All four social insurance branches also or solely grant in-kind benefits – rehabilitation (pension scheme), training (unemployment insurance), medical care (which makes up 95 percent of the sickness funds' expenditure) and long-term care (100 percent[2]). Here we find a dualism of principles. Contributions are levied according to earnings capacity, whereas in-kind benefits are awarded pursuant to ascertained (medical) need or appropriateness to facilitate the return to employment (rehabilitation and active labour market policies). Thus, interpersonal redistribution within the risk pool of insured is more pronounced than in the realm of cash benefits.

(4) Finally, regarding *administrative* and *organizational structures*, all social insurance schemes are para-public entities with separate budgets. Right from their inception, corporatist self-administration has been a central feature and a correlative of contribution financing. However, the composition of the respective governing bodies varies. In the Federal Labor Agency (*FLA* – unemployment insurance), beside the social partners, representatives of public authorities (e.g., from the states) are involved, while the pension scheme is administered solely by the social partners. Apart from the *Ersatzkassen*, where the employers are not represented, this is also true for most sickness funds and the LTC insurance units which are organizationally tied to them.

While participation in self-administration may have provided organizational support for labour unions in the late-19th century and still offers both social partners a legitimate right to put forward their point of view in public and to be heard in legislative procedures, self-administration as such has lost much of its relevance (except for the health care scheme). Ever more detailed legislation has hollowed out the scope for autonomous decision-making by the respective (corporatist) bodies. Recent *administrative* and *organizational restructuring* was a relatively low-profile issue and has not played a central role in *substantively* changing the German social insurance state[3].

Traditionally, the social partners, the charities (*Wohlfahrtsverbände* – which are still the major providers of social services), the associations of the social insurance schemes and the providers of health care have played an important

[2] Cash payments (*Pflegegeld*) to persons receiving informal care are regarded as a "surrogate" of benefits in kind.

[3] The social insurance units have been forced to adopt a more managerial structure of governance for the day-to-day matters. Representatives of employers and employees are confined to supervisory boards, similar to those in joint stock companies. These organizational changes aim at higher efficiency and lower administrative costs, and the same is true for mergers within the social insurance branches. The formal separation of public pension schemes by occupational status was finally abolished in October 2005 when they were merged into one. Due to voluntary mergers of sickness funds into larger units their number has been drastically reduced and will further decline.

role in the respective domains of social policy. Moreover, the Constitutional Court is a most powerful veto player, having ruled on various changes, particularly in family policy. Finally, Germany is a federal state with a bicameral legislative system. Hence, the *Bundesrat* is a key actor, as policy changes that affect the states' interests require a majority in both chambers. Moreover, quite often party politics becomes pivotal, in line with who has the majority in the *Bundestag* and the *Bundesrat*. Notwithstanding the decentralized power constellation that fosters an inclination towards deadlock, the federal government has shifted the mode of social policymaking. During the late years of the Christian-Liberal coalition, and even more so after the Red-Green coalition came to power, the federal government no longer left the initiative to (incremental) reform and compromise-building to corporatist bodies (of which the pension reform of 1989 was a prime example). Rather, it took the lead and partly passed over the interest organizations, notably the labour unions. To some extent, stronger reliance on state power was due to an elite change of "social politicians". Previously, those with a (long-standing) career in the labour unions, charities or other associations were predominate in the Ministry of Labor and Social Affairs and the responsible committee of the *Bundestag*. They have been largely superseded by professional "party politicians", who are less committed to traditional values and more concerned with electoral considerations (Trampusch 2005). Thus, the greater autonomy of the party system as against the sphere of interest organizations implies that disagreement between (and conflicts within) political parties along with inter-party compromises are what drive the course of welfare state reform, resulting either in standstill or substantial change.

2.5.2. The welfare state in transition: from "smooth consolidation" to paradigm shifts

Social policy changes since the end of "full employment" can be analyzed as a sequence of reform trajectories divided into three periods, the first of which lasted until about 1995. Increasing unemployment figures in 1974/75 and again after 1980 put financial pressure on the social insurance schemes. The most obvious response was to raise revenues and, thus, the total contribution rate rose from 30.5 percent in 1975 to 35.8 percent in 1990. Retrenchments remained moderate and amounted to nothing more than "smooth consolidation' (Offe 1991). Those restrictions of benefit generosity were concluded in a consensual manner[4], and when not, resistance amounted to nothing more than "dutiful protests" by the respective political party in opposition. At that time, the two large "people's parties" (*Volksparteien*), the Christian Democrats and

[4] The reform of the public pension scheme in 1989, an early response to imminent population ageing, as well as the structural reform of statutory health insurance (SHI) in 1992 came about as a compromise between the CDU/CSU-led government and the SPD.

the Social Democrats, were both committed to preserve the structures of the social insurance state and to retain a high level of state-guaranteed protection. As Germany participated in the worldwide recovery of economic growth during the 1980s, the employment level increased, the public deficit dropped from 3.9 percent of GDP to zero in 1989, and the social spending/GDP ratio went down from 30.4 percent (1981) to 26.9 percent (1990) (BMGS 2005: 192). This altogether favorable situation nurtured self-confidence vis-à-vis managing present and future challenges by further incremental changes. It also supported belief that the social and economic consequences of unification could be mastered.

While the first period was marked by bounded, largely path-dependent changes within the established social insurance paradigm, the second one, much shorter and lasting from about 1995 until 2001, may be characterized as a *transitional period* or phase of gradually "defrosting" the German *Sozialstaat*. Contrary to expectations in 1990/91, i.e., that unification would also bring economic bounties (Abelshauser 2004: 402-7), the "unification boom" was short-lived, and more than one third of jobs in East Germany were lost between 1989 and 2000[5]. The advancing de-industrialization process in West Germany put additional strain on both unemployment insurance and, due to massive inflows into early retirement in both parts of the country, also on the public pension scheme. The result was that the total contribution rate rose from 35.8 percent in 1990 to 39.1 percent in 1996 (plus 1.7 percent for LTC insurance after June 1996). The reform trajectory after 1995 was thus largely influenced by the enormous financial costs of unification and the required West-East transfers which still strain all public budgets.

Additionally, around the mid-1990s, *globalization* spread as a term in the political debate and was immediately linked to high *non-wage labour costs* as a threat to international competitiveness and job growth. Thus, the political discourse shifted from social insurance as an effective problem-solving technology to a perception of social insurance as a problem in itself, and these new interpretative patterns condensed into irrefutable facts justifying more grave social policy changes (see Bleses and Seeleib-Kaiser 2004: 110-3).

Although official estimates on demographic ageing had hardly worsened since the legislation of the pension reform in 1989, they were perceived as more dramatic than before. *Generational equity*, hitherto absent in the German discourse, became an issue for the first time in 1997 when it appeared in the explanatory statement to the draft law of the pension reform that was legislated the same year (Deutscher Bundestag 1997: 1, 47). A declining replacement ratio for present and future pensioners was justified in order not to overburden

[5] Most important for the financial situation of the social insurance system was the declining number of employees liable to contributions. In overall Germany, the figure decreased from 29.3 million in 1992 to 26.2 million in 2005 (- 10.7 percent). Among them, the share of part-time workers increased from 11.0 percent to 16.7 percent who, of course, earn lower entitlements but currently contribute less to the social insurance schemes (BMAS 2007: Table 2.6A).

the younger generations. Interested actors, like the financial market industry and policy entrepreneurs, reinforced arguments about the non-sustainability of the PAYG pension scheme and the exhaustion of the one-pillar approach to deliver appropriate retirement income and, thus, prepared the ground for the multi-pillar paradigm to become ever more predominant.

In reaction to previous reforms regarded as insufficient, the new interpretative patterns were most energetically advanced by the government parties (and the employers). The Social Democrats, the smaller opposition parties (the Greens and the left wing PDS) and the labour unions – none of them suitably prepared to enter a social learning process – did not adopt them. Therefore, it was the Christian Democrats who departed from the commitment to a strong welfare state they had hitherto shared with the Social Democrats. They did so for electoral reasons and because of the strong stance of the labour wing within the party's membership. Largely because of pressure from the Liberal party, the coalition government turned to a unilateral approach, and no longer actively sought a compromise with the Social Democrats, who then utilized the *Bundesrat* to block policy changes wherever possible. In the run-up to the 1998 federal election they promised to undo the "social atrocities" the Christian-Liberal government had committed (and actually repealed several policy changes immediately after coming into office). Therafter, the Christian Democrats turned the tables when they attempted to block reform legislation of the Red-Green government.

The second period was thus characterized by a shift from largely consensual to adversarial politics between the two party blocs – the Social Democrats and the Green party in one camp, the Christian Democrats and the Liberal party in the other. Within Germany's specific political institutions such a constellation provided ample incentives for blaming and stalemate. "Reform blockade" was a term frequently used during the second half of the 1990s (see Manow and Seils 2000). This blockade was dissolved not until 2001, when a tacit consensus between the Red-Green government and the Christian Democrats reemerged on reforms that involved no principled dissent. Pension reform was the first important example (see below). At that time, and somewhat influenced by the reform concepts of *New Labour* in the UK, Chancellor Schröder and the now dominant "modernizers" within his party clearly adopted the new interpretative patterns (the Greens as well), revalued *self-responsibility* and *efficiency* as against the traditional principles of freedom (emancipation), solidarity and social justice. Consequently, at this "critical juncture" the course was changed: institutional changes during the ongoing third period mean a *transformation* of certain policy areas *within new paradigms*.

Long-term care insurance and health care policy

The *long-term care insurance* (LTC) scheme was legislated during the first period (1994). It was the last manifestation of consensual reform policy carried out by the two *Volksparteien* until 2001 and the last expansionary reform within the social insurance approach, although this institutional innovation to a large extent replaced previous spending on means-tested care benefits. In view of this social risk becoming ever more virulent in an ageing society, the proponents within both parties almost unanimously regarded the LTC scheme as the completion of the social insurance state. However, the new scheme had not come off without the states' and municipalities' insistence on being relieved from rising social assistance spending on the needy elderly. While a compromise on the contours of the benefit side (graded according to need classes with no full-cost coverage) emerged quite early, legislation was delayed for many years by the struggle over organizational form and, hence, how to finance such fundamental reform – concretely, whether to opt for a tax-transfer scheme, a mandatory private insurance, or an additional social insurance scheme. It was a principled conflict over either creating or warding off a precedent for future social policy development. Ultimately, the two large parties compromised upon a variant that was most faithful to the traditional social insurance path, namely, a separate branch under the roof of the sickness funds. In this way it avoided further burdening the federal budget, circumvented the "double payment problem" of a private funded LTC insurance, and applied the principle most familiar and comprehensible to the public as contribution payments entitling to non-means-tested benefits in the case of risk occurrence (Götting et al. 1994).

Nevertheless, the new scheme included two unprecedented features: *factually*, employers are not burdened with half of the contribution rate since one paid holiday was abolished. Furthermore, the contribution rate (1.7 percent) *and* the (maximum) benefit levels were fixed by law. That way a dilemma was created when the number of beneficiaries increases (as it in fact happens): either a higher contribution rate has to be legislated or a deterioration of the benefits' real value due to rising costs of care services must be accepted. It was not until 2007 that the government decided to depart from a stable contribution rate (plus 0.25 percentage points to be balanced by a lower rate to unemployment insurance) in order to upgrade benefit levels in 2008 and thereafter. Thus, by resorting to higher contributions the 2008 reform partly reversed the "policy drift' (Streeck and Thelen 2005) of the scheme. In view of rising numbers of frail elderly, a structural reform of financing (a departure from pure pay-as-you-go) is being debated, but no contours are recognizable as yet.

Since the late 1970s numerous reforms of the *statutory health insurance* (SHI) scheme have attempted to contain rising health care spending. However, they stopped further increases of the contribution rate only for a few subsequent years. Comparatively successful in that respect were two reform packages, both negotiated between the government and the largest opposition party – in 1992 the Social Democrats and the Christian Democrats in 2003. The later reform introduced transfers from the federal budget to the SHI scheme and further shifted the costs of health care to the *patients* (for instance, they have to pay an “entrance fee” of 10 euro per quarter when seeing a doctor in private practice) and to the *insured*. Since July 2005 the contribution rate is no longer equally shared between employers and employees, but rather employees have to pay 0.9 percentage points more, and employers are relieved correspondingly.

Another structural reform of the SHI scheme was announced to be a central project of the new “Grand Coalition” government that came into office in autumn 2005 after federal elections had been held ahead of schedule. It was legislated in February 2007 after substantial controversies between the government and all other actors involved in this policy domain, as well as among the government parties themselves. Before the elections, both the Christian Democrats and the Social Democrats expressed their determination to change the financing basis, but in an entirely different way. The SPD is still in favor of a “citizens’ insurance”, i.e., to extend coverage to all gainfully employed and to also include income other than wages (up to a ceiling) in the contributory base. In contrast, the Christian Democrats’ concept borrowed from the Swiss model: all adult members of the statutory sickness funds should pay a flat-rate premium with tax-funded subsidies for those on low incomes. Consequently, employer contributions were to be abolished by adding present payments to workers’ gross earnings.

The compromise does not foreclose the realization of one or the other concept after the next federal elections. In 2009, a central “health fund” will be established that collects all contributions at a uniform rate fixed by the government (i.e., no longer determined by the self-governing bodies). Additionally, subsidies that the federal government pays into the “health fund” will gradually increase to 14 billion euro p.a. and effect a lower contribution rate than would have to be raised otherwise. Transfers to the individual sickness funds are allocated according to the risk structure (age, sex, and mortality) of the respective membership. In case revenues do not meet their expenses, those sickness funds have to raise a supplementary contribution from which the employers are exempted while others may refund surpluses to their members. This element of the 2007 reform package shows its main thrust in furthering competition within the health care system, a development opened up by the 1993 reform when all insured were granted the right to choose among all sickness funds. Furthermore, sickness funds may compete for members by offering them more choice (e.g., packages with deductibles like in private insurance), thus, reviving similar provisions in the reforms of the late Christian-Liberal government that had been revoked by its successor in 1999. Finally, the efficiency and quality of health care delivery is slated to be improved by more flexible contractual relationships between sickness funds and providers, and extending provisions legislated during the Red-Green incumbency in 2000 and 2003.

Conversion, a mode of change that assigns a new mission or objective to a given institution (Streeck, Thelen 2005), may possibly be one federal election away. A shift in financing according to either one of the proposals mentioned above implies different concepts of distributive justice compared to the one in place.

From public pension reform to retirement income policy

In pension policy a *paradigmatic change* was executed by the Red-Green government when it departed from the supposedly "exhausted" social insurance approach (Bönker 2005) and legislated a reform package in 2001 of which three innovations are most important (Hinrichs 2005)[6]. First, the "fixed relative position' principle – 70 percent net replacement after 45 years with average earnings and established in 1992 – was replaced with the primacy of a "fixed contribution rate' (Myles 2001: 140-5), already established in LTC insurance. It was stipulated that the contribution rate must not exceed 20 percent until 2020 and 22 percent until 2030. In order to keep to these targets, "brake mechanisms" were included in the benefit formula. The resulting decline of the target replacement ratio meant a clear departure from the dogma of status maintenance (after a complete full-time career) to be attained by public pensions alone. Second, in order to close the arising pension gap, the core of the 2001 reform was the institutionalization of the so-called *Riester-Rente*. The voluntary take-up of certified savings plans is encouraged by offering tax advantages or direct subsidies. Those incentives (which also apply if parts of earnings are converted into contributions to employer-sponsored occupational pension plans) are limited to savings of four percent of earnings. Such an extension to *retirement income* policy has irrevocably put the German pension system on a multi-pillar track again, since 1957 having been tantamount to *public pension* policy and a one-pillar approach.

Less attention has been paid to a third innovation: old-age (and disability) pensioners with insufficient resources are no longer referred to the general social assistance scheme, but rather are entitled to benefits from a special basic security scheme which are still means-tested and not higher than before. However, the traditional obligation of adult children to financially support their elderly parents is lifted. It was expected that eased and less stigmatized access to benefits from the new scheme would increase the take-up rate and make the combined effects of "new risks" in the labour market (fewer regular

[6] In 2001 already, a reform of disability pensions went into effect that was more moderate than the one legislated by the former government in 1997 and which the incoming Red-Green government had suspended. Nevertheless, the thrust remained unchanged: In order to push through a higher actual retirement age, individual efforts to evade permanent benefit deductions by resorting to disability pensions before age 63 were made unattractive, and access due to non-medical reasons was rendered more difficult. In the past, disability as a pathway out of employment for older workers was less prevalent in Germany than in most other OECD countries (OECD 2006: 40-3), and labour market exit via this type of pension has declined even further after the year 2000 (Haustein, Moll 2007).

full-time employment careers) and of past and future pension retrenchments socially more bearable. At present, poverty among the elderly population is comparatively low, but there will be an increasing number of future retirees with insufficient pensions in the future (Hinrichs 2008).

The 2001 reform gained a majority in the *Bundestag* after the labour unions and the "traditionalists" within the SPD were acquiesced by some (symbolic) concessions (Trampusch 2006). A tacit inter-party consensus emerged after further accommodations were granted to the CDU/CSU so that the party abstained from determined efforts to close the ranks in the *Bundesrat* and, actually, no unified bloc of states with the CDU in government obstructed the reform package. A similar pattern of conflict and, ultimately, of conflict resolution occurred in 2004. Based on recommendations of two reform commissions, a shift in pension taxation was legislated (gradually, contributions will become tax-exempted and, correspondingly, benefits are taxed upon receipt), and the benefit formula was changed again, now including a so-called "sustainability factor". Calculations made prior to the 2001 reform had proven overly optimistic, and for not missing the contribution targets the new benefit formula will result in a further decline of the replacement rate when the adjustment of the value of one "earnings point", relevant for both new and current pensioners, lags behind the growth of average earnings (see Schmähl 2007). If the change in taxing pensions is also taken into account the *net* standard replacement rate is going to drop from about 69 percent at the beginning of this decade to about 52 percent in 2030.

In order to ensure adherence to the contribution rate targets, the reform commission further proposed a higher standard retirement age (Kommission 2003). The Red-Green government abstained from including this most controversial and unpopular issue in the 2004 legislation, but closed the last loopholes for early retirement at age 60. The "Grand Coalition" government decided in 2007 to lift the normal retirement age from 65 to 67 years between 2012 and 2029. This implies lower benefits for future retirees who, for whatever reason, (have to) claim their public pension at an earlier age. In view of the still unfavorable (but improving) labour market situation for older workers (Bundesagentur 2007b) and the difficulties of employees in various occupations to keep on working beyond age 60, labour unions continue opposing this additional "pension retrenchment"[7].

Institutional change in this policy domain may be characterized as *conversion* as well as *layering*. It was "conversion" because a different objective was assigned to the public pension scheme, namely, still providing earnings-related benefits, but no longer ensuring status maintenance. Additionally, the reform of 2001 set in motion path-altering dynamics through

[7] In that respect, they express the disapproval of a large majority within the population. Raising standard retirement age is the most unpopular alternative to cope with demographic ageing (not only in Germany) (see Hinrichs, Aleksandrovicz 2008 for a compilation of survey results).

a mechanism of "*differential growth*' (Streeck, Thelen 2005: 23) when a voluntary private pension scheme, small in the beginning, was *layered* upon the public system and will grow comparatively faster than the public one. Starting from zero in 2002, as of today (April 2008), more than ten million employees have taken out a savings plan for the *Riester-Rente*.

Protecting the unemployed: the "Hartz laws"

A second *paradigmatic change*, again meaning a departure from the Bismarckian principle of status maintenance, took place in labour market policy when the "Hartz laws" were implemented between 2003 and 2005 (Hinrichs 2007; Konle-Seidl et al. 2007; Oschmiansky et al. 2007). They emanated from proposals of the reform commission named after its chairman Peter Hartz (Kommission 2002). Compromise with the *Bundesrat* (concretely: the Christian Democrats) had to be attained on the most important provisions. The *Hartz* laws came in four parts. The first three included changes in the governance structure of the Federal Labor Agency (*FLA*) and measures to improve the services provided to its clients, new instruments of labour market policy, stricter "activation" of the unemployed, and a curtailment of insurance benefit eligibility for the unemployed age 55 and older (with a maximum 18 months instead of 32).

Most controversial was the *Hartz IV* act, which implied lower benefits for many long-term unemployed, and who outnumber those who gained from the reform (Goebel and Richter 2007). It abolished the awkwardly constructed unemployment assistance scheme that was tax-financed (federal budget) and means-tested, but at the same time, earnings-related. It had meant to (infinitely) ensure status preservation at a lower level of provision than did unemployment insurance benefits. In fact, after 1999 it was contingent on prior contribution payments because only those (long-term) unemployed who had received unemployment insurance benefits earlier were entitled to claim unemployment assistance.

The *Hartz IV* reform amounts to institutional change of the *conversion* type because it fused the unemployment and social assistance schemes into one institution. Eligible for the new benefit type *Arbeitslosengeld II* (*ALG II*), in place since January 2005, are people of employable age who are "able to work" (defined as at least three hours per day) and obliged to seek employment (plus their dependants "not able to work", foremost children). *ALG II* is means-tested and flat-rate. As of July 2007, the monthly *cash* benefit amounts to 347 euro for a single person and, additionally, the actual costs of "appropriate" housing (rent plus heating costs) are covered. If a long-term unemployed person has received sufficiently high unemployment insurance benefits (renamed *ALG I*) the transition towards the lower *ALG II* income is smoothed out over a two-year period. Thus, only the unemployed with no prior or insufficient *ALG I* entitlements are dependent on the flat-rate benefit from the very start. *ALG II* is not merely a basic security scheme for the registered unemployed: rather, it is designed to serve all needy people of working age. As with social assistance before, *ALG II* may be paid if income from employment is too low to meet the needs of the household. Therefore, the new scheme also provided in-work benefits for nearly one quarter of all *ALG II* recipients in January 2007. However, from these 1.1 million persons who combined *ALG II* and earnings – an increase of almost 500,000 compared to early 2005 – only 350,000 were full-time "working poor". The low earnings disregard (100 euro) and the high withdrawal rate above this threshold (80 percent) offer only weak incentives for beneficiaries of *ALG II* to actively seek a full-time job if it pays a low hourly wage. Thus, in most cases income from work actually amounts to less than 200 euro per month (Bundesagentur 2007c).

The *Hartz* reforms have not only changed access to and the structure of benefits, for they have also shifted the financing of unemployment, foremost at the expense of the federal budget and to the benefit of contributors to the unemployment insurance scheme and the municipalities. The latter gained because the federal government fully covers the expenditure on *ALG II* cash benefits and social insurance contributions on behalf of the recipients, and because the government partakes in spending on housing costs. Prior to *ALG II*'s implementation the *FLA* also had to bear in full the costs of active labour market policies for beneficiaries of unemployment *assistance* and related administrative expenses. As of 2008, it has to cover only half of the costs of the reintegration measures provided to *ALG II* recipients, while the other half is taken over by the federal purse. Furthermore, the *FLA* saves on unemployment insurance benefits (*ALG I*) due to the shortened eligibility period. Finally, since 2007 the revenues of one percentage point from the increased sales tax (VAT) are transferred to the *FLA* (about 7.2 billion euro in 2007). For this reason, though more importantly because of the improved labour market situation and, hence, declining numbers of *ALG I* recipients after 2005, it was possible to lower the contribution rate to the unemployment insurance scheme from 6.5 to 4.2 percent in 2007and once more to 3.3 percent in 2008.

Family policy: departing from the "female homemaker family"

Another reorientation which may also be termed a *paradigmatic change* happened in family policy which traditionally focused on stabilizing the "female homemaker family". The reorientation that has yet to fully materialize is part of what Bleses and Seeleib-Kaiser (2004: 89-93) have called the "dual transformation" of the German welfare state arrangement, namely, the aim to shrink social policies centered on the (male) wage earner and to expand policy areas that help to reconcile paid work and family life. The expansion during the Christian-Liberal government (see Clasen 2005: 153-66; Ostner 2006), however, was based on the concept of sequencing parenthood and employment: One parent (read: the mother) should take a parental leave for the first three years after giving birth to the (youngest) child and return to (part-time) employment thereafter (the job being guaranteed in the mean time), when the child is entitled to a place in the (part-time) kindergarten. Social transfers should (partly) compensate for the loss of earnings and improve the income situation of young families. To that end and beginning in the second half of the 1980s, the government introduced or increased various cash benefits (e.g., child allowances, pension credits for child and elderly care, parental leave benefits), and on that account Germany is nowadays spending more than most European countries (Abramovici 2003).

In contrast, the Red-Green government regarded any long interruption of employment as being detrimental for the reintegration of mothers into the labour market and their career prospects. It therefore provided incentives for a speedier return into paid employment (e.g., higher parental leave benefits when taken out for a shorter period or, with regard to pension credits, a revaluation of covered earnings until the child reaches age ten) and offered federal subsidies to create facilities for full-day schooling, thus easing mothers' full-time employment[8]. The unfinished project to reform parental leave benefits (*Elterngeld*) was continued by the "Grand Coalition" government and put into effect in 2007. The new benefit type is paid for merely 12 months (plus an additional two months if the other parent also goes on leave; always 14 months for single parents). It amounts to two thirds of former net earnings (up to a maximum of 1,800 euro per month; minimum benefit: 300 euro), is financed out of federal taxes, and is no longer income tested. In order to render possible a higher employment rate for mothers, along with increased fertility rates and lower child poverty rates (like in Scandinavian countries), the supply of affordable day care has to be substantially expanded. Therefore, by 2012 places for one third of the children below the age of three will be created. Spending on those "de-familialization policies" is largely financed out of the federal purse.

The shift towards a "sustainable" family policy – i.e., one that is pronatalist and promotes gender equality – and toward increased social investments is generally accepted. Thus, expanding full-time schooling and preschool child care is unanimously regarded as *education policy*, namely, as an attempt to improve the chances in life for children from deprived and migrant families. However, the coalition parties still differ on how rigorously an "employment-centered family policy" should be pursued. The conservative factions among the Christian Democrats want to facilitate a *choice* between the "female homemaker family" and the "dual earner family" pattern (e.g., by insisting on a home care allowance). In contrast, the Social Democrats, all the opposition parties, and the social partners give clear priority to the latter concept, which is in line with (but was not explicitly influenced by) the

[8] Regulatory measures included options for flexible utilization of the altogether three years of the parental leave period and a (conditional) right for employees to switch to part-time work and back.

supported "adult worker model" as emphasized in the revised Lisbon Process (Annesley 2007).

Evaluation of reform trajectories after 1980

When looking at the four interrelated institutional variables (except governance) and contrasting the situation of around 1980 (see section 2.) with the situation after the more recent reforms, no uniform pattern of change across all the main welfare schemes is discernible. They are rather compartmentalized and have followed a specific institutional logic of development. The overall trend, however, is most clearly visible with regard to the *financing* dimension. Despite an increase of the combined contribution rate to social insurance schemes (1980 = 32.4 percent; 1990 = 35.8 percent; 1998 = 42.1 percent; 2008 = 39.8 percent), there is an ongoing shift away from this mode of funding. The share of total social spending that is funded by contributions has decreased from 65.6 percent in 1991 to less than 60 percent since 2003 (BMGS 2005: 202). This is largely the result of more tax money being infused into the social insurance schemes. To that end, indirect taxes have been increased (e.g., VAT and tobacco tax) or newly introduced (e.g., ecology tax). The shift in financing has gone farthest in the public pension scheme. In 2007, payments out of the federal budget (including contributions for child-care credits which currently facilitate a lower rate being levied on earnings) covered about one third of the annual expenditure of this basically contribution-financed pension scheme, whereas in 1992 they delivered only 21 percent. These subsidies amounted to 29 percent of the federal budget in 2007 (Bundesrechnungshof 2007: 90, 95). Tax expenditure on the *Riester-Rente* still comes at the top of these figures. Moreover, tax subsidies granted to health care insurance are on the increase, and they were also introduced in the unemployment insurance scheme. The implementation of the *Hartz IV* reform further relieved this scheme at the expense of the federal purse and facilitated a lower contribution rate.

It is the *raison d'être* of all refinancing measures to lastingly push the combined contribution rate to the social insurance schemes below the 40-percent threshold and, in particular, to exempt employers from any further increase of this type of non-wage labour costs. To that end, recent reforms have also dissolved the "iron principle" of social insurance contributions being equally shared between employers and employees. Workers have paid more than half of the contributions to the SHI scheme since 2005. Increased co-payments for medical services help to dampen sickness fund expenditures. In LTC insurance the employers were compensated for participating in financing. Employees who follow the recommendation to take out a contract for the *Riester-Rente* (almost ten million in September 2007) are burdened with additional out-of-pocket savings, while employers face no contribution rate higher than 11 percent (= half of the maximum rate to the pension scheme in 2030). Finally, as an incentive to hire the unemployed age 55 or older, employers are exempted from contributions to the unemployment insurance scheme.

What has continued, however, is an opportunistic "switchyard policy", namely, to raise the contribution rate in a scheme that is in dire need of additional funds, and to lower it in another which is less pressed at the moment. Similarly, tax subsidies to social insurance schemes are not stable, even if ostensibly rule-based. They vary according to the constraints of the federal budget and the respective scheme's financial pressure to change its contribution rate.

Access to benefits has changed as well. Although *need* and *citizenship* as criteria of benefit receipt have gained greater weight, no definite trend away from predominant contribution-based entitlements can be observed. However, coverage has become more universal. As mentioned before, LTC insurance obligatorily included all people with health insurance cover right from the beginning. After the latest health care reform (2007) all uninsured people are required to either join the statutory system or to seek private health insurance (depending on individual circumstances). Moreover, the introduction of *ALG II* has made all recipients members of the health care, LTC and pension schemes because contributions out of the federal purse are paid on their behalf (although the credits earned for a public pension are almost negligible). Finally, mandatory pension provision of some kind for all self-employed who are not yet obliged to join the public (like craftsmen or artists) or special private schemes (like the independent professions) is debated although not yet concluded (Sachverständigenrat 2006: 263-75). Sufficiently high earnings from employment prior to child birth but not contribution payments are a precondition for receiving an income-related and tax-financed parental leave allowance higher than the minimum amount of 300 euro per month. This makes this benefit type a somewhat strange element within an otherwise citizenship-based system of a family policy that provides flat-rate benefits (and services). In this policy domain we find another improvement in benefit access: unremunerated family work – raising children or taking care of frail people – has been acknowledged as equivalent to paid work. It increases pension entitlements and also offers some advantages with regard to eligibility for unemployment benefits and labour market services.

The growing relevance of the needs principle, however, is related to changes in the structure of benefits. In the health care scheme in-kind benefits have always been awarded according to medical need, and there have been no cuts into the core of these benefits, although some less vital medical treatments and pharmaceutical drugs are no longer included. However, as charges and co-payments were increased, in 1997 they became subject to ceilings (maximum 2 percent of family income; 1 percent for chronically ill persons). With theses provisions a kind of needs test, generically alien to the social insurance scheme, has been introduced. More important in that regard are the effects of policy changes in schemes predominantly providing cash benefits based on prior contributions and which are earnings-related by nature and meant to secure one's acquired status. As Bleses and Seeleib-Kaiser (2004: 92) correctly observe, "the principle of *publicly* guaranteeing the achieved living standard is on the retreat, while the principle of publicly securing a minimum of existence is increasingly gaining importance". Such development, amounting to paradigmatic or "third-order" changes (Hall 1993), shows up most clearly in the protection of the unemployed and pensioners.

The replacement of the earnings-related (though means-tested) unemployment assistance benefit with a flat-rate benefit that entails stricter eligibility criteria broadened the range of unemployed claimants entitled merely to basic security. In old-age security the needs principle has not been strengthened directly, apart from survivors' pensions being tested against all income of the survivor above a threshold. Due to the declining standard replacement ratio, future pensioners cannot attain status preservation in old age without additional private savings. Moreover, against the backdrop of a more flexible labour market and the spreading of non-standard employment careers and of the "working poor", future retirees will be fully affected by the abolition of elements in the benefit formula that once ensured socially adequate pensions[9]. As a consequence, among subsequent cohorts of retirees there will be an increasing number who have to rely on supplementary benefits from the means-tested basic security scheme, and if workers already expect a low public pension, additional savings efforts are not worthwhile. Lower retirement income for an increasing number of pensioners will also have an impact in the case of long-term care. LTC insurance is not intended to provide full-cost coverage. Rather it was effected so that most frail elderly (about two thirds of those living in nursing homes) would avoid dependence on supplementary social assistance (*Hilfe zur Pflege*) when they disposed of a sufficiently high pension. This relatively comfortable situation might change.

For the time being, however, poverty among the elderly population is a relatively minor problem compared to the increased number of poor children[10]. Unemployment of their parents is the prime reason. The merger of

[9] The decline of actually paid public pensions has already begun: In *nominal* terms, the *average* monthly pension awarded to *newly* retired *men* in *West* Germany decreased from 883 euro in 2000 to 790 euro in 2006. The 2006 amount is nearly the same that was awarded in 1990 (793 euro) but, in *real* terms (when weighted with the consumer price index), it is about *28 percent less*. It also implies that the *average* pension as a percentage of the "standard pension" has decreased from 94.5 percent to 74.1 percent within 16 years (figures calculated from database of the public pension administration — *DRV*). This deterioration reflects the combined impact of employment career changes (e.g., more frequent unemployment spells) and pension reforms (e.g., permanent deductions in case of early retirement now almost fully effective).

[10] See also Bundesregierung 2005: 75-96. According to the latest UNICEF study (2005), the poverty rate of children (50 percent of the national median) in Germany was 10.2 percent in 2001. This figure was much higher than in Denmark (2.4 percent) but considerably lower than in the UK (15.4 percent).

the social and unemployment assistance schemes revealed that in December 2006 about 1.9 million children below the age of 15 lived in households of *ALG II* recipients (*Bedarfsgemeinschaften*), i.e., every sixth child receives means-tested benefits of 208 euro per month (Bundesagentur 2007a: 23-5). Additionally, one has to take into account children whose parents earn no "family wage", but fail to claim supplementary benefits. Therefore, the re-oriented family policy pursues a dual goal, namely, offering (single) parents the opportunity to earn a (second) income through expanded child care and attaining more equal educational opportunities for children from disadvantaged families when they are taken care of outside the home already during infancy and after half-day schooling.

2.5.3. European integration and the German welfare state[11]

The relationship between EU policies and strategies regarding the social dimension and the development of the German welfare state will be analyzed as a two-directional process. First, the position of the German government towards EU policies and initiatives is illustrated and, subsequently, the attempt is made to keep track of the influence the EU has exerted on welfare state reform in Germany.

EU social policy and the position of the German government

In general, the federal government – the present Grand Coalition as well as its predecessors – welcomes the role of the EU in social policy and strongly supports the social dimension of European integration, not the least in order to avoid any political backlash against the European project if social standards were to drop because of putting too much emphasis on economic integration. At the same time, the federal government puts national autonomy first by firmly insisting on the principle of subsidiarity and rejecting any further involvement of the EU in national social policy matters or the transfer of jurisdictions and competencies to the EU level. This twofold stance on the role of the EU also applies to the states and the municipalities, both having certain jurisdictions in the area of social policy.

The understanding of a "European Social Model" (ESM) in Germany exists within the framework of the *social market economy*, a concept of economic and social order that guided political decisions in the postwar period. It reconciles central values upheld by Christian conservatism (subsidiarity), Social Democracy (equality) and Liberalism (freedom). The development of the German social model (*Sozialstaat*) has been closely related to the social market economy. While the idea of a *Sozialstaat* (the term "welfare state" is hardly used in the national debate) leaves room for interpretation about concrete

[11] This section relies on Büchs and Hinrichs 2007 which is mainly an analysis of official documents.

implementation, basically it includes the features that have been mentioned in more detail in section 2.5.2, namely an arrangement of industrial relations (workers' participation at firm and enterprise level; free collective bargaining) and of social security based on the standard employment relationship and the male breadwinner family. Thus, until the late 1990s, the German *Sozialstaat* contained the properties attributed to a corporatist-conservative welfare state in an almost ideal-typical fashion (Esping-Andersen 1990). If there were ideas about the design of social policy in the EU area, the definite position of any German government has been that all member states are or should become social market economies or variants thereof. Thus, the term "ESM" is hardly used in official documents, and the stance of German politicians on EU activities in social policy stems from an assessment against the backdrop of a social market economy.

Consequently, the competencies of the EU with regard to issues of the internal market and freedom of movement are not called into question. Indeed, they are fully supported as long as basic security benefits are exempted from export, social insurance schemes do not become subject to common competition and cartel law, and any extension of EU jurisdictions is firmly rejected. Hence, with regard to *policy processes*, it was no contradiction to this position when the then Red-Green government welcomed the launch of the Lisbon Strategy in 2000 and praised it as a contribution to transforming an industrial society into a "knowledge-based economy". It promoted the underlying "third way" approach of the Lisbon Strategy, which the government embarked on in 2003 by means of its *Agenda 2010* (see below) to combine economic efficiency, the consolidation of public finances, and social justice. Therefore, it approved the social and economic objectives of that strategy and, in 2005, also the reformed Lisbon Strategy that put more emphasis on economic and employment growth.

Similarly, the Social Policy Agenda (2005-2010) was endorsed, but the federal government disliked the proposal for further labour law initiatives and for a comparison of the minimum income schemes in the EU. Likewise, the Green Book on demographic change was appreciated, however, not all policy conclusions were well received. In particular, the government stressed that the selection of appropriate policies to cope with an ageing society should remain with the member states and, thus, bureaucratic co-ordination efforts of the EU were unnecessary.

The Open Method of Coordination (OMC) has become a major EU project to guide the policy process in several domains of social security where it has no direct competencies. Like with the other initiatives mentioned before, the government values the OMC as an instrument for enhancing the exchange of experiences and transnational learning. However, it has been repeatedly emphasized that the process must not mutate into a vehicle for "system comparison" and an "inflation" of guidelines and indicators. Nor should political conclusions be drawn from the results of indicator-related benchmarking without a careful interpretation of the respective national contexts. The overall ambivalent position of the German government comes down to worries about a "creeping" expansion of EU competencies which, without legal foundation, restrict the scope of national sovereignty. Therefore, the EU bodies should limit their role in the included policy areas to setting non-binding targets, disseminating information, presenting best practices, raising awareness of reform pressures and supporting national strategies through structural funds.

With regard to EU policies concerning the *interplay between internal markets and social policy*, the government's response to the Green Paper on Services of General Interest was rather sceptical. This is so because local authorities, charities and churches provide the bulk of social services in Germany. The government wants to see their role protected and complained that EU law on state aids has been arbitrarily applied and has already negatively influenced investment and personnel planning among the non-for-profit providers. Therefore, it strictly rejects any EU competencies regarding the definition, design, organization, and financing of services of general interest by developing European standards or a framework directive. Rather, national governments – and, in this case the more important state governments – should remain able to steer and support the provision of these services through civil society actors.

A similarly sceptical stance applies to the proposal on Services Directive. While the government supports the opening-up of markets, it is also quite concerned that market liberalization may threaten national social standards. Therefore, it appreciated the decision by the EU Parliament in February 2006 to remove the "country of origin principle", which would have set all 25 member states into direct competition over working conditions, wages and social standards, and it welcomed the exemption of several branches from the directive, notably those in the social and health sector. The directive should not aim to privatize or liberalize the sector of services of general interests, and the government still criticizes planned restrictions of the application of national social regulations to posted workers.

The government conceived enlargement of the EU in May 2004 as an important step towards re-unifying Europe. However, Eastern enlargement was also perceived as a threat, possibly giving rise to a backlash against European integration if citizens were to fear a lowering of social standards. In fact, public opinion was strongly against Eastern enlargement, and the government also admitted that some sectors, particularly those employing low-skilled workers, might come under pressure. For that reason (and in view of high unemployment figures in Germany), the government has made use of the clause to restrict labour market immigration from Eastern European countries. The debate about the Services Directive and prolonging restrictions for migrant workers has fuelled demands for introducing a statutory minimum wage to counter potential dumping processes, but since the government parties disagree on this issue no law on a uniform minimum wage will pass parliament during this legislature. However, as the labour market situation has been improving since 2005/06, a shortage of high-skilled workers in technical occupations has arisen. These bottlenecks in constricting output growth have induced the government to relax the restrictions on migrant workers. If there will be a further decline of unemployment figures it may well be that those restrictions will be completely lifted before 2011, when they have to be terminated anyway.

The influence of the EU on welfare state reform in Germany

In the response to the questionnaire on the OMC issued by the EU Commission in 2005, the federal government denied both any change of the consultation procedures in Germany and that the OMC had a traceable impact on national social policy development (Büchs and Hinrichs 2007: 30). However, a closer inspection shows that the overall influence of the EU on social policy development in Germany has been quite significant.

In that regard, the *Stability and Growth Pact* (SGP) figures most prominently. Germany was the most determined protagonist of strict stability rules to be included in the Maastricht treaty in the early 1990s. At that time (still the first period within the sequence of reforms – see section 2.5.3), the federal government was clearly optimistic in believing it could always meet the public deficit and debt criteria (but failed in 1995 and 1996). In contrast, in 2004 the then Red-Green government supported a watering down of the SGP criteria, arguing that the pact should be applied in a more flexible way and with greater consideration to the economic circumstances and the specific difficulties in a given member state. Such a change of position was induced by the fact that Germany had not been able to fulfill the budget deficit target since 2002, and was threatened by an official deficit procedure as required by the pact. The government regarded an even stricter fiscal policy as counterproductive, convinced it would hinder economic growth and therefore wreck the preconditions for consolidating public finances. It also feared a backlash against European integration if further cuts in social security had to be justified by referring to the SGP. Due to the favorable economic development after 2005 and tax revenues higher than projected, the government fulfilled the demand as soon as 2006, which was one year earlier than agreed upon in the compromise with the Ecofin Council. Nevertheless, efforts to meet the 3 percent target have affected social policy reform insofar as a more resolute "employment-friendly" shift away from contribution financing was hampered. Moreover, in view of the requirement to attain a truly balanced overall public budget, the government is still constrained to allocate sufficient funds for attaining the aspired objectives in family policy or further lowering the combined contribution rate to the social insurance schemes (instead of continuing with the “switchyard policy” mentioned in section 2.5.3).

A more indirect influence, at least on social reform politics, may have resulted from utilizing EU initiatives in the political debate between the government and opposition. For example, in 2005 when the Red-Green government was confronted with a majority of CDU-led state governments in the *Bundesrat*, the *Länder* repeatedly accused the government of being responsible for failing to meet the Lisbon goals and urged it to pursue a strictly growth-oriented fiscal policy agenda. Thus, the opposition parties strategically used the Lisbon Strategy to press for structural changes in social and economic policy. At the same time, the Lisbon Strategy and the related peer pressure to pursue (in fact, unpopular) structural reforms were a welcome external support for the government’s position. A similar “game” was played with regard to the OMC process: from 2001 onward, the labour market policy orientation of the Red-Green government changed, emphasizing activation, employability and flexicurity. Since then, the government used references to the OMC to support and justify these changes (e.g., in the draft laws of the *Hartz* reforms) and considered the benchmarking process as beneficial for increasing reform pressure on national governments. The *Bundesrat* even asked for more rigorous benchmarking and ranking of member states and regretted that the EU Commission had not integrated a comparative evaluation and ranking of member states according to their performance. Thus, the government has sometimes exploited the EU as an excuse for justifying unpopular or otherwise controversial reform proposals, and in National Action Plans and Reports it praised the implemented reforms as accomplishments in line with the social policy objectives set by the EU. In contrast, the opposition has very often accused the government of not complying with objectives, indicators and benchmarks. Thus, different actors have used the EU as a vehicle for backing their position in the national political struggle over welfare state reform.

In March 2003 the government launched *Agenda 2010*. Among other matters, this comprehensive program to overhaul the German welfare state included the *Hartz* laws, another pension reform (legislated in 2004), the reform of the health care system of 2003 and an income tax reform (enacted 2004). The actual influence of the Lisbon Strategy on the decision of the Red-Green government to adopt its *Agenda 2010* remains unclear. However, the Agenda was regarded as a strategy to modernize the social market economy by means of reconstructing the *Sozialstaat*. It means that, after implementing these (and earlier) reforms, the German social model is more in line with the European Social Model conceptualized as a “third way-oriented approach”[12]. According to this interpretation of the ESM, it reconciles economic efficiency and competitiveness with social justice and solidarity, strives for high-level

[12] The definition of the “ESM” contents is in flux, and there is no unanimously accepted core of elements that comprehensively grasps the concept (Saari and Välimäki 2007).

social protection, and focuses on employability and activation. It was exactly the increased emphasis on self-responsibility and inclusion in the labour market (activation, not compensation) that narrowed the distance to the ESM after 2003.

2.5.4. Conclusion

The ongoing institutional redirection of the German social insurance state has not followed a coherent design for a "new welfare state". Nevertheless, the contours of a still unfinished "Post-Bismarckian" welfare state arrangement – a hybrid of the Anglo-Saxon and the Scandinavian model – are recognizable. Reduced levels of income security through wage-earner schemes, accompanied by demands for self-responsibility and more private provision, stronger reliance on means-tested benefits, and stricter activation measures signify the turn towards the liberal model. Activation is also a central trait of the Scandinavian policy design, but more important reform trends related to that model include increased tax-financing (the main direction of reform efforts) and more spending on family-oriented services. Therefore, transformation of the Bismarckian welfare state in Germany comes down to a zero-sum situation (at best): what families gain as parents they lose as wage earners (higher social insurance contributions and expenses on private provision) or when out of waged work, i.e., being unemployed or of old age.

Having said that the reform strategies pursued in Germany are largely in accordance with the EU's third way-oriented objectives for social policy reform, does this mean that the EU is the main driver of convergence? If it really is, the EU enforces convergence less by coercion or penetration (see Bennett 1991). This mode, however, gains in importance, as social policy reforms imply a larger weight of welfare markets (like in pension provision), and Community law increasingly defines the regulatory frame (Eckardt 2005: 250-1).

It would seem that hitherto more relevant is the "co-evolution process" that leads to ideational change, ultimately materializing at the national level in changes that assign new objectives to given institutions. This happens when new ideas, concepts or terms developed at the national level enter EU-level discourse and then return (or: disseminate) to reform debates in member states[13]. Elite networking also plays a role, and it is exactly information on "best practice" by which the EU intends to foster transnational learning. However, the repertoire of possible responses to emerging social policy problems is finite, and if "emulation" actually happened on a large scale it would lead to gradual convergence in an almost "natural" way. However, not even after 2001 has the reform process in Germany been guided by picking

[13] The OMC process may influence policy paradigms when it rephrases debates at the national level, e.g., by invoking the term "active ageing" instead of framing institutional change as "raising retirement age" or "ending early retirement".

"best practices". Rather, reforming welfare state schemes and programs one by one – often more than once and in a number of areas still left unfinished – demonstrates that efforts were hardly founded on a well-integrated concept or blueprint. The established institutional setting, the national policy discourse and power constellations determined which reform levers actually could be pulled for coping with perceived present and future problems.

It is obvious that more recent developments clearly contradict the image of a "frozen welfare state" (Esping-Andersen 1996) or of an "immovable object", resilient to changes (Pierson 2001). Even "electoral threat" did not prompt policy-seeking politicians to shy away from legislating welfare state changes painful for present or potential beneficiaries. The retrenchments the late Kohl government enacted (1996/97) in health care (higher co-payments) and public pensions (declining benefit level) – and which the Social Democrats promised to revoke – contributed to the defeat of the Christian-Liberal government in the 1998 federal elections (Hinrichs 2005: 69, n. 5). Conversely, the legislation of the high-profile *Hartz* reforms[14] came at a high political price for the Social Democrats. A flat-rate benefit for long-term unemployed was disapproved by a strong majority within the population because it violated established notions of social justice (Krömmelbein et al. 2007: 123-4, 145-6, 176), and the Red-Green government was unable to communicate that the reform was not exclusively a "cut" of just entitlements. In addition, *Hartz IV* was enacted when there were only scant prospects for an improved labour market situation (Eichhorst and Sesselmeier 2007). The implementation was accompanied by mass protests (foremost in East Germany), and this contributed to several defeats for the Social Democrats in subsequent state elections, eventually leading to premature federal elections in September 2005. Numerous left wingers turned away from the party, and the weakly organized splinter group (*WASG*) joined forces with the (mainly East German) Left Socialists (*PDS*). Under the label *Die Linke*, they gained 8.7 percent of the votes and attained a foothold in West Germany.

Furthermore, the labour market reforms of the 2002-2005 legislature and active participation in the legislation on a higher retirement age in 2007 alienated the traditional allies, the labour unions and the Social Democrats. Some unions or, at least, strong internal fractions openly sympathize with the party *Die Linke*. Thus, in the view of this no longer negligible radical left party and a dissatisfied rank and file, the Social Democrats have already begun to again sharpen their profile as a moderate left "people's party" and have pronounced the "end of impositions". Within the "Grand Coalition" gov-

[14] Not only high-profile issues but also the seemingly small and less visible changes (the definition of "net earnings" for the calculation of *ALG I* or of the wage base determining the value of one "earnings point" in the pension scheme, scrapping pension credits for periods of education etc.) produce a substantial impact, particularly, as they add up (Hinrichs, Kangas 2003). Very often, however, those "small" changes within a complex social benefit scheme go into effect unnoticed by the public or the mass media.

ernment, the Social Democrats successfully urged the CDU/CSU to accept a re-extension of the eligibility period for *ALG I* benefits. As of January 2008, the unemployed aged 58 and older are entitled to a maximum of 24 months (instead of 18). Moreover, in order not to further exasperate pensioners, both government parties agreed not to apply the legally fixed adjustment formula in 2008 and 2009, but rather, to arbitrarily raise public pensions by 1.1 percent in July 2008 (instead of 0.46 percent according to the formula). In view of the economic upswing easing the strain on social insurance budgets and disagreement between the government parties on further social policy changes, one may expect that welfare state reform in Germany has largely reached a standstill that will last until the next federal elections in autumn 2009.

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6. The national model of the welfare state in Poland. Tradition and changes

Introduction

The task of presenting a model of Polish social policy is a very difficult one. The basic reason is that social policy has been affected by changes that reflect the dramatic and stormy history of the Polish state, which was once eradicated and then created anew, only to experience a deep alteration of its demographic structures, along with shifting borders and continued exposure to the expansionism of neighbours.

The mutability of Polish social policy is also a reflection of the country's specific social structure. Due to the influence of the landed gentry and the Church, social affairs long remained in the hands of philanthropic and religious organizations. Late industrialization under conditions of a centralized socialist state, in turn, affected industrial relations, the role of trade unions, and the formation of separate social systems in workplaces. The enormous role of traditional (i.e., ineffective) agriculture in Poland's economy hampered the modernization of rural areas and allowed the persistence of chronic poverty. Indeed, this poverty was the chief factor behind emigration in search of a better livelihood and the emergence of Polish *émigré* communities in many countries.

A major source of the difficulties in identifying a model for Polish social policy is the shortage of historical literature on the institutional stratum of social policy. Although there are excellent scientific and literary works on the living conditions of various groups of people in various periods of Poland's history – e.g., the peasants, landed gentry, workers, Jews, and Polish immigrants in various countries – there is still a shortage of literature that presents social policy in a comprehensive manner. For research into this topic requires a certain degree of historical calm and continuity – and this has always been missing in Poland. The relevant scientific groups have always been under pressure either to document turbulent times or to formulate and prepare reforms for the eras of newly-won freedom. Even today people still argue that there is no time for historical institutional analyses because what is of overriding importance is the implementation of successive reforms, or the repair of defective reforms that were implemented hastily.

Of further significance is the fact that Polish institutions arose under the overwhelming influence of solutions imposed by other states (partitioning empires, invaders, and the Great Powers) or borrowed from them. The effort to distinguish between external solutions and our own solutions is difficult and perhaps hardly justified today, in that together they have resulted in a qualitatively new institutional structure for social policy, one that is original and requires thoroughgoing examination and description. This report does not seek fulfill that task, as it is but a general text of modest dimensions.

In presenting a model of Polish social policy, on the one hand we have attempted to refer to the past – and on the other hand to the future – to both the new political conditions (EU integration) and the new challenges. In this cross-fire between the past and the future, we devote the greatest attention to the present. Yet whereas the present depends more on the past than on the challenges ahead, Polish social policy requires a more determined turn towards the future.

2.6.1. The roots and development of the national welfare system

Basically, one can say that there was no Polish national welfare system until Poland regained her statehood at the end of World War I. Yet the history of the relevant institutions reveals that social policy concepts had arisen earlier. The Polish Enlightenment and the political and social reforms of the latter 18th century, carried out just before Poland lost her statehood in 1795, have to be seen as the first attempts to shape a model for Poland's future. Europe's first modern constitution (1791) and the work of the National Education Commission (Europe's first ministry of education) laid down traditions which Poles take pride in even today.

The long period of the partitions (123 years, from 1795 to 1918) resulted in the creation of a general ability to defend the values of national culture on the one hand, and permitted the social adaptation and use of the institutions of the partitioning states for the needs of Polish society on the other hand.

The era of the Second Republic (1918-1939) was a major period for institutional solutions. The dramatic events of World War II left their mark on social attitudes towards law and authority. The era of the communist Polish People's Republic brought incomplete modernization and an ability to live in institutionally varied worlds. It has had a major impact on institutional culture and social life.

Thus, Polish social policy has very rich roots arising from the drama of history. Let us examine their development in the past, attempting to extract those lasting features that have influenced today's solutions and will probably go on to influence tomorrow's solutions, as well.

The heritage of the partitions

The history of institutions reveals that social visions and organizational concepts for solving social issues were also formed during the era of the partitions, when for well over a century Poland's territory was under the rule of the three powers neighbouring Poland – Austro-Hungary, Prussia, and Russia. In each of the divided country's partition zones, the collective institutions that were formed were a reflection of those of the ruling power. But new, unique institutions also arose, ones resulting from the concrete social situation and society's method of adaptation (or, often, non-adaptation) to the policy of the partitioning powers.

The living conditions of Poles under the partitions were varied. The standard of living in the Prussian zone was higher than in the other zones of the divided country. The most difficult living conditions were in Galicia, under Hapsburg rule. Galician poverty became proverbial. The average life expectancy in Galicia (southern Poland) at the end of the 1870s and beginning of the 1880s was only 27.8 years, whilst in the west, in Wielkopolska (under Prussian rule), it was 33.5 years. In Germany proper it was 37 years. In France, life expectancy during this period was 42 years (Central Statistical Office – GUS 1993: 111-112). Hunger and disease drove people to mass emigration "in search of bread". It is reckoned that 857,000 people from Galicia emigrated to western Europe and overseas during the period 1881-1910, which was about 11 percent of the population (Zamorski 1991, citing GUS 1993: 114).

Of course, the policies of the partitioning powers varied – and changed with the passage of time. As punishment for the Polish Uprisings of 1830-31 and 1863-64, Prussia and Russia applied a repressive anti-Polish policy, involving Germanization and Russification. Conversely, in the Austrian zone the Poles were allowed to develop their own autonomous political and social institutions, something which served to improve the situation of groups of the Polish landed gentry only.

Despite these differences, a certain common and permanent canon of social values emerged among Polish society, and this provided a major pillar of the social system of the future independent Poland, the Second Republic of 1918-1939.

First – these values stemmed from the religious principles of the Catholic Church[1], and were expressed primarily in the practical activity of religious orders and the clergy. Despite the reluctant attitude towards religious orders, and even repressions in the 19th century (especially in the Russian and Prussian partition zones), new orders were founded and old ones were revived. A characteristic feature of religious orders in the 19th century was the large presence of female orders (Kłoczkowski 1987). Female religious orders were geared to energetic and open social activity. The work of these orders,

[1] During this period one can also speak of the social teachings of the Church, which did not become a separate subject in the curriculum of seminaries until the 1930s.

whether it was the social education of children and young people, or care for the infirm, was performed by small groups of nuns who lived among the people and fulfilled their tasks with dedication.

Second, an undeniable source of social values was the social mission of groups hailing from the landed gentry and the Polish intelligentsia. Having suffered harshly under the partitioning powers, these groups performed humanitarian and philanthropic work for the sake of moral and social order and the betterment of the population at large. Educational work and care for children and young people were performed by associations which often derived from the old charitable organizations founded by aristocrats, associations of families of the nobility, and organizations of lay Catholics. More innovative socio-economic activity was performed in the Wielkopolska region, centered on Poznań in western Poland. At the end of the 19th century Poland's intelligentsia concerned itself more with scientific and economic transformations than with the old social traditions of independence. Such was the era of "Positivism". They formed specialist and professional associations which supported the teaching of trades, technical education, and economic activity.

The third source of social values was scientific social thought, expounded in Polish educational establishments and academic circles. The chief figure of Polish social policy was Ludwik Krzywicki. His principle was social work, performed not so much for the sake of charity as for the need to create a proper social order (with a leftist orientation) in a professional manner.

Finally, one should note the influence of the institutional traditions of the partitioning powers. The social solutions in force in Prussia left their mark on Polish legislation on social assistance and social insurance. The welfare system in Prussia was designed to ensure the loyalty of subjects and social order. Centrally planned and controlled solutions went hand-in-hand with a decentralized method for their implementation. State administrative supervision also played an important role here.

The heritage of the Second Republic

Construction of Poland's national welfare state began together with the recovery of statehood in November 1918. The greatest positive social heritage of the interwar period is that of social policy regulations and institutions. Designed ambitiously and with some exaggeration, they have provided a significant point of reference for public solutions ever since.

Of the main social policy solutions, the following deserve particular attention: the sanitation law of 1919; the 1920 law on sickness funds, regarded as one of the most modern in Europe (Sadowska 1993); the law on social care of 1923; and the insurance law of 1933.

Despite these fitting solutions, social issues remained a difficult heritage. It was possible to ease some of them, for instance infectious diseases, the incidence of which was reduced, but they could not be eradicated completely.

Poverty and backwardness in rural areas (a belated and limited agricultural reform in 1925 did little to improve the situation), delinquent communities in urban areas, and dramatically difficult living conditions – these were the biggest social problems of the interwar years, and they persisted. The phenomenon of emigration "in search of bread and work" survived. Although emigration was no longer as permanent as it had been, with the émigrés now tending to shuttle back and forth, nevertheless it was still at a high rate. According to statistical sources (figures by the Central Statistical Office – GUS 1993), in the period 1919-1938 some 2.1 mln people left Poland and 870,300 returned, which means that Poland lost over 1 mln. people as émigrés.

An economic revival occurred in Poland in the middle of the 1930s, and the situation of farmers and of persons employed in the public sector improved markedly. This trend towards an improvement in efficiency and in living standards gave a sense of optimism which also strongly affected integration processes in Poland (Zaremba 1991).

Education was neglected by the Second Republic. To a major degree, teaching was left in the hands of private (including religious) organizations and private individuals, something which did not greatly improve society's overall level of education. Many adult Poles were illiterate, especially in the former Austrian partition zone. It is reckoned that during the Second Republic, 1/3 of the population could not read or write.

The social dimension of World War II

The destruction caused by the Second World War was enormous. Population losses (before the war Poland had a population of 35 mln., and after the war, within her new borders and prior to the repatriations, she had 22.2 mln. – GUS 1993), the extermination of the Jewish minority, extermination of elites, forced labour and labour camps, destruction of the capital and of the country's infrastructure, along with mass deportations – theses were the direct physical effects of the war. At the same time, society experienced other forms of damage, including psychological and moral.

During the war, the part of Poland called the General Gouvernement (German-occupied Poland) had a certain very limited autonomy. In this territory there were full structures of an underground Polish state in which schools and universities also functioned. Society defended itself by existing in two different dimensions, as it were: officially under the law of the invader, and underground under the strong conspiratorial regulation. It has to be said that participation in the conspiratorial structures was not automatic. For instance, only those pupils who were intelligent and possessed a certain heroic predisposition (i.e., were not likely to betray others when caught) could attend school. There was no time or possibility for repeating and extending the educational process (Karski 1999). Some young people lived "out on the streets", forming delinquent groups of "schemers".

The period of occupation taught people to be resourceful in order to survive. They risked their lives to find food, even without ration coupons. They helped the sick by supplying medicines, provided medical aid and care, and courageously circumvented the orders of the occupants. Yet again, authority itself was the worst evil, instead of being the means by which to attain order and security.

The heritage of the communist Polish People's Republic

During the first few years after the war, the social institutions of the Second Republic were automatically transposed to the structures of the People's Republic (PRL[2]). These institutions – primarily social insurance and social care – operated according to pre-war legislation for up to 5 years after 1945, whereupon they were altered and adapted to central planning and to a single central fund – the national budget. Soviet institutions provided the pattern.

The first task undertaken was the reconstruction of the social infrastructure so that elementary services could be provided: teaching children, treating the sick, and helping those who had suffered misfortune.

The greatest ambition of People's Poland in social affairs was the education of children and the eradication of adult illiteracy. As early as May 1945, a program was adopted involving the construction of a network of 7-year elementary schools and the abolition of "school-less areas". In 1949 a program of eliminating illiteracy was adopted. This program was implemented and the authorities were able to boast significant achievements.

The next step was vocational training for the purposes of accelerated industrialization. Ideological arguments played a part here. This was achieved at the expense of comprehensive secondary-school education. Some 60 percent to 70 percent of school-leavers were graduates of vocational secondary schools, and for this reason were barred from further education for many years. Not until the 1970s was a system of advanced vocational education restored.

The health care system was rebuilt and developed with particular energy. Medical staff were trained, hospitals built, and new public health care facilities established. Initially one could observe noticeable successes: liquidation of infectious diseases connected with the introduction of obligatory vaccinations, hygiene rules and workplace safety and its monitoring. However, only in the 1960s did the health status indicators improve (Okólski 2004). In the situation of accelerated industrialization, a phenomenon of over-mortality appeared, which was connected with a high indicator of injuries, circulatory diseases and diseases caused by alcohol abuse and smoking. However, the health status of women slowly but systematically improved, and this led to a large disparity of health indicators according to gender.

[2] In fact, the name PRL did not become official until 1952

The concept of the new health care system was based on the Semashko model[3]. Its chief features were:

- Responsibility for public health in the hands of the central authorities,
- Universal free access to health services based on constitutional rights,
- Health services provided by specialists trained in special medical academies,
- A close link between medical research and practice,
- An integrated system of health care: primary care, diagnostics, specialist out-patient treatment, in-patient treatment and rehabilitation,
- In the distribution of resources and activity, priority accorded to the prevention of infectious and social diseases.

The health care model in Poland diverged from the Semashko model because parallel health care systems developed. Firstly, a network of private specialists' practices, called "medical cooperatives" emerged. They were addressed to the peasant population, which had no access to the state health service because this social group belonged to the private sector. From the end of the 1960s, the rural population gradually acquired entitlement to social insurance and health care, but only after their farms had been given over to the state treasury. Not until 1990 did they acquire identical rights. In time, it turned out that the medical cooperatives were actually making up for the shortcomings of the state health service (Golinowska, Tymowska 1992). Secondly, the "industrial health service" developed. However, it was not just industry that possessed its own health service: selected branches such as the railways, army, militia and central administration also had their own medical services. If the existence of industrial health services was justified by the primacy of the working class and its extraordinary services for the country's development, in the case of the central administration and uniformed services, their privileged health care was political. Of course, the facilities offered by these health service "islands" was better, and the care offered was fully comprehensive, starting with health promotion, via preventive checks, out-patient treatment and in-patient treatment, all the way to rehabilitation. Moreover, access to the health service was controlled by means of "catchment areas", whereby a patient could only be treated by doctors in his area. But this restriction could be sidestepped via one's acquaintances or by offering money, with the result that corrupt practices infiltrated the system. There were calls for changes and reforms which became particularly loud in the 1980s (Włodarczyk 1998).

Despite many pro-health activities undertaken during the PRL period, the socialist health service did not manage to "catch up' with the western countries. Of decisive importance in this process were worse living conditions and the risky lifestyle in the rapidly industrializing Eastern Europe.

[3] Semashko (1874-1949) was a Russian doctor and politician and the USSR's first commissar of health, who presented a vision of a health service under the system of central planning.

World War II exacerbated the problem of housing. It is reckoned that 40 percent of the housing stock in cities (in the case of Warsaw, 85 percent) and over 50 percent of the housing stock in rural areas was destroyed (Goryński 1973). And yet housing construction was not accorded priority either in the economic reconstruction plan (1946-1948) or in the great industrialization plan (1949-1955). The greatest importance was attached to the reconstruction and expansion of production capacity.

The second half of the 1950s witnessed a major housing construction plan. The demand for housing was also fuelled by an influx of rural inhabitants to the cities (over 2 mln people) in order to build heavy industries. To meet this demand, quantity was placed before quality. Large blocks containing small apartments were built, with a limited technical and social infrastructure. People were encouraged to save for their apartments by joining a housing cooperative. In the 1970s, when the baby-boom generation began to enter the labour market, the plans were expanded and the standard of housing construction was improved. But housing was still the greatest deficit commodity under the People's Republic. This deficit persists to this day.

The policy of the communist authorities regarding social security was not based on any uniform concept. One must bear in mind that the prime principle of social policy under the People's Republic was full employment, preferably in the public sector. The maxim "if you don't work, you don't eat" dominated every social solution. In social security, the Soviet universal model was only partly approved. At the same time the insurance rhetoric and some insurance elements were retained. Employers paid social insurance contributions and a central insurance administration – ZUS (*Zaklad Ubezpieczeń Spolecznych* – Social Insurance Institution) operated continuously. Legislation terminology, the collection of information, and some of the staff dated from before the war. The insurance fund was separated from the state budget (the first move in this direction was in 1968, and then in 1986), the population was divided into insurance groups, with separate insurance for farmers (1990), and the insurance law and a procedure of granting benefits were enacted, included the "contribution periods" on which the amount of benefit depended to some extent. The insurance concept triumphed, although the system that operated never fully reflected this. For the PRL's authorities could use the system as an instrument to attain their political goals on income policy, particularly in the 1980s. This policy were meant to legitimize political power, which was losing ground because of the general lack of acceptance for Martial Law (imposed on December 13, 1981) and the continued economic depression, and also because of the activity of the democratic opposition.

Social care and social assistance under the People's Republic functioned in a rather limited and medical oriented way. Social care homes provided services within health care and were under the authority of the Minister of Health and Social Care. At the local level there were social care departments working within primary health care centres or regional hospitals. Benefits and the running costs of these institutions were financed out of the central budget. To a limited extent, the work of the social services was backed by additional support from non-state institutions, especially religious ones. Social assistance cash benefits were payable only in specific circumstances such as natural disasters. The means-tested approach, i.e., a total lack of income or a low per capita income in the family (less than 80-100 percent of the minimum pension), were applied very rarely.

An important addition to the classic institutions of the state social system was the social activity of enterprises. The larger and better workplaces had such large funds that they provided an additional source of attractive social benefits. It is the social activity of work places that divided society, providing some groups of workers with access to housing, health care, kindergartens for their children, holiday services, and even hard to come by commodities.

To conclude this review of the social institutions developed under the Polish People's Republic, one should consider the neglect in the sphere of family policy. Although the classic family allowance was introduced in 1947, the amount was so low that it was merely symbolic. Established as a fixed sum, it remained largely unchanged. For instance between 1963 and 1984, i.e., for 21 years, it remained at the very same amount. Unlike many other countries in the Soviet bloc, Poland did not develop institutions that sufficiently enabled parents to reconcile work with family life. The expansion of the nurseries and kindergartens was particularly poor. Although working women did enjoy certain benefits, such as a benefit for looking after sick children, generally the system in Poland did not create any more favourable solutions for families. The source of emancipation of women in the second half of the 20th century was that of access to education and employment, areas many women eagerly took advantage of. We can say that in the PRL a two bread-winner model was developed at the cost of doubling women's work: at home and at workplaces outside home.

A program of family policy was formulated for the first time in the 1970s for the sake of an acceleration in housing construction. Housing loans for young married couples were also introduced. These loans not only provided the funds for first family purchases, but also gave young married couples priority in the queue for deficit goods, for the shortages in Poland were particularly broad.

At the beginning of the 1980s, the independent trade union Solidarity called for family-friendly solutions. In its demands, *Solidarność* postulated more kindergartens and the introduction of benefits during the 3-year unpaid maternity leave for mothers with small children. A system of nurseries completely failed to develop. Replacement solutions for working mothers included temporary leave with the right to continue previous employment and with the right to calculate this period into one's pension entitlement record. Additionally, mothers from low income families could receive maternity allowances for caring for small children. Such an instrument was introduced in 1981, involving a minimum wage level as the threshold to use the system. After a while, it was agreed that fathers could also take advantage of this leave and benefit with the mother's permission. Surveys from that period have shown that mother and parental leave primarily fulfilled a social assistance function. It was made avail of by poorer families, single mothers and families with handicapped children (Muszalski 1991).

The social system of the Polish People's Republic was not a typical model for a socialist state, and diverged widely from the social systems of Poland's neighbours: Czechoslovakia, East Germany and the USSR. This fact is not always discerned in the literature concerning social policy in Central and Eastern Europe. Only in the more insightful studies can one find confirmation of the unique development of the welfare state in Poland (cf. Inglot 2008). The majority of works by foreign researchers treat the social systems of Central and Eastern Europe as a uniform model of the Soviet type (cf. Connor 1997, Cerami 2008). So what are the differences we need understand to grasp Poland's uniqueness?

Firstly, the Polish welfare state was not a universal system. Not until the 1990s could farmers claim to have a system similar to that of workers. Also, there were relative wide income differentials. Next, the social system contained numerous loopholes. No institutions were developed in Poland enabling employment to be reconciled with family responsibilities. The network of nurseries and kindergartens was poor. On the other hand, the institution of the family as a traditional value, supported by the Church, was strong. Next, the People's Republic allowed social and religious organizations to provide social services, while keeping these services under state supervision. Strong professional associations and trade unions developed which first engaged themselves in arranging the availability of commodities and organizing holidays and recreation for their members, and later created a base for political activity. The network of social institutions provided a certain amount of maneuvering room and thereby allowed a certain freedom of expression, contacts with the West and, ultimately, political opposition.

All in all, the welfare state under the Polish People's Republic was not fully socialist, in addition to which it was limited and diversified. The acute shortages made people resourceful, which is not synonymous with the enterprising spirit to be found in a market economy. Only the workforces of key plants experienced the achievements of socialism.

Social policy during the PRL did not perform a significant role in the socialist modernization of the country. For villages, the poorer segments of the industrial economy, and the private crafts industry remained outside its scope. On the one hand this gave impetus to entrepreneurship and resourcefulness, along with a sense of autonomy. But on the other it was a cause of under-development and social conservatism.

2.6.2. The transition period; specific social problems and social policy 1990-2004

During the period of postcommunist transformation, Poland passed through a very difficult economic and social situation, one that was considerably more difficult than that of other countries in the same "camp". The recession that had existed since the late 1970s (known as stagflation – a combination of stagnation and inflation – Kołodko, McMahon 1987), also included high foreign debts, acute shortages, and finally, hyperinflation. Additionally, there was also a high rate of political and labour emigration. These were among the chief characteristics of the twilight of the People's Republic. On the one hand this situation prompted radical economic moves, symbolized by Leszek Balcerowicz, the determined economic reformer who stabilized the economy and set it on the path of a market system. On the other hand, it engendered protective social policy measures, symbolized by Jacek Kuroń, the minister of labour and social policy who, shifting his public activity from the political to the social sphere, was the father of the first protective solutions of the market system.

Table 2.6.1: Macroeconomic indicators

Indicators	1990	1993	1995	1997	1999	2001	2002	2003	2004	2005	2006	2007
GDP growth	-11.6	3.8	5.2	6.8	4.8	1.2	1.4	3.9	5.3	3.5	6.2	6.6
Inflation CPI, previous year = 100	685.8	135.3	127.8	114.9	107.3	105.5	101.9	100.8	103.5	102.1	101.0	102.5
Employment rate*	.	.	.	58.9	57.6	53.4	51.5	51.2	51.7	52.8	54.5	57.0
Unemployment	6.5	14.2-16.4	14.9	10.9	13.1	18.3	20.0	19.7	19.0	17.6	13.9	9.6

Note: * number of persons aged 15-64 in employment to total population of the same aged group
Source: GUS: data of appropriate Yearbooks and Eurostat 2008

It will soon be the 20th anniversary of the start of the great political changes in Poland. Maturity has been attained. Taking into account socio-economic criteria, the period of childhood, and the development of the market economy and the democratic system, the period can be divided into four stages[4]:

- 1989-1993 – a period of crisis and falling incomes, involving the protection of those hardest hit by the effects of the changes,

[4] This chronological division is the result of previous analyses by the author (Golinowska 2000 and 2005, used in the Friedrich Ebert Stiftung's *Social Report Poland 2005*).

- 1994-1997 – a period of dynamic economic development, involving social policy in the preparation and implementation of reforms to social security institutions in order to adapt them to a market economy,
- 1998-2003 – a period of introducing market-oriented changes (reforms) and decentralizing social policy under conditions of economic growth and reduced public spending
- 2003 to the present – a period of the impact of EU accession and EU social strategies on Polish social policy under conditions of economic revival and the influx of EU structural funds.

Employment, mobility, and labour market policy

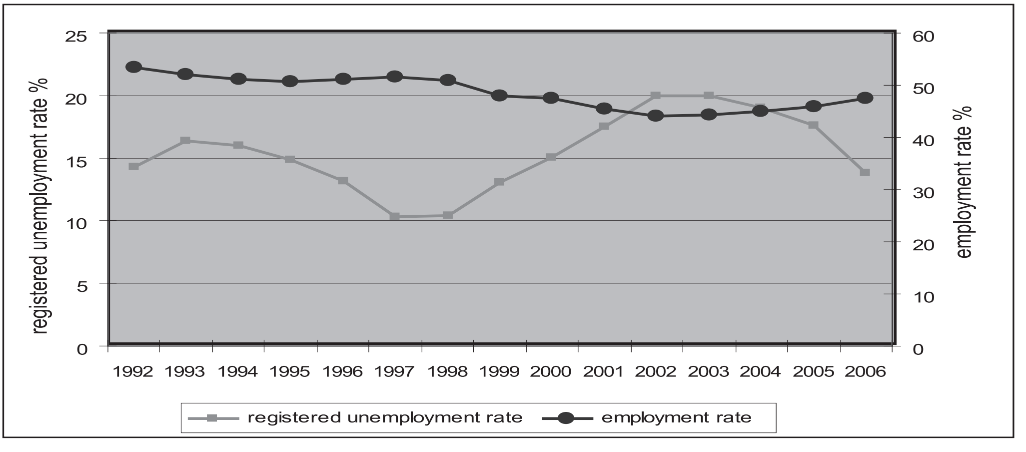
It was obvious that the transformation from a centrally planned economy to a market economy would bring unemployment. Among elites there was no undue political or social lamenting about this fact because the disadvantages of excessive employment and low productivity for the country's efficient development were so great that they counteracted the advantages of full employment. Therefore, the appearance of unemployment was even viewed as an incentive for better work performance and a more efficient use of labour resources. Nevertheless, there were fears of the political consequences of excessive unemployment, as that might dampen support for the political changes. Therefore, during the initial period of the transformation it was decided to introduce generous social measures, including long-term financial benefits (earlier old-age and disability pensions), without considering the fact that this could skew the redistribution of wealth and create high labour costs. Because of this high social safety-net for people threatened with unemployment, many people still in working age were suddenly removed from the labour market and lived off social benefits.

While the unemployed and people threatened with unemployment were provided with a social safety-net, no job creation policy was pursued. The priority given to restructuring and to the fulfillment of inflationary goals meant that insufficient political attention was paid to the negative balance between job reductions and job creation. It was taken as an article of faith that the consequence of economic growth would be higher employment. Furthermore, interest in employment policy was further dampened by the propitious economic situation and high growth rate in the middle of the 1990s. Labour market policy was not actively focused on the establishment of institutions (employment offices) that serve the labour market.

In 1998, when the government was again in the hands of liberal reformers, other major political and economic tasks were undertaken: the program of the four socio-political reforms (decentralization, introduction of a funded pillar in the old-age scheme, introduction of health insurance, and reorganization of education), and the second stage of restructuring (in the coal, metal, railway, defence, and electricity industries). During that time economic growth slackened and employment dropped to a very low level. Despite the worsened situation on the labour market, it was still believed that high economic growth, strong anti-inflationary policy, and an increase in employment were mutually reconcilable. The first Polish document of the European Employment Strategy – the "National Strategy for Increased Employment and the Development of Human Resources 2000-2006" (one of the documents required from Poland prior to accession[5]) – was largely full of wishful thinking because it contained solutions that took no account of mutual dependencies and discrepancies between objectives. These documents did not address high unemployment at all because economic growth was still in progress and it was assumed that employment would therefore also increase (Wiśniewski 1999).

The increasingly high unemployment rate (about 19 percent in 2003-2005) and increasingly low employment rate (see figure below) caused alarm bells to ring. Reports were produced indicating the gravity of the problem (CASE/UNDP 2004, Ministry of Labour and Social Policy 2005) and pointing to the phenomenon of jobless growth[6] (Boeri 2000, Kwiatkowski et al. 2004), the mismatch phenomenon, a lack of work incentives, and an absence of the conditions with which to create new jobs (e.g., significant support for SME creation). The poor labour market situation continued to be played down, with allegations being made by some politicians and media that unemployed people were not really unemployed because they work in the grey zone.

Figure 2.6.1: Employment and Unemployment Rates in Poland, 1992-2006



Note: employment rate according to LFS figures for Nov./4th quarter each year, rate of registered unemployment – as of December 31.

Source: GUS Statistical Yearbooks and BAEL(LFS)

[5] As an element of the "Poland 2000-2010 Strategy of Public Finances and Economic Development".

[6] Under Polish conditions, a fall in unemployment does not occur until there is economic growth of at least 5 percent (Kwiatkowski et al. 2004).

The initial political response to the labour market difficulties boiled down to the promotion and introduction of flexible labour market principles and a search for maneuvering space in which to reduce non-wage labour costs, which were and are still regarded as the main reason why employers are reluctant to hire employees. During social dialogue, compromise solutions were agreed upon which, though they did not fully encourage labour market flexibility (e.g., regarding minimum wages), they did nevertheless soften “cutthroat capitalism.”

In 2003–2005, with the program of a new government, labour policy underwent a certain change. Programs to support the creation of new enterprises were formulated, monetary policy was relaxed, and active labour market policy (ALMP) measures were introduced, e.g., for first-time employees. Moreover, numerous regulations were enacted on the creation of jobs for people at risk of exclusion from the labour market, all in accordance with the concept of the so-called social economy.

The high economic growth in the second half of the decade helped reduce unemployment, but the structural problems of the Polish labour market remained.

Mobility; internal and external migration

Polish society displayed a varying degree of mobility during the transformations. On the one hand, domestic migration and the influx of workers to cities were halted, with the exception of the largest conurbations whose development acquired a new lease of life. This included Warsaw, Kraków, Wrocław, the Tricities (Gdańsk, Gdynia, and Sopot), the Silesian conurbation centered on Katowice, and Poznań. On the other hand, departures abroad in search of money continued, only to increase when Poland joined the EU.

However, most of the migration in the 1990s was temporary migration, where the migrant had no intention of settling permanently in the host country. Temporary migration in search of work and money is not a uniform phenomenon and can be divided into legal and illegal, according to the migrant’s legal status in the host country.

Legal employment in the old EU member states could be obtained on the basis of bilateral agreements on the mutual employment of selected groups of workers within a certain numerical contingent. Apart from this, Western countries applied well-known means with which to admit individuals to the labour market, such as green cards, *Gastarbeiter* programs, job practice schemes, individual contracts to perform a specific task, employment in border zones, etc.

Illegal unemployment, which attracted no fewer job seekers than legal employment, largely applied to the so-called secondary labour market: looking after children and old people, maintaining and cleaning households, working in the fields in farms, harvesting fruit and vegetables, carrying out repairs in small workshops, and performing other types of work in care or recreational facilities.

In the 1990s, the nature of emigration from Poland also changed on account of education. Previously, when emigration was dictated by both political and economic motives at the same time, more émigrés had higher education than those who remained in the country. But during the period of transformations, when people left mainly in search of work, most of those who did so were people with low qualifications (with elementary or secondary education), rather than persons with higher qualifications (higher education). Not incidentally, those who arrived in Poland during this time had higher qualifications than those who were leaving, which led to the somewhat exaggerated theory whereby "*Poland is experiencing a brain gain rather than a brain drain*" [Kaczmarczyk, Okólski in: *Urząd Integracji Europejskiej* (The Office for European Integration) 2005, p. 97].

The balance of the sexes in emigration also changed during the period of transformations. Previously, if men did not always predominate emigration, the balance tended to be equal (women went to join their men). But in the 1990s more women began to leave Poland, especially in search of temporary employment.

The characteristic features of the 1990s began to change towards the end of the decade. Young people, including college and universities graduates, began to leave Poland. This exodus in search of work increased after 2004, when Poland became a member of the European Union.

The high level of emigration no doubt limited the growing tension on the labour market. At the same time however, the reluctance of Polish governments to conduct a migration policy that would protect human resources attractive for the labour market caused significant problems, including work-force shortages on the dynamically changing economy.

Education and qualifications

The structure of Polish society inherited from the People's Republic was marked by a high proportion of people with vocational training, especially basic training, at the expense of comprehensive and higher education. This was because for successive phases of industrialization, the qualified worker was the most desirable product of Polish society. In the 1990s, in turn, there was a general trend in secondary education in favour of comprehensive education. Considering the needs of the labour market, one can say today that this change was excessive. Vocational education was in need of reform and modernization, rather than liquidation.

The reform of the education system carried out in 1999 (together with the Buzek government's packet of three other reforms) changed the structure of schooling from an 8-year elementary school + 4- or 5-year secondary school + 5-year university education to a 6-year elementary school + 3-year junior high

+ 3-year high school + 3-year bachelor's studies (tertiary) + 2-year master's studies. At the same time the teaching program and textbooks were changed, and new qualification requirements were introduced for teachers, including tertiary education and the requirement of continual upgrading of qualifications on the basis of a laid-out path for the teacher's career development. As this reform required considerable investment outlays, and was introduced at a difficult moment in Poland's economic development, the level of tension in the education sector was quite high.

Schooling was subordinated to territorial self-governments, although fixed government subsidies for its financing were maintained in the aim of preventing educational inequities arising from the financial differences between self-government institutions. The changes in the schooling system were accompanied by teachers' strikes that were organized by the powerful teachers' union. Parents also protested, particularly in the defence of smaller schools that were closed in the aim of creating large and better equipped elementary schools to which children were to travel on orange school buses. The protests also concerned changes in organizing the final examination needed to graduate from high school.

These changes in the educational system caused an increase of education costs borne by parents for new, numerous school books, commuting to school, school lunches, Internet access, learning foreign languages, PE clothing, etc. However, the schools, in implementing these greater demands, lost sight of the difficulties facing children from less affluent families (Tarkowski et al. 2007). Moreover, local self-governments only slowly (and often due to governmental pressure) began to organize systems for helping school children in obtaining meals, tuition monies, extra lessons, etc. Recent studies have shown that childhood poverty in Poland is very high (one of the highest in Europe – Social Protection Committee 2008), and that the role of schools in leveling inequalities in negligible.

Significant changes in the education system, independent of the reforms undertaken, began to expand with unusual vigour as regards tertiary education. Enrollment in tertiary education has risen from a dozen percent or so at the end of the 1980s to about 50 percent today. This development has been financed on the basis of individuals' income. Thus, this represents a grassroots demand for higher education. And this increase in educational aspirations fuelled the increased profitability of higher education in the new economy. Taking advantage of the education boom, private educational institutions have been able to ignore the needs of the labour market and neglect the quality of education, as well. In recent years an effort has been made to improve educational standards by means of a system of certification for colleges and other forms of assessment. At the same time there has been a fall in demand, and this will lead to competition for students, with the result that curricula may become more diversified and the overall quality of education higher.

As a result of the changes, some 10.2 percent of the adult population in 2002 (population census data) has higher education (women – 10.4 percent, and men – 9.3 percent), whilst in 1988 this percentage was 6.5 percent (according to census figures provided by the Central Statistical Office – GUS 2003). Women continue to be better educated than men, although the difference is being leveled out. Under the People's Republic, the educational predominance of women was attributable to the domination of basic vocational schools, which were attended by boys, whilst girls studied in comprehensive secondary schools and colleges. Today, boys join colleges, whilst girls have kept to their traditional path of education. When they study, they prefer to choose cheaper and shorter curricula (Siemieńska 2006, p. 381). However, women also undergo additional training more often.

Access to education always depends on the social status of parents, as illustrated by the fact that if a father has higher education, his child is more likely to follow suit. During successive years of the transformations, we have observed that more people from lower-status families have access to higher education, though not children from families with the lowest status. This applies to medium-level white collar workers: clerical staff, technicians, traders, and so on. According to Henryk Domański, this is also the result of a broader recruitment base thanks to the fourfold increase in the number of colleges in Poland (from 112 to almost 400, mainly private ones). This trend also applies to other countries undergoing transformation (Domański 2004).

Health and health care changes and reforms

Many observers were surprised during the 1990s to see that the Poles' health status improved. Death due to circulatory diseases, which are the main cause of mortality, declined significantly. Following years of crisis, life expectancy (LE) has increased. This improvement can be attributed to the overall improvement in the supply of goods and services: better food and better medicines, as well as better lifestyles mainly due to a reduced consumption of alcohol, reduced smoking, and improvement in the structure of fats consumption. Such positive health tendencies appeared the Czech Republic and Poland to a greater degree than in other CEE countries.

At the same time the health care service was still poorly financed and used various forms of regulation: regional assignment, system of referrals and above all, the system of branch privileges. Access to health care was not full. The high prices of private health care arrangements (not always officially organized) and the high costs of medicine began to be a big social and political problem. As early as the 1980s reports were produced stressing the need to reform the health sector in Poland (Włodarczyk 1998). Discussions about the concepts for reform were endless, and the system developed in a commercial direction.

The health care system reform was introduced in 1999 together with the Buzek government's packet of four social and political reforms (see p. 2.1). Health insurance took the place of central funding (from general taxes), a network of regional sickness funds was created, and the principle of a so-called internal market was introduced, patterned on a solution previously applied in Great Britain.

The health care system operated according to the new principles for 4 years: 1999-2002. The reform encountered mass criticism from the medical community, patients, and opposition politicians (at that time from the post-communist party), who, when they subsequently gained power in late 2001, brought about a partial reversal of the reform. The criticism of the reform was caused by deterioration in the health care system following its implementation. In 2003, the sickness funds were abolished and a central source of funding created – the National Health Fund (NFZ).

So what is the health care system really like after its many years of transformation? Sadly, one has to admit that it has many faults, and they are very serious: unequal access to health care services and financial shortfalls and tension that result in open conflicts. Tension occurs between the institutions that operate in the health sector (and there are now many more of them following the system's decentralization and disintegration), between professional medical groups, between managers and employees, and even between doctors and their patients. These conflicts are mounting and more and more often lead to organized protests. The number of strikes and demonstrations in the health care sector, and especially their duration, has placed health in the lead regarding strike statistics during the new decade.

Problems with the medically effective and economically efficient functioning of the health care system, that at the same time meets with the satisfaction of patients, is a greater or lesser issue in every country. However, the degree of difficulty in Poland is significantly higher than in many, inasmuch as the factors that spawn tensions are so deeply intertwined. One primary issue is that of the limited funds available for the health sector. Since 1999 total expenditures for health care have not exceeded 6 percent of GDP – and barely 2/3 of that sum comes from state budgets. Moreover, expenditures on staff training have been falling. Worse, greater numbers of doctors and nurses have been going abroad to find work. Accompanying all this are dynamically rising health needs regarding the population's ageing, the population's expectance of new and expensive medical technologies, and the need to invest in public health.

Chronic diseases, disability, and infirmity are the most serious health problems at the current stage of epidemiological development of the Polish population. Tackling the new challenges requires a readjustment of the proportions between spending on curative medicine and public health. How should this be done in Poland? The search for an answer is bound to lead to a new model for health care.

Changes and reforms to social security

In the political debate on the concept of a new social system, a particularly great deal of attention has been devoted to social insurance. Attachment to insurance against the main risks in life: disease, disability, destitute old age, and the death of the bread winner, in accordance with Bismarck tradition, has turned out to be very great. This is attributable to experts and the ZUS community, educated according to the legal traditions of social insurance. The prime corrections to be made were a departure from the logic of insurance and the abolition of the privileges of some employee groups. In 1991, a law was prepared to make the pension system more akin to a system of insurance.

Table 2.6.2: Social protection expenditures

Social protection	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Poland % of GDP	25.6*	24.2*	24.0*	21.8*	19.7	21.0	21.1	21.0	20.1	19.6
Poland per capita PPS euro	.	.	.	.	1 797	1 973	2 088	2 130	2 201	2 236
EU 25 % of GDP Per capita PPS euro	.	.	.	.	26.6 5 300	26.8 5 531	27.0 5766	27.4 5 908	27.3 6 137	27.4 6 367
EU 15 % of GDP Per capita PPS euro	26.4**	27.5 5 129	27.1 5 287	27.0 5 529	27.0 5 889	27.1 6 134	27.4 6 377	27.8 6 514	27.7 6 755	27.8 7 005
Old-age pensions % of GDP % of total benefits	12.2	11.6	11.3	11.4	9.7 50.6	10.6 51.6	10.8 52.2	11.0 53.1	10.8 54.8	10.4 54.5
Disability % of GDP % of total benefits	.	.	.	.	2.7 14.0	2.8 13.7	2.7 12.8	2.5 12.2	2.3 11.5	2.0 10.5
Family/ children % of GDP % of total benefits	.	.	.	.	1.0 5.0	1.0 4.8	1.0 4.7	0.9 4.3	0.9 4.5	0.8 4.4
Health care/sick-ness % GDP % of total benefits	.	.	.	.	3.8 19.6	3.9 19.3	4.2 20.4	4.1 20.0	3.8 19.4	3.8 19.9
Unemploy-ment % of GDP % of total benefits	2.0	1.4	0.9	0.9	0.9 4.6	0.9 4.3	0.9 4.3	0.8 3.9	0.7 3.4	0.6 2.9
Housing % of GDP % of total benefits	.	.	.	.	0.2 0.9	0.2 0.9	0.0 0.0	0.2 0.8	0.1 0.8	0.1 0.7

Notes: * MPiSP (Ministry of Labour and Social Policy) 2000 and own estimations, ** Golinowska, Hagemejer 1999.
Source: Eurostat 2008 based on Esspros methodology (Eurostat 1996)

Social insurance is one of the largest portions of social security in Poland. Approximately 70 percent of total expenditures on social protection is that of benefits from social insurance, for retirement and other pensions. It might have seemed that social assistance would become the decisive institution of the welfare state. However, it is precisely social insurance with its distinct institutions and funding that best defended themselves during the difficult years of the transformation. All the other expenditures financed by general tax revenues lost meaning, especially those from the arsenal of family and housing policy. Furthermore, expenditures connected with unemployment and servicing the labour market were low. In sum, the total expenditures on social protection underwent a clear reduction, from 1996-2005 by 5 percentage points of GDP (see below). In other EU countries no such decrease in social protection expenditures took place. On the contrary, they have risen somewhat, as the table below shows.

The old-age pension system

The changes carried out to the retirement and pension system during the first period of the transformation were focused primarily on goals of a political nature. As early as the 1980s *Solidarność* promised dignified retirement pensions and the regular adjustments (index-linking) of benefits in line with real purchasing power, so as to end the phenomenon whereby the elderly were in fact receiving ever lower pensions.

The index-linking of pensions was of fundamental importance from a political point of view. In May 1990, a law was passed which automatically linked pensions to the cost of living index on a quarterly basis. This solution was particularly beneficial to retired people. One should note that the wages of public sector employees were not automatically index linked.

Thereafter, separate insurance establishments were created for farmers. In 1990 the Social Agricultural Insurance Institution (KRUS) was founded under the authority of the Ministry of Agriculture. Over 90 percent of farmers' pensions are covered by the state budget.

The improvement to the situation of old-age and disability pensioners was considerable. In 1993, 72 percent of eligible pensioners had ceased to work, whereas in 1989 it was 60 percent. Pensions were reliable and, thanks to automatic index-linking, they retained their value. This provided a particularly strong incentive for persons threatened with unemployment to leave the labour market and begin drawing their old-age or disability pension.

The introduction of the new regulations increased the costs of the old-age and disability pension system very much. In 1992, spending on old-age and disability pensions swallowed almost 15 percent of the GDP, compared to 8 percent in 1989. During a short interval of time, employee contributions rose by 7 percentage points (from 38 percent to 45 percent of the wages fund). At the same time, subsidies from the state budget increased. If at the end of the

1980s the social insurance fund had a surplus of revenues over expenditures, in 1992 20 percent of the state budget, or 6.3 percent of GDP, was being paid to ZUS and KRUS.

As the years went by, politicians found it increasingly harder to push through rational reforms to the old-age pension system. The social interests of old-age pensions acquired a political dimension (the Old-Age and Disability Pensioners' Party was formed in 1994). A "leap forward", in other words, a reform for future generations, was deemed necessary, while the old solutions were left untouched for the time being.

In the second half of the 1990s events accelerated and led to the introduction of radical retirement pension reform with the assistance of advisors and financial support from the World Bank. The problem of the presence of the World Bank in Poland was raised in the investigations of many foreign authors, with Katharina Mueller in the first place. That scholar drew attention to the high internal debt of Poland and Hungary as the factor determining the presence and expertise services of the World Bank and other international financial institutions (Mueller 1999). However, there were some additional internal factors that contributed to the elaboration of the Bank's concept described in the famous book *Averting the Old Age Crisis* (World Bank 1994). Significantly important was the exacting preparation of the concept by the specially set up institution: the Governmental Plenipotentiary for Social Securities Reform[7], a high-rank inter-ministerial unit and professional office with rather politically neutral membership.

The Polish old-age pension reform was a certain compromise between various interests, though these interests were not symmetrical. Firstly, the reform introduced a capital segment (the so-called second pillar) to the system, a segment of sizeable proportions (7 percent of the pension contribution). This was a response to the need to create domestic capital and expand the capital market. Next, it introduced a uniform pension formula, creating a system of fixed contributions and individual pension accounts (in both the first – NDC – and the second pillars). This was in response to the abolition of privileges, and represented the introduction of a fair "order" to the system. Thirdly, it launched a partial privatization of the system by introducing private institutions to administer it (the General Pension Companies in the second pillar, as private companies), which was a response to the hitherto state monopoly of ZUS. However, the unfavourable impact of high social security contributions (45 percent of the wages fund) on the labour market (tax wedge), and the costs of the process of transformation, which had to be covered by additional outlays, were neglected. It was assumed that the revenues from privatization would cover these costs, but that was not the case. The new old-age pension

[7] One important factor for the acceptance of the unit was the leading role of Michał Rutkowski, a World Bank expert, and a Pole. He possessed a deep knowledge of local cultural, social, and political milieu.

system was designed with a view to considerably reduce disparities within the same generation. This had been called for not just by experts, but was also a response to the results of public opinion polls.

The positive effects of the reform can already be seen on the capital market after just a few years of the reform's introduction, for the pension funds are efficient and significant market players. They are boosting the development of the capital market and encouraging high standards of corporate governance among pension institutions. Although these results are far removed from the situation of future pensioners, they are important for a country that is only just establishing its market standards.

Despite the enormous effort applied to introducing the retirement reforms, they were not carried out consistently and to their conclusion. Still to be resolved is the problem of "bridging pensions" for employee groups with acceptable privileges with regard to difficult or specific work conditions. The same goes for farmers. However, the concept of annuities was not implemented, nor were the institutions for paying retirement pensions from the second pillar indicated. Experience has shown that subsequent returns to postponed and/or difficult matters is fraught with political obstacles, and that the solutions applied are much worse than the designs.

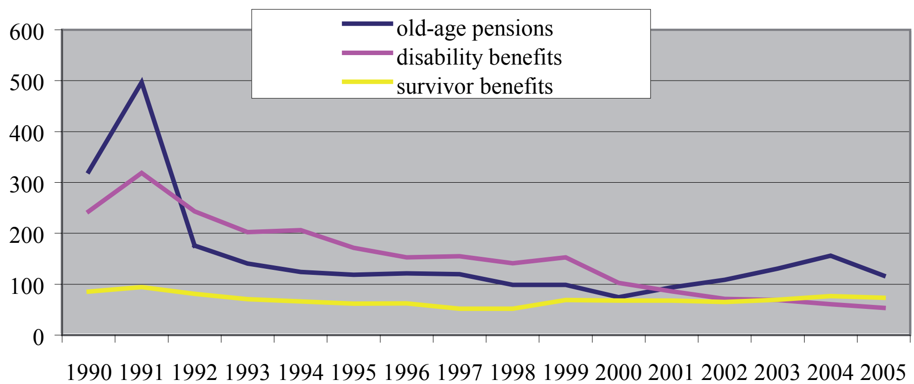
The disability pension system and activation of disabled persons

A reduction in non-wage labour costs, in other words a reduction in the so-called tax wedge (including social security contributions), became a major subject of discussion in the new decade. Because there was no question of reducing pension contributions due to the need to finance the high costs of the old-age pension reform (which there was no intention of abandoning), attention was focused on the disability pension system.

In Poland, the disability pension system had been "attached" to the old-age pension system because it acted as a regulator of the labour market. For many years, disability pensions were partly regarded as early pensions. This led to a situation where disability was determined by boards composed of not just doctors, but also policy makers who, guided by so-called social criteria, also bore in mind the situation on the local labour market where the pension applicant lived, the situation of his employer, and his prospects for continued employment. Within a short time, the number of disability pensions approached that of old-aged pensions. In 1996-1997 a medical assessment (adjudication) within the disability pension scheme reform was prepared and introduced. The number of freshly-granted disability pensions began to fall significantly, but not enough to be able to reduce the pension contribution. Not until 2007 was the pension contribution lowered.

Also overhauled during the 1990s was the system for promoting the employment of the handicapped. A quota system was introduced, whereby workplaces had to pay a (penalty) fee for not employing the handicapped at the mandated index. The fund thereby created – PFRON – provides means for supporting individuals and groups of the handicapped. The Polish quota system has been steadily criticized in regard to the direction of its allocations, the largest portion of which has gone to supporting sheltered employment. Social campaigns on behalf of supporting the employment of the handicapped on the open labour market have yielded limited results. For not only are employers' interests and motivations limited in a very competitive economy, but so are the motivations of the handicapped themselves. For many the barriers to leaving their homes are still quite large and their pensions permit them to enjoy a modest existence without undertaking the struggle to integrate themselves on the job market.

Figure 2.6.2: Number of benefit recipients awarded a pension or disability benefit in ZUS between 1990-2005 (thousand)



Note: survivor benefits = survivor pensions (in Poland called "family pensions") and disability benefits = disability and occupational injuries pensions

Source: ZUS: Statistical Yearbooks of Social Insurance

Social assistance

It was obvious that the institution of social assistance is required in a market economy. An early and open introduction of such an institution by "removing" it from the health sector meant that social assistance would be addressed chiefly to unemployed persons and persons incapable of working for other reasons.

In November 1990 the Social Assistance Act was passed and a system of local assistance centers under the auspices of the labour and social policy minister began to be organized. It was stated in the act that the object of care would be the family, not the individual. It expressed the intention of introducing the principle of subsidiarity; first a search for possible support from family circles, and only then the payment of some benefit, especially because the amounts of social benefits were rather symbolic.

The Social Assistance Act specified entitlement to receive aid on the basis of two criteria: a lack of or insufficient income (income ceilings were defined[8]), and difficulties with life, which were listed in the act. The list included, apart from poverty, the following difficult situations: orphanhood, homelessness, parenthood, unemployment, infirmity, chronic disease, addiction, the need for care at home, difficulties in adaptation upon leaving a penal establishment, and natural or environmental disaster. The list was extended in 2004. Such an approach can be explained by the fact that that social help should be for people whose poor material situation is the result of justified (acceptable) causes. This granting of social assistance to the needy acknowledges their moral right to avail themselves of it in a dignified manner. For in the social traditions of many countries, including Poland, the drawing of benefits bears the hallmarks of failure, or even laziness and parasitism.

To an increasing extent, the launch of new social assistance programs and the introduction or expansion of benefits has no connection with poverty as a basic criterion for the receipt of this aid. Social assistance has been applied to deal with problems caused by the absence of a family policy, the reduced upbringing and social function of schools, the poor access to health service and medicines, or lack of social housing. The institution of social assistance is developing into a "bag" into which are being thrown not just typical social problems (e.g., permanent unemployment), but also ones that used to be the responsibility of institutions that have subsequently been reformed. Perhaps this is just a characteristic of the transformations, but it could also be the harbinger of a new order in the functioning of the institution of social assistance.

The manner and actors of pursuing social policy

Democracy has caused a change not only to the election of authorities, but also to the method of government. From the point of view of social policy, three elements merit special attention. First, the introduction of the institution of industrial relations, which has subsequently been expanded to include additional players and is now called social dialogue. Second, the devolution of authority to lower territorial levels and the introduction of the self-government model. Thirdly, the acceptance of, and sometimes support for, private entities that fulfill a social mission and render social services without profit or gain, which has been termed social economy.

Social partners and social dialogue

At the start of the transformation period, social calm in Poland was a subject of concern for political leaders. The market reforms and radical stabilization program introduced in 1989/1990 were implemented under conditions of a

[8] Since 2004 two kinds of ceilings were defined: in the case of general intervention (PIS), and specific for a family problem (WDR). In the case of families with children the ceiling is higher (IPiSS 2007) to protect more poor families.

sharp fall in production, exploding unemployment, and a drastic drop in real wages. The question of whether the umbrella of the "Solidarity" trade union would continue to protect a government composed of people from the ranks of "Solidarity" was a painfully real one.

Under the charisma of political activists in the Ministry of Labour and Social Policy, a tripartite instrument of social dialogue called the Tripartite Commission was formed in 1993[9]. Its task was to resolve basic social issues, especially wage conflicts. A regulation on collective wage agreements also served to resolve conflicts in a "civilized" manner. Thanks to this, social dialogue was formed on the level of the work place.

The path of communication with the trade unions was not universally accepted. It was believed that an institutionalization of industrial relations in a country where capitalism was still in its infancy and where the trade unions were still too weak to stand up to private employers, would weaken the tempo of the reforms and reduce the chances for Poland's modernization. Moreover, the model of corporate industrial relations, with a central negotiating institution and government participation, also involved the risk that economic conflicts would assume an even greater political dimension and that destabilization might occur.

Experience has shown that the dialogue was essential, even though it was difficult. The second wave of economic restructuring at the end of the 1990s encouraged the trade unions at the central level to be permanently present in the social debate. In practice, the Tripartite Commission began to focus on all primary socio-economic decisions, and the agreements reached provided the chief guideline for the activities of the parties. Even though the regulations controlling the functioning of the Tripartite Commission meant that the social partners were unable to impose anything on public administration, even when acting together, governments strove to win approval for their actions in an effort to legitimize their decisions.

As the new century began, with economic growth slackening and unemployment figures spiraling, the position of the social partners reversed, something which seemed paradoxical to many. The previously strong trade unions of employees became much weaker, and the weaker trade unions of employers became stronger.

The rise in the status of employer trade unions was spurred by the economy's maturation process in terms of ownership and by the increased awareness

[9] A direct impulse for forming the Tripartite Commission was provided by the work of Jacek Kuroń connected with the "Pact on state enterprises during the transformation" (in which the support of workers for broader privatization was paid for with certain material concessions and guarantees of broader participation). This effort was backed by his supporters in the government, especially Andrzej Bączkowski (deputy minister and minister of labour and the chief negotiator with the trade unions), and Jerzy Hausner (influential head of the team of advisors of the deputy prime minister for economic affairs in the next government - the postcommunist/peasant coalition).

of the role and interests of the private sector in the 1990s. This increased awareness led to the foundation in 1999 of the Polish Confederation of Private Employers – "Lewiatan', a strong organization clearly geared to the promotion and protection of the interests of entrepreneurs. The increasingly strong employer trade unions put forth initiatives for making the labour market more flexible and reducing taxes. One can even say that the employers exploited the very difficult situation on the labour market and launched a struggle for amendments to labour legislation: the introduction of flexible forms of employment, easier ways of recruiting and dismissing employees, and more flexible forms of collective wage agreements. However, in this struggle they perceived the need for compromise and for a Polish model of labour market flexibility equal to the challenge faced by a country under transformation and with strong restructuring (Boni 2004).

Social dialogue was pursued primarily in the Tripartite Commission because collective workplace agreements were still a weak component of industrial relations in Poland. In July 2001 a second law on the institution of Polish social dialogue was passed. It expanded the catalogue of issues which the Commission should examine. Since then virtually everything of major social importance (i.e., required to preserve social calm) has been a subject of interest by the Commission. The criteria governing the representation of the social partners have been altered, and this manner of representation must now be confirmed periodically.

The fact that the intensive restructuring of industry and the dramatic rise in unemployment occurred under conditions of social calm and encouraged the reaching of constructive consensus can also be attributed to tripartite commissions in workplaces, which were formed in an effort to formulate compromise strategies for the restructuring of key sectors of the economy.

During this time, social dialogue was enriched with Voivodeship Social Dialogue Commissions, composed of experienced social partners who were joined by representatives of the territorial-governments. These commissions were granted the power of appeal in employee issues, especially in the absence of trade unions. They obviously played a positive part in easing and resolving the tensions caused by the restructuring or bankruptcy of individual enterprises (Hausner 2007: 121).

The corporate form of social dialogue is fulfilling its expected tasks with increasing difficulty. A further weakening of the trade unions is occurring. They are not only competing against each other, but are also confronted with increasingly better-prepared unions of employers. A partner who is weakening develops into a hindrance. At the same time, trade union structures are participating in work at an EU level. They are less interested in the laborious task of domestic dialogue. Does this impasse in the functioning of social dialogue herald a new stage in its development, or is it a sign that the resources for resolving today's social problems have been exhausted?

Voices are to be heard expecting, and even demanding, that traditional social dialogue be converted to citizens' dialogue (Hausner 2007), which would deal with all social arrangements where sharp conflicts occur as a result of divergent interests. The dialogue partners would be self-governments and persons representing NGOs, consumers and many other sectors of society. This natural development path of democracy also involves transaction costs and prolongs the time required to reach decisions at an adequate moment.

Territorial self-government and the process of decentralization

In Poland in the 1990s we experienced a progressing devolution toward units of territorial self-government. Self-government was first accorded to the districts (*gminas)* in 1990, and then to the voivodeships and counties (*powiats*) in 1999. Authority and responsibilities were divided in such a way that each level of territorial self-government was allowed full autonomy (no dependence). Cooperation between the levels is voluntary.

The process of decentralization (devolution) of power toward territorial self-government units in Poland is a change in government administration that possesses great significance in terms of quality, but it has also brought many new problems.

Regarding the devolution of social policy tasks, disputes arose as to the division of responsibilities of the territorial authorities for each sector of social policy, for this division was made hastily, while other reforms were being implemented, and the process cannot be considered fully correct and completed. The current division of responsibilities is as follows:

- The voivodeship (regional) self-governments are responsible for planning. They determine the paths and priorities of social policy, which makes sense as long as the voivodeship plans are coordinated with national plans on the one hand, and are translated into plans by lower-level self-governments on the other,
- The *powiat* self-governments perform general and specific government labour policy tasks, such as the vocational activation of handicapped persons and the implementation of family policy,
- The *gmina* (local) self-governments are responsible for social aid and for combating poverty, and pursue a hosing policy.

Education and health care tasks have been divided among all self-government levels, depending on their scope.

The problem with the decentralization and devolution of social policy tasks is not so much the inadequate preparation of these tasks for independent fulfillment, as difficulties with coordination and the inadequate capacity of self-government units, as well as a lack of procedures to encourage co-operation between the autonomous territorial self-government bodies. One of the chief intentions in social policy was to shift responsibility for the solving of social problems to the lower levels, with the clear imperative of developing a civil society which would be able to cope with social problems without directions from the central government and to build an infrastructure for the provision of social services. The territorial self-governments were equipped with an appropriate scope of formal powers, but they still have limited capacity for realizing basic tasks on account of not just a lack of resources and staff, but also as result of the absence of a self-government spirit among citizens. The latest domestic (CBOS 2004) and international (European Commission 2006 - Eurobarometer) surveys have revealed major shortcomings in the civic behaviour of Poles. This is understandable, if only as a reaction to the obligatory social activity and election participation under the People's Republic. It is also attributable to the difficulties in engaging in local life, inasmuch as the market economy and globalization are posing ever-increasing demands on the employed. It also stems from a distrust of politicians who, in the young democracy, are excessively engaged in acquiring and holding on to power. Consequently, decentralization has caused many problems that (for the time being) are curbing the efficiency of the Polish welfare state.

Social policy during the period of transformations – a general description

Although revolutionary political and economic changes occurred during the transformations, the changes in social policy were not so revolutionary, even though enough regulations were adopted, institutions formed, and personnel trained to last half a century. There were no uniform sources for the concepts of reform. There was no search for or debate on a social vision extending to the up-coming century or one equal to the challenges of today's world. Today we can indicate a group of reasons why reforms were undertaken only in some spheres, and institutions were remodeled or created in one way rather than another.

First, this was a political necessity dictated by the emergent social situation and by fear of the high social costs of radical economic changes. Of particular relevance here are labour market solutions, e.g., unemployment benefits during the initial period of transformation, and later social packages and costly pre-pension benefits for employees threatened with poverty as a result of the privatization, restructuring, and the insolvency of their workplaces.

Second, these were solutions described as "a giant leap forward", which meant an end to the laborious solving of accumulated problems and their accompanying conflicts in favour of implementing a vision for the future in which these problems no longer exist. Although transitional periods turn out to be a problem, the attractive end result makes the transition tolerable. That was the way in which the old-age pension reform was seen, comprising a capital segment and based on the principle of a fixed contribution. That is also the way in which some communities view new health reforms, involving the privatization of health premises and a contribution by patients. This "attack as a means of defence" usually occurs with the support of solutions promoted by corporate interests (not just in industry, but even in the financial sector).

Thirdly, these were solutions imported from other countries or promoted by international organizations. In this matter one can encounter the view whereby the social reforms in the postcommunist countries are occurring under the considerable influence of international concepts. Bob Deacon (1998) even said that the countries undergoing systemic transformation have created an opportunity for experiments and have become a laboratory for new institutional social security measures, especially pension reform. They have also become a point of collision between competing concepts from international organizations of various orientations, e.g., the International Labour Organization and World Bank. In fact, in every reform introduced during the period of transformation we encounter features that were borrowed[10]; in the old-age pension reform, the postulates of the World Bank were applied, and in the health service reform British solutions were borrowed. One may ask whether these borrowings conformed to the principle of adopting only the best solutions, ones of proven effectiveness, and whether they were indeed best practice.

Fourth, these solutions were formulated by Polish experts, taking into account the results of broad consultations and public debate. Reference was made to earlier solutions, often from the interwar period. Generally speaking, the work of the experts was institutionalized, in the form of committees, councils, teams of advisors, and special bureaus. The reform to labour law was born in a commission of labour law reform, and the decentralization reform was created by a team appointed for this purpose.

So far, the development of social policy in Poland has not displayed any characteristics which would suggest that it is developing towards any of these models or is developing its own unique model. Polish social policy has mainly been a reactive policy[11]; it has supported the market economy changes and changes to the system and, at the same time, has eased their drastic effects. That is why Polish social policy has been described as chronically undefined[12]; it is residual, conservative, and partly socialist all at the same time. Residual because it tackles the numerous social problems to a limited extent, as in the case of aid for families and social aid. Regarding social risks (disease, invalidity, old-age security) it still possesses a conservative-corporate approach, whilst its protection and support of the social privileges of industrial branches is a costly hangover from the People's Republic. Attempts to steer social policy in a pro-market direction have not been

[10] The predominant view was that tried and tested patterns exist, and only these should be introduced. The country's level of development, its regional variations, and other structural features, e.g., agriculture's high participation in maintaining the population, were not taken into account.

[11] It has been described as containing more impetuousness than attempts to establish a clear hierarchy of values (Księżopolski 2004), and that (to a major extent) it was realized under the influence of political intuition (Staręga-Piasek 2004).

[12] Mirosław Księżopolski attributes this state of affairs to the "dynamic evolution of social policy in the postcommunist countries" (Księżopolski 2000), and the theory of the development of a market-paternalistic hybrid is cited as a model (Księżopolski 2004).

sufficiently determined and never acquired momentum, whilst Polish society with its varied incomes, is still not sufficiently affluent and has not created a sufficient demand for market-orientated social services. From the point of view of future challenges, Polish social policy has not invested in people sufficiently – meaning most of all the provision of modem education and health care. It is also struggling to address the challenges of a rise in employment, of labour market policy, and the priority of the vocational activation of persons of low employability.

Achievements and social problems in the period of transition

In the 1990s the conditions for living standards underwent enormous change. The introduction of a market economy transformed a burdensome economy of shortages into an economy with a richly supplied market. Access to market goods was limited only by income, something which dropped precipitously during the first period of Poland's systemic transformation, when unemployment began to rise and salaries were calibrated to low productivity on the part of workers – as well as to their surplus on the labour market. Not until 1994 did a long-term period of rising pay and incomes begin.

The ways in which people adapted to the radically altered situation were quite varied, although we may indicate several of the more predominant. A large group of employees left the labour market, opting to make avail of early retirement or other pensions. Migration abroad in search of better pay also occurred, although it had a rather short-term, if not a seasonal character. Small firms were coming into being, ones that above all endeavoured to take advantage of niche segments on the market, and this fostered the growth of self-employment. Following the period of steep decline, employment also began to rise in other areas, perhaps most importantly in companies with foreign capital. The reforms and changes in management in the public sphere also impacted the significant growth of employment in that area. The financial sector also developed, which announced a demand for new personnel, for people educated in line with new programs for studying economics and finance. Beyond that, not a small group organized employment for itself in the grey area (MPiPS, IPiSS, CASE et al. 2008) or entirely outside the labour market (Golinowska, Ruzik et al 2007).

The transformation period changed the aspirations and motivations of people, their attitudes, and their values. The process of adapting to great change distinguished society and continues to do so, for the dynamism of change is still very high. Moreover, those who emerged the winners in one phase of the transformation have often become losers in subsequent phases. The rise of mobility and instability are reflected in demographic statistics, statistics on inequality and poverty, and in the findings of research into value systems. These three elements of Poland's grand transformation are more closely examined below.

The demographic and health situation

Until 1994, Poland was a country with high population growth. Indeed, between 1946 and 1994, the population increased by 14.7 million. According to the 2002 census and later estimates, the country's present population is about 39.2 million. Poland's population has not risen for over a dozen years, which is to say the country has entered a phase of demographic stability (Okólski 2002). The total fertility rate (TFR) has fallen dramatically, and is one of the lowest in Europe. Nevertheless, not even in the European countries with the highest TFR (such as France and Sweden) is the TFR sufficient to guarantee a continuity of population growth (generational replacement).

The process whereby families are formed has altered. Even though children born during the baby boom period attained maturity during the period of transformations, they were reluctant to marry, as evidenced in the falling numbers of marriages. Fertility patterns have also fallen. Women are not only bearing fewer children, but are doing so at a later age. Most births now occur when the mother is in the 25-29 age bracket, although until recently the age bracket was 20–24. The number of mothers below adult age is not increasing in Poland. However, the number of extramarital births is rising, now accounting for ¼ of all births in cities (GUS 2006).

Since 1990, average life expectancy for Poles has increased by 4 years, following a period of stagnation and excessive mortality among men. The gender gap in longevity is slowly narrowing, but is still high – 9 years. For the European Union as a whole this gap is 6.1 years (8.1 years on average in the new member states – NMS).

Table 2.6.3: Development of the main demographic indicators

Indicators	1990	1995	1999	2002	2005	2007	2035
Life expectancy male female	 66.2 75.2	 67.6 76.4	 68.8 77.5	 70.4 78.8	 70.8 79.4	 71.0 79.7	 77.1 82.9
Infant mortality per 1000 live births	19.3	13.6	8.9	7.5	6.4	5.9	·
Total fertility rate	1.99	1.54	1.37	1.24	1.24	1.27	1.45
Increase rate of population	+0.2	0.0	-0.02	-0.01	-0.04	-0.03	-0.55
Share of people 65+	10.2	11.3	12.1	12.8	13.3	13.5	24.2

Source: GUS 2006 – Demographic Yearbook of Poland and updated information and projections of the GUS - http://www.stat.gov.pl/gus/

The increased life expectancy is primarily the result of a decrease in infant mortality and a reduced incidence of deaths from circulatory diseases, the most lethal of social diseases (see table below).

In the 1990s, Poland's population aged markedly in the overall. This also applies to the entire region of the postcommunist countries, and is one of the reasons why the World Bank report on this subject was given the title *From red to gray* (Chawla et al. 2007). The dynamic ageing process has been accompanied by a change in the population's epidemiological profile. The increased incidence of chronic diseases, mental disorders, and disability will pose health problems for many years to come. This is also a challenge for health policy, whose obvious objective is healthy ageing and active participation in life by old people.

The response of social policy to the high degree of demographic changes was exceptionally poor. Although certain family policy regulations were introduced during the period of transformations, the family was considered neither an important nor a serious issue, despite declarations by every single political party that the family is the highest value.

For family policy has turned out to be the policy most heavily influenced by ideology. On the one hand, the Catholic Church has focused on encouraging people to form families to ensure a continuity of the institution of marriage and protect unborn life, whilst on the other hand the state's liberal concepts imposed numerous educational tasks upon families, without considering the possibility of fulfilling them. Thirdly, the calls for gender equality, also arising outside Poland, have had an undesired effect on the labour market[13]. Last but not least, the family became a subject of interest on the part of small rightist parties, who promised various kind of benefits for families with children. As a result of all this and the concomitant struggles, family policy has not been cohesive. All family benefits (in cash and in kind) are low, addressed only to the poorest families, whilst access to services permitting a reconciliation of working life and family life is very limited.

Inequalities and poverty

Poverty became a policy matter that came sharply to the surface during the transformation period. The phenomenon of poverty also emerged in People's Poland. In the material realm it was no doubt deeper and more dire, as during the phase of accelerated industrialization and negligence in modernizing village life, living conditions for Poland's population were very modest, and the level of individual consumption very low. But inasmuch as poverty was universal, with only small enclaves of prosperity (e.g., via private initiative or privileges gained through association with the communist party), poverty was

[13] Employers began to avoid employing women who might demand positions appropriate to their qualifications along with higher pay. They also began to avoid hiring younger, married women because of the probability of lengthier breaks from work in regard to maternity.

perceived by experts rather more in terms of development than as a matter of social structure.

For the period's politicians the matter was not even on the agenda. Not until the 1970s, when greater social inequalities developed as part of pursuing improved living standards, did the approach to poverty change[14]. The deep economic crisis of the 1980s again leveled society down to equality in poverty. Despite the huge difficulties in obtaining the basic goods necessary for daily life and the significantly lowered consumption levels, it was not poverty that was perceived as the basic societal problem, but rather the lack of freedoms and the obstacles to individual development.

Not until the period of Poland's transformation did poverty acquire a strong accent. As a result of open unemployment and the growth of social inequities poverty began to be felt both in absolute terms (low incomes barely permitting basic needs to be met) and in relative terms (the scope of people with limited possibilities for meeting social needs in comparison to the average increased). This made poverty a serious social and political problem. The first measurements of poverty were made[15], along with serious diagnoses of its cause[16] and recommendations for social policy. Also considered were discussions and proposals from the European Union as arisen from Eurostat research in those years (Kordos 1997).

The social and political reaction to poverty changed with time. During the first period of the transformation it was much more informed by care than in later years. Back then institutions for social assistance were built offering new benefits and services (e.g., free meals, shelters for the homeless). When in the late 1990s the tempo of Poland's capitalist development and catching up with the affluent countries of the West became very high, the attitude toward poverty became more and more ambivalent, if not to say dismissive. "The poor themselves are to blame for their condition, because they don't want to pursue education or take up hard work", "the poor ever contrive to live at others' expense" – slogans of this type could be heard in the media, in the statements of politicians, and even in the comments of experts.

When at the turn of the millennium a slowdown in economic growth occurred, and then unemployment began to steeply rise, poverty again became

[14] The improvement of living conditions in the 1970s occurred unevenly (Beskid 1977) and changed the approach to poverty. For political reasons calculation of the basic level of consumption was begun to define a dignified, albeit modest life in communism. Thus arose the category of social minimum (Deniszczuk 1977). In 1981 Solidarity compelled the authorities to address poverty and to systematically calculate the level of the social minimum. This led to the first studies into inequalities and the low-income population's living conditions (Jarosz 1984; Frąckiewicz 1983).

[15] Of great significance were the reports of the World Bank "Poverty in Poland" (1994) and "Understanding Poverty in Poland" (1995).

[16] Commissioned by the government and conducted by IPiSS; S. Golinowska (ed.), *Polska bieda* [Polish Poverty] (1996) and *Polska bieda II. Kryteria. Ocena. Przeciwdziałanie* [Polish Poverty: Criteria, Appraisal, and Counteraction] (1998), along with other teams, esp.: Tarkowska 2000.

a topic of interest and again began to cause political concerns. In 2003 the government commissioned a new research project – "Polish poverty III". Its first findings confirmed those of earlier projects, especially that poverty is a structural problem, and that it is worse in small towns and in the villages than in large cities[17] and that it most impacts young people and children. This prompted calls for reorientation of social policy in order to support the young generation and the improvement of infrastructure in order to foster mobility and the development of social services.

The low social sensitivity of politicians focused on modernization (not only liberals of the Thatcherite or Reaganite variety, but also social-democrats), meaningfully contributed to the spectacular victory of PiS (Prawo i Sprawiedliwość – Law and Justice), the strongly conservative party. PiS wielded populist social slogans and won both the presidential and parliamentary elections in late 2005.

In the political sphere stereotypes began to function concerning social questions that exaggerated the phenomenon of absolute poverty in the aim of demonstrating political sensitivity and winning political capital. Noteworthy here is that there is still political demand for traditional poverty, i.e., deprivation of basic needs[18].

However, new phenomena were ignored, ones connected with the onslaught of changes and people's individual reactions to it. There was little understanding for social exclusion – rather, it was reduced to a problem of social dysfunction (bums) and was grasped primarily in categories of the formation of an underclass. In the meantime, research conducted in the new decade (Golinowska 2008, Jarosz 2008) drew attention to the fact that the phenomenon of social exclusion more fully reveals the contemporary social situation in Poland than does material poverty. We may even say that in applying the traditional, one-dimensional (income) and static definition of poverty we may show that we are dealing with a melioration of the appearance of poverty (Czapiński, Panek 2003 and 2005). However, we may not state, paraphrasing the title of Jeffrey Sachs' book, that this is the "end of poverty" in Poland (Sachs 2006). This is still a social problem, albeit not a basic one.

The category of social exclusion in Poland (and in some of the other postcommunist countries) has turned out to be a category of much greater cognitive value than that of traditional poverty. However it is interpreted

[17] The UNDP report from 2000 from the *Human Development Report* series devoted to villages was presented as "Two Polands", highlighting the deep dividing line regarding welfare in terms of palce of residence.

[18] In 2005 a debate was waged in the columns of Poland's largest daily *Gazeta Wyborcza* on whether poverty still exists in Poland (sic!). Three years later that discussion was renewed (April 2008). Some participants argued that the phenomenon of poverty belongs to the past, and this is why the leftist parties have no electorate. Joanna Staręga-Piasek and Irena Wóycicka wrote that the concern of politicians in constructing images of poverty from the past entails an anachronistic search for sources of political capital. After all, they stated, "the poor need good politicians, not the other way around" (*Gazeta Wyborcza* 17.04.2008).

somewhat differently in Poland than it is in the predominant literature in Western Europe. For Polish social exclusion is a rather new phenomenon and one that is more dynamically developing. In fact, it was spawned by factors similar to those that function universally, i.e., globalization, the information revolution, and the concomitant changes in economic structure and on the labour market. But it was also spawned by unique factors, such as the transition to a market economy and the institutional reforms enacted. Moreover, these factors concern a society that had not been fully modernized during the epoch of industrialization. In result, this causes an accumulation of many factors in a relatively brief time that apply to a society that on average is inadequately educated, poor, and very traditional. This aspect of the transformation in Poland has drawn Piotr Sztompka's focus (2000). Sztompka stresses the simultaneous appearance of many strongly operating factors, and pointing out the trauma that ensues. Adaptation to such dynamic and radical changes cannot occur without disruption. Numerous groups do not manage to face the challenge – and others do so in a way that departs from generally accepted social norms.

Table 2.6.4: Poverty rates according to various poverty lines calculated in Poland

Poverty thresholds; poverty lines	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Relative - 50% of average households expenditures	13.5	12.8	14.0	15.3	15.8	16.5	17.1	17.0	18.4	20.4	20.3	18.1
Legal - used in social assistance	-	-	-	13.3	12.1	14.4	13.6	15.0	18.5	18.1	19.2	18.1
Existence Minimum	6.4	-	4.3	5.4	5.6	6.9	8.1	9.5	11.1	10.9	11.8	12.3
Subjective (Leyden)*	33.0	30.8	30.5	30.8	30.8	34.8	34.4	32.4	30.4	28.0	27.3	22.5

Note: *percentage of households
Source: GUS and IPiSS: Szukiełojć-Bieńkuńska 2007

The matter of values in Polish society

Recent sociological research has shown Polish society to be even radically adapting itself to the market economy and to be developing values tailored to the transformation, or arisen from this new basis[19]. What emerges from comparative research conducted by the European Commission and Eurostat (see chapter 4) is the image of a society that is not only differentiated, but that accepts social inequities. It is an image of a society with a low level of social capital and underdeveloped civic organization. However, in the economic

[19] Examination of research and sociological views may be easily done in use of the fine volumes: PAN Komitet Socjologii 2002; Marody 2004; Krzemiński, Raciborski 2007.

realm what emerges from examination is a society that is resourceful, mobile, highly productive, and exhibiting high consumption aspirations. In a word, what we see is the model image of a capitalist society in the first phase of development. These statistically confirmed trends do nonetheless require commentary, for these otherwise straightforward data do conceal phenomena that are altogether complex.

Polish society during communist times was typified by two types of strongly developed social ties, namely, those of family (conceived somewhat more broadly than in the West[20]) and the workplace[21]. In the 1980s with the rise of *Solidarność* and swelling of open opposition to the communist authorities, these two ties grew to embrace broad societal groups that supported the opposition. Moreover, the difficult living conditions fostered the development of self-help and grass-roots social initiatives that were actively supported by the Church and international aid.

Polish society's capability for spontaneous social solidarity was transformed in time into an organized network of social organizations. Thus, in the early 1990s we have the statistical explosion of NGOs. The structures of civil society became institutionalized and professionalized. By the mid-1990s, however, the quantitative development of NGOs slowed down. The amended statute on their functioning (which was meant to foster their growth) changed little[22]. At the same time research findings emphasized low trust of the official institutions. Does this mean that there is no social capital in Poland? This has elicited an intriguing discussion in sociological milieux (Rychard 2006) that has raised the question: how is it possible that in a country where social solidarity (and "Solidarity") overthrew communism, there is no longer social capital?

The explanations of the decreasing number of civil society organizations and of the low social capital there include various hypothesis. Two of them are convincing. First – it seems that Polish society still harbors a significant potential in social values, ones that simple statistical research is not able to discern. Various social behaviours, even campaigns, still have a spontaneous character (from the heart) and exist outside the institutionalized network of NGOs. After all, informality (Misztal 2000) is still a hallmark of Polish life. This is not yet however the social capital of lasting and wide-spread behaviours that allows a reduction of uncertainty and the growth of society's sense of security.

Second – societal life today is different than it was just a few years ago. The development of capitalism in the next phase, that of intense competition

[20] Stefan Nowak's research conducted in the 1970s among students confirmed the thesis about the uniquely large meaning of the family in Poland (Nowak 1979).

[21] An accurate description of the communist welfare state in the workplace was presented by W. Nawojek (1991), and in the 1990s by the American anthropologist Elizabeth Dunn (2004).

[22] The statute on organizations of public benefit and voluntarism of April 24, 2003 introduced the opportunity of designating 1 percent of income taxes to the development of a chosen NGO (Dz. U. z 2003 r. nr 96, poz. 874).

with outside markets (the influence of globalization), along with the ever expanding range of the commercialization of social services resulting from the withdrawal of the state from supporting their development, increased society's efforts to satisfy consumption needs. At the same time uncertainty about tomorrow rose, for in conditions of highly dynamic changes it turned out that it was better not to dream of traditional stability, but rather to accept the advantages of mobility. In other words, as a result of the extraordinary dynamism of changes (Sztompka 2004) there is a shortage of time and space for voluntary societal activities, the development of non-profit social contacts, and attending to one's ties with others.

2.6.3. Integration with the EU and its impact on Polish social policy and social development

It seemed that Poland's accession to the EU would bring little new, inasmuch as preparation for EU membership had already led to the changing of numerous regulations (especially concerning occupational safety and health, and the restructuring of the economy). Moreover, great amounts of pre-accession funds had already been applied to make the necessary adaptations. In the meantime, since Poland's entrance into the EU in 2004, new trends have come to the surface, both in real life, and regulatory life – and this has begun to noticeably alter the social situation in Poland. Here I shall focus on the three most prominent changes: mobility on a European scale; inclusion in the Open Method of Coordination (OMC) in the context of European strategies (e.g., employment, social inclusion, and social protection) and the internalization of one of Europe's core social ideas – the social economy.

Labour mobility

Since 2004 we have observed a rising trend of Poles going abroad in search of better earnings. The Main Statistical Office (GUS) estimates that whereas in 2004 approx. 1 million people left Poland to work elsewhere in Europe, in 2007 nearly 2.3 million did so (GUS 2008). This trend was spurred on by a "repellent effect", that is, the deteriorating situation on the Polish labour market, in which a net reduction in jobs occurred. On others there has been an "attracting effect", because workers from the new member states were free to seek employment in several of the old EU countries (mainly Great Britain, Ireland, and Sweden). Those countries did not apply any transitional period in respect to one of the four freedoms of the European Community, the freedom of labour mobility.

The change in emigration processes from Poland also applies to the host countries. Although the stream of emigration to Germany has diminished since EU accession, that country is still an important destination. Indeed, there are said to be about 500,000 Poles in Germany. Today, however, there is a greater outflow of Poles to Great Britain (nearly 700,000), than Ireland (almost 200,000) and Italy (nearly 100,000).

Emigration from Poland in the 1990s primarily involved the temporary search for better earnings. It also involved problems with reintegration once the people concerned had returned to Poland (Jaźwińska, Okólski 2001, Łukowski 2004). Currently this has changed somewhat, as it is now rather more an expression of labour mobility across Europe than a one-directional flow of labour to a specific receiving country. Young people are going abroad, ones with better educations and who can more easily adapt to living conditions in new countries. Higher earnings, superior social infrastructure, and ease in maintaining contact with family back in Poland facilitate the decision to leave Poland. As a result of the high degree of emigration a deficit has appeared in many specialist occupations on Poland's labour market, for instance, in medicine, engineering, and construction work (Fihel, Kaczmarczyk, Okólski 2007; Golinowska, Ruzik, Starzec 2007). The losses in human resources on the domestic labour market are considerable. At the same time, the program of infrastructural investments, based on European structural funds, encountered a new barrier – the absence of an appropriate supply of jobs.

Neither European nor Polish migration policy sufficiently takes into purview the problems arising from the asymmetrical mobility of labour in EU countries, something that may well be said to strike at the new member states, as they are the main parties sending an already deficit labour force.

Poland's inclusion into the OMC

Initially, Poland joined in the realization of European social strategies only in a formal sense. The first program – the National Strategy for Higher Employment and Human Resources Development for 2000–2006 – was formulated as early as 1999. Although it was more of an exercise than a genuine program, it was nevertheless an important exercise that was judged by the European Commission. A National Action Plan –"Employment" geared to an increase in employment was not drafted until 2004, and with a one-year horizon extending to 2005. Programmatic work in other spheres of social policy commenced at the same time.

The National Strategy for Social Inclusion (NSIS 2004) was prepared on the government's initiative with a long-term basis (to 2010) for action plans prepared every two years. Its objectives focused on a single priority: employment for people threatened with social exclusion and for those already excluded. It is also an expression of one of the pillars of the European Employment Strategy – an improvement in the employability of persons likely to be excluded from the labour market, those having trouble with entering the labour market and holding down their jobs, and those at risk of discrimination and dismissal. To date three national action plans have been prepared within the framework of the strategy "National Action Plans for Social Protection and Social Inclusion" (NSIS) for 2004 – 2006, 2006-2008, and 2008-2010. In its two-year action plans the NSIS's priorities have been rather limited, particularly as regards the period of 2006-08. That plan lacks elements connected with education in both its head start and adult varieties. This lack is highlighted by the priorities articulated today in regards to the development of intellectual capital (Boni 2008).

Employing the Open Method of Coordination, in August 2005 the government prepared a document on old-age pension strategy (National Action Plan –"Pension") for the needs of EU guidelines on a common pension policy. This plan goes far to explain Polish pension policy and discloses future benefits in the context of the EU criteria according to which national pension systems are assessed.

The next step taken was to attempt the elaboration of a strategy for long-term care (LTC) and health care. The first versions of the documents are still not sufficiently "programmatic", and the priorities do not always coincide with those in other documents previously formulated as part of EU common social policy. However, the work already produced contains elements of strategic reflection and is setting the course for action.

To sum up, the national action plans are beginning to contribute to directing social policy toward matters of greater significance in light of the long-term perspective to issues inspired by the EU's social philosophy. This however is a process that is only marginally perceived by society, perhaps because it is poorly presented. For now, it serves in allowing politicians, experts, and officials to learn from each other more than it does in shaping real processes – ones that still remain under the enormous influence of national needs, interests, and values.

The new European idea - social economy

The concept of social economy[23] is used to describe the functioning of economic units whose objectives are not commercial, but rather are connected with the performance of some social task, mission, or function for the sake of a particular community or environment. At the same time, these units conduct their business in a rational and balanced way. The point is to combine a social mission with the spirit of enterprise and economic efficiency.

This idea has been accepted in Poland, particularly as concerns the need to activate disable persons. The employment of disable persons on the protected labour market, with heavy state subsidies for employers, has been justly criticized by economic experts, especially in the World Bank and OECD (Golinowska 2004). But on the other hand, the recommendations of these bodies that handicapped persons be employed on the open labour market, with individual support depending on their particular needs, have proved to be only

[23] The concept of social economy originated in France and has been hailed by the European Commission (http://ec.europa.eu/enterprise/enterpreneurship/coop/index)

partially possible and effective. Social economy has also proved useful for the sake of activating persons who are socially excluded on account of their very low qualifications, intellectual shortcomings, criminal record, or addictions.

The imperative of combating social exclusion has been strongly inculcated due to the European approach to the problem (social inclusion strategy) and the formulation of numerous programs inspired by the Lisbon Strategy. In Poland this has given rise to a certain social and political movement to activate socially excluded persons. The appropriate draft documents and laws on social employment and on social cooperatives were formulated and adopted relatively quickly. Thanks to the law on social employment, local self-governments began to form social integration clubs and centers in which long-term unemployed persons unable to find employment could receive individual support in the form of advice, therapy (in the case of addictions), help in becoming independent and thrifty, vocational training and socially useful work (as part of public works).

The concept of social economy in Poland is also used to glorify and defend NGOs. This category is sufficiently large to accommodate the work of NGOs. These organizations also create jobs, apart from which they help people at risk of social exclusion to improve their chances of employment.

The initiatives being undertaken under the banner of social economy have been exceptionally well received and have been held up as one of Poland's good practices in the realm of implementing the strategy of social inclusion (European Commission 2007).

The Polish public debate on the ESM

The Polish public debate on the European Social Model (ESM) has three different thrusts. The participants in each thrust are different. These are different "worlds", so to speak.

Firstly, the ESM is regarded as a uniform concept for socio-economic policy. This concept model has combined high economic growth and a high level of employment with a broad scope of social benefits and services. This socio-economic model is the subject of social claims on the one hand, and criticism on the other. The chief criticism is that it weakens the EU's competitiveness, for it requires a broad redistribution of incomes, and therefore high taxes, which in turn discourages savings and the creation of jobs, thus weakening economic growth and ruining the foundations for future development. That is the spirit in which participants have spoken out at numerous conferences held in Poland since accession[24]. Influential experts have also written about

[24] E.g., Dariusz Rosati – Eurodeputy and a professor at the SGH (Main College of Commerce) – held a conference entitled *Europejski Model Społeczny. Doświadczenia i kierunki zmian* ("The European Social Model: Experience and Paths for Change"), presented the results of analyses to illustrate the argument whereby the competitiveness of the EU economy is being weakened by traditional national social policies (Conference held June 11, 2007 in Warsaw).

this (e.g., Góra 2005). Significantly, this debate does not consider the reforms that have been implemented in the older EU countries in order to increase the effectiveness of the national welfare states.

Secondly, the EMS is regarded as a certain modification of the theoretical classification of the social policy of member states done by Esping-Andersen (see chapter I). This classification is sometimes interpreted as a choice to be made by the European Union and its member states. But in the meantime it does not seem possible or expedient to allow any individual new member state (NMS) to choose any of these models as a vision for its own future, regardless of its economic circumstances, existing institutions, value-systems and, in particular, social challenges. Poland's development of social policy to date, along with the trends in the shaping of real social processes, give proof that a separate model is coming into being. Mirosław Księżopolski (2004) has labeled this a "paternalistic-market hybrid". The table below shows the common elements shared by the Polish model with four social regimes in Western Europe.

Table 2.6.5: Position of Poland according to the features of the distinguished Esping-Andersen *welfare state* regimes

Welfare state regimes	Decom-modification	Defamili-zation	Private-public mix	Social ties and social capital	Inequal-ities
Liberal	V				V
Conservative		V			
Social democratic					
Southern Europe			V	V	

Thirdly, when discussing the ESM, the concepts and reality of common EU social policy are considered and analyzed. This discussion generally takes place between government officials and experts invited to examine the joint documents. Two fundamental questions arise in the context of these discussions. The first one is: are the various socio-economic objectives formulated in EU strategic documents mutually reconcilable in a given member state and within a given period of time? In other words, can the dynamic development and innovation of the economy be reconciled with a policy of high employment, high social cohesion, decent pensions, guaranteed access to health care, and increased fertility? The second question concerns the method of attaining these objectives: are the methods used so far – EU legal regulations, the rules governing the granting and distribution of EU structural funds, and the methods of open coordination – sufficient and effective for the established objectives? This is particularly important for a country like Poland, with its hopes for modernization and its delayed development. An answer to this question will permit an assessment of whether the realization of EU policy is beneficial in the long term, as well as whether it will allow this policy to be pursued with conviction. For the time being, the social strategies to which Poland has subscribed seem to be realized more in the form of programs and regulations than in the form of concrete processes. However, European socio-economic integration augurs well for Poland, i.e., that together with other countries she can tackle the challenges of the future and attain the social objectives which Poles otherwise might not attain on their own, given the weak condition of the state and underdeveloped civic society.

2.6.4. Conclusion

Despite its distance to the ESM concept, Polish social policy has been undergoing modification through the impact of European policy. This impact has introduced new features to the internal debate on social policy. The list of these features basically coincides with the new concept of Polish social policy. This concept may not have been fully implemented, but it has already been expressed in numerous domestic documents.

- A rise in employment (the employment rate) has been recognized as a socio-economic goal of equal importance to economic growth, which signifies an end to the treatment of labour market problems as the price to be paid for economic transformation, economic restructuring, and the absorption of new technologies
- Growth in the significance being attributed to conducting active labour market policy ALMP) under the slogan: security on a flexible labour market (flexicurity); and the carrying out of numerous programs within the scope of the European Social Fund and the *Equal* initiative[25]
- In social inclusion (integration) strategy, emphasis is laid on the employment of people with special challenges: the disabled, long-term unemployed persons, released prisoners ...
- Despite the predominance of conservative views about families and the role of women, there are calls for friendly programs of reconciling work with family life.
- Attention is being drawn to programs for longer active employment and to conditions for accepting and implementing it. The popular program is focused on activating people aged more than 50 years. It is called “Programme 50+”.

All in all, ideas which used to be exclusively the postulates of experts are now finding their way into hitherto conservative and conceptually ambiguous

[25] The Ministry of Labour has been exactingly monitoring the situation on the labour market and is appraising labour market policy since 2005 (MPiPS 2005, 2006, and 2007).

social policy. Such concepts as social cohesion, gender mainstreaming, social exclusion, social economy and now flexicurity have assumed real significance together with the joint work on common EU social strategies by the Open Methods of Coordination.

In the Polish debate on the Lisbon Strategy[26] and the EU's new Social Agenda the European Social Model is still identified with the traditional policy of the welfare state associated with certain of the EU's older member countries. Their hitherto pursued social policy was a permanent focus of critical analysis and appraisal (Rutkowski 2006; Hausner, Kwiecińska, Pacut 2006). For this reason there has been considerable scepticism regarding EU concepts. However, what is slowly being discerned is that the EU's concepts include goals that entail the modernization of the traditional welfare state in the direction of increasing its developmental effectiveness and of opening up to new societal challenges. Nonetheless, the problem that emerges is often that of the EU's methods for effectively influencing member states.

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7. UK welfare reform 1996 to 2008 and beyond: A personalised and responsive welfare system?

Introduction

The UK welfare system has undergone three very profound periods of reforming the postwar model laid down by Beveridge. The first was a move in the direction of the Bismarckian model, that is, the contributory social insurance model with time-limited earnings-related benefits and a low-value means-tested social assistance safety net. This move occurred slowly through the 1960s and up to the mid-1970s. The second phase started in 1979 and involved a dramatic move to curtail the social insurance entitlements and end all earnings-related benefits. The result was a residualist low-value means-tested social assistance model, which ended the Beveridge model and completely reversed the drift toward Europe's Bismarkian approach. Finally, from 1996 a new model has emerged based on an activational welfare model with greater emphasis on incentives, support services and conditionality. As a direction of travel from the previous regime(s) this represents an increase in the engagement and support functions, expansion of the required (disciplinary) activity functions, and augmented financial support for children and pensioners and personalised support services. The emerging model is far from completion and the final makeup of the system remains uncertain. However, it bears strong similarities with developments in New Zealand, along with Australia and Canada, to an important degree. Within Europe the model most closely resembles a less generous version of the welfare systems in Denmark or Holland, which are sometimes referred to as embodying Flex-security. This evolutionary process of reform had some antecedents prior to 1996, but it has come to the fore only since that date. As a result, this paper discusses reform in depth from 1996 and looks at its current direction of change with a rather more cursory discussion of the demise of the contributory social insurance model.

[1] Thanks go to Carol Propper and Sarah Smith for their help in preparing this report.

2.7.1. The postwar UK welfare system

The Beveridge Plan – 1942

Although the origins of the British welfare started prior to the Second World War, it was with the Beveridge plan of 1942 that the modern welfare state came into being. Already a century ago all political parties agreed that the state would have to play a bigger role in providing pensions and welfare for the poor. Among the key measures introduced were old-age pensions, a system of health insurance, and labour exchanges to help lessen unemployment. However, the Edwardian welfare state was incomplete. For it was limited to the working class, its funding basis was insecure, and little progress was made in tackling poverty among people of working age. The end of WWI also brought a slump, particularly in northern industrial towns, that deepened into the Great Depression by the l930s.

By the time Britain entered the Second World War, the pressures for social reform were mounting. In 1942 the Beveridge Report laid out a comprehensive program of social reform "from the cradle to the grave". His report called for a universal flat-rate low-value benefit payable to all, on the basis of fixed national insurance contributions. Beveridge wanted to battle what he called the "five giants" – want, disease, squalor, ignorance, and idleness – through a universal welfare state which would also provide a comprehensive health service, vastly expanded public housing, and free and universal secondary education. Welfare benefits were to cover old age, unemployment, and sickness, as well as benefits for the poor along with family allowances. The new Labour government, which took power in 1945, was keen to implement the Beveridge Report in full and as soon as possible. But, in the severe conditions of postwar Britain, it did not have the money to pay an adequate level of flat-rate benefits that would keep people out of poverty. So from early on, the residual National Assistance (later Supplementary Benefit, today's Income Support) played a bigger role in alleviating poverty than Beveridge had planned. Family allowances were also never implemented in the generous way Beveridge had proposed, but they did become more generous in the 1970s as Child Benefit. The idea of basing entitlement on contributions meant that many people, especially women, were excluded from the system. The male bread-winner nuclear family and full employment – and the relative prosperity that went with it – were key to Beveridge's plan.

By the mid-1970s the postwar model had evolved from the Beveridge plan into a system closer to continental Europe's Bismarkian model with earnings-related payments for unemployment, sickness and pensions, but with time limits on payments for unemployment. However, the gender bias implicit in support through contributions (which excluded part-time jobs with shorter hours, as well as work looking after the family), led to pressures to widen the net to marginal groups, thus weakening the insurance principle.

The long period of Conservative government (1979-1997) saw a steady erosion of the Social Insurance model, with all earnings-related links removed, except for second-stage pensions. Yet even here people were given incentive to opt out of the state's second-stage pension into private pension saving instead. The exemption from means-testing for unemployment benefits was also reduced to 6 months. The benefit system thus became a residualised flat-rate system with large reliance on means-tested social assurance benefits (Income Support). The levels of these benefits were fixed in real terms so that their value relative to earnings progressively fell and Child Benefits were often not even up-rated with prices.

The role of government, business and trade unions

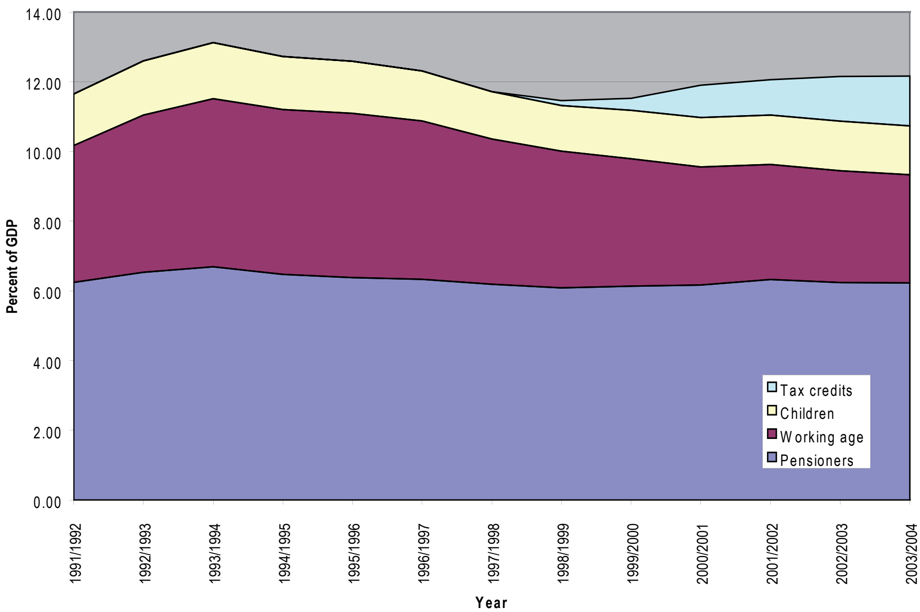
The Beveridge Report, after some resistance from the Conservative party, was implemented by the incoming 1945 Labour government and enjoyed broad political consensus. The National Insurance system was operated fully by the government as another form of raising revenue and expenditure counterpart. It was never created as a fund separated from government revenues, and hence had no overseeing body representing the social partners. In addition to no direct role for employers and trades unions, the system was operated entirely by the central government with no role for local or regional government. However, there were tripartite bodies setting minimum wages at the industry level (Wages Councils, see Dickens et al. 1993) and through the 1960s and 1970s a number of tripartite bodies arose that addressed economic performance, wage setting, etc. This era was characterized as that of "beer and sandwiches", as union leaders were regularly meeting government ministers over threatened strikes and many other issues. Trades unions often campaigned successfully for a number of extensions to working rights, including reductions in working hours, redundancy payments and even limited worker representation. However, in the Conservative era all tripartite bodies were abolished, including their setting of minimum pay levels (in 1993) and restrictions were placed on the ability of trade unions to hold strike action and support other workers involved in disputes. Trade union membership and influence plummeted after 1979.

Welfare Dependency and Social Expenditure

In 1979 around 2 million working-age adults were claiming major welfare benefits (unemployment, long-term sickness/disability and lone parenthood). Social expenditures covering these benefits, universal child assistance (Child Benefit) and pensions ran to around 7 percent of GDP. However, from 1979 the value of the benefits received remained broadly frozen in real terms, and so relative poverty rose steadily among those without work. Yet total expenditures rose as a proportion of GDP to around 13.5 percent in 1994 (see Figure 2.7.1 for breakdown of expenditures).

This mainly occurred because of the dramatic rise in welfare dependency associated with the growing number of jobless households (Gregg and Wadsworth 1999). This rose so dramatically that by 1994 the numbers of working-age welfare claimants had reached 6 million, before falling back to 5.5 million by 1997 (see Figure 2.7.2).

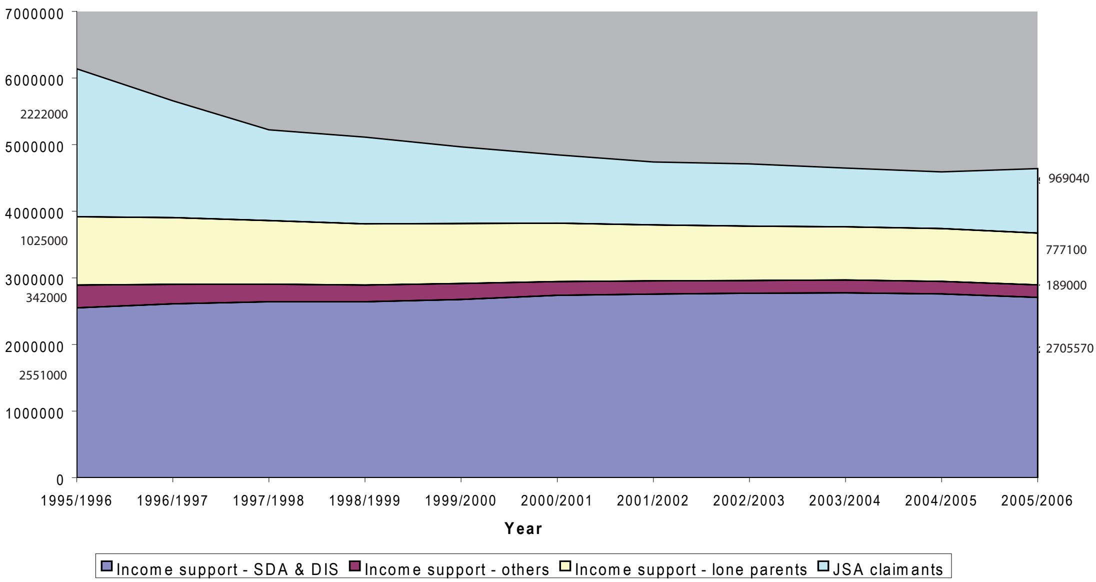
Figure 2.7.1: Share of GDP Spent on Welfare Benefits (including Pensions)



Source: Annual Abstract of Statistics (various years)

The largest increase was for claims of sickness and disability benefits, with a rise of nearly 2 million. Not only had dependency risen dramatically, but the poverty gap among those on welfare (and in work) had risen dramatically. The proportions of working-age adults and children living on incomes below 60 percent of the median (BHC) more than doubled between 1979 and 1996. But rises in the proportion below 50, 40 and even 30 percent grew even faster. People were falling much deeper into poverty before the safety net caught them.

Figure 2.7.2: Numbers of Claimants of Major Groupings of Out-of Work Welfare Benefits Targeted 1995 to 2006



Source: Annual Abstract of Statistics (various years)

2.7.2. Social challenges and welfare reform from 1996

The economy in the UK has performed well since 1995, being described by the OECD as the Goldilocks economy, "neither too hot nor too cold, but just right". Growth has been good, averaging 2.8 percent p.a. and has had little annual variation (the range has been 1.6 percent to 4 percent). This has been the highest among the major G7 economies over this period. Inflation has been low and stable since the Bank of England set interest rates independently of the government. The Retail Price Index measure has risen to around 3 percent, but the CPI (which is comparable with European measures) has averaged just over 2 percent. This benign picture led to budget surpluses being generated in 1998-2000, but a move to increase spending on Health and Education very rapidly after the 2001 election has seen the government budget go into sustained and structural deficits. The government is now seeking to reduce these deficits with smaller increases in spending and especially with restrictions in public-sector pay growth.

Fertility and the ageing population

Like most European countries, the UK has low fertility coupled with an ageing population. However, the extent of these two trends is less pronounced than in many other countries.

Key aggregate economic figures 1960-2006

The UK was characterised as the "sick man of Europe" in the 1960s and 70s. Average economic growth and productivity was low by European standards, and hence living standards grew more slowly.

GDP and productivity

	Average GDP	Average output per worker
1960-1978	2.77	2.41
1979-1996	2.13	1.89
1997-2006	2.85	1.74

Inflation was also relatively high from the late 1960s, peaking in the mid-1970s at 25%. Unemployment was low on current ILO definitions around 4% and employment high, with 60% of the adult population in work or 75% of the working-age population aged 16-64 for men and 16-59 for women. This period was also one of widespread conflict in industrial relations with a lot of strike action, which was at its most extreme in the Winter of Discontent 1978/79.

Inflation 1960 to 2006 (Retail Price Index)

Key years	Average annual inflation	Key years	Average annual inflation
1960	2%	1990	9%
1971	10%	1996	2%
1975	25%	2001	2%
1980	18%	2006	3%
1985	6%		

The 1980s saw the economy yawing from recession in 1980-82, an overheated boom in 1987-89, and recession again in 1990-92. Over the period as a whole unemployment was very high, as was inflation, although both were lower than in the 1970s. Growth bottomed out at around 2%, which was no longer below that of other European nations, owing to the more rapid slowdown in continental Europe. Employment recovered to that of 1968 and 1975 by 1990, but fell away in the next recession. Employment rose amongst women who were primarily secondary earners within families, whilst the number of welfare dependent families continued to rise, peaking at 1 in 5 working-age households 1995.

Employment and unemployment 1970 to 2006

Key years	Unemployment proportion of economic active	Employment as percentage of total population 16+	Key years	Unemploy-ment proportion of econo-mic active	Employment as percentage of total popu-lation 16+
1970	4%	61%	1996	8%	57%
1980	6%	60%	2001	5%	60%
1984	12%	55%	2006	5%	60%
1990	7%	60%			

*Source for tables***:** National Accounts Blue Book**, ONS**

After a period of decline in the 1980s and 1990s, birth rates in the UK are on the increase. Following the baby boom in the early 60s, declining birth rates saw the total fertility rate[2] fall from a high of 2.95 children in 1963, past the replacement rate of 2.1 children and on to a low of 1.63 in 2001. The five years since 2001, however, saw consecutive increases in fertility, with the latest figures showing a rate of 1.86 children in 2006, the highest level since 1980. Birth rates have increased at all ages, but particularly to women in their late 30s and early 40s. Moreover, there has been a rise in the proportion of births to women born outside the UK, increasing from 12.8 percent in 1996 to 21.9 percent in 2006. The period of rising birth rates follows the increasing generosity of child-contingent benefits and maternity provision. Between 1999 and 2003, government spending per child grew by 50 percent in real terms, a change that was unprecedented over the previous thirty-year period, while paid maternity leave nearly tripled from 14 weeks in 1994 to 39 weeks from 2007. Brewer et al. (2007) show that the advent of WFTC alone raised the birth rate of under-educated mothers by 10 percent from 1999, which suggests that policy changes have made a sizable contribution to increasing the UK's fertility rate.

Twenty years ago, nearly 80 percent of women with children were in married couples; today the figure is just barely over 50 percent. The proportion of lone mothers has risen to nearly 30 percent, reflecting both rising separation and divorce rates, as well as an increase in never-married lone mothers. Alongside this, there has been an increase in the proportion of mothers living in cohabiting couples. 2007 was the first year when the majority of babies were born outside marriage.

Rising birth rates mean that the UK population is growing as a result of natural change, as well as through net immigration. The natural growth of the population has risen from 50,000 per year in 2002 to 150,000 in 2006, mainly from a rising birth rate. Net migration is estimated to be adding around 200,000 per year (Office for National Statistics – http://www.statistics.gov.uk/) with inflows from the A8 countries, although this appears to be slowing as living standards rise in Central and Eastern Europe. However, increasing life expectancy and the ageing of the 1960s baby-boomers will cause the overall population to age. The proportion aged 65+ is predicted to increase from 15.8 percent in 2000 to 25.3 percent in 2050, although this increase is smaller than that for the EU 25 – from 15.8 percent to 29.5 percent. Life expectancies at birth, currently 76.9 years for men and 81.3 years for women, are above those for France, Germany, Belgium and Denmark, but below those for Ireland, Italy, Spain and Sweden.

[2] The total fertility rate measures the average number of children that would be born to a hypothetical woman over her lifetime if she experienced the age-specific birth rates of a particular year across her own childbearing cycle.

Labour market and unemployment policy

Unemployment had two marked peaks – in 1986 and 1993. On both occasions this was around 12 percent of the economically active. From 1993 until 2002 open unemployment fell sharply, after which time it has been broadly flat at just over 5 percent. Employment in the UK is high at just under 75 percent of the working-age population (age 16-59/64), a figure exceeded in Europe only in the Scandinavian countries. After the 1997 election, that is, during the fall in unemployment, the large numbers reliant on welfare benefits who were not looking for work (i.e., living on sickness and disability benefits and lone parents on Income Support social assistance benefits) became a government priority. With the decline in open unemployment, this hidden joblessness became a major social issue (see figure 2).

The ambition of the incoming government was to raise economic activity and reduce welfare dependency, whilst simultaneously reducing poverty. There are obvious potential conflicts in this strategy. Raising the generosity of benefits reduces the depth of poverty, but is likely to reduce incentives to work. The government's strategy to meet these twin and often contradictory goals consisted of five core elements:

- Making work pay – raising incentives to work
- Case management by a personal advisor - client engagement and activation within the welfare system undertaken by a personal advisor
- Limited conditionality – welfare payments have attached behavioural requirements with strings, with minimum income secure for vulnerable groups, (e.g., Educational Maintenance Allowance, New Deals for unemployed, Work Focused Interviews and Work Related Activity Premium/Job Participation Payment under pilot).
- Addressing key areas of social exclusion that damage people's future life chances (including child poverty, youth long-term unemployment, teenage pregnancy, homelessness etc.)
- Raising incentives for self-protecting savings among low-income groups – savings gateway, stakeholder pensions, Children Trust Funds (saving pot schemes, which are also a form of targeted conditional financial support)

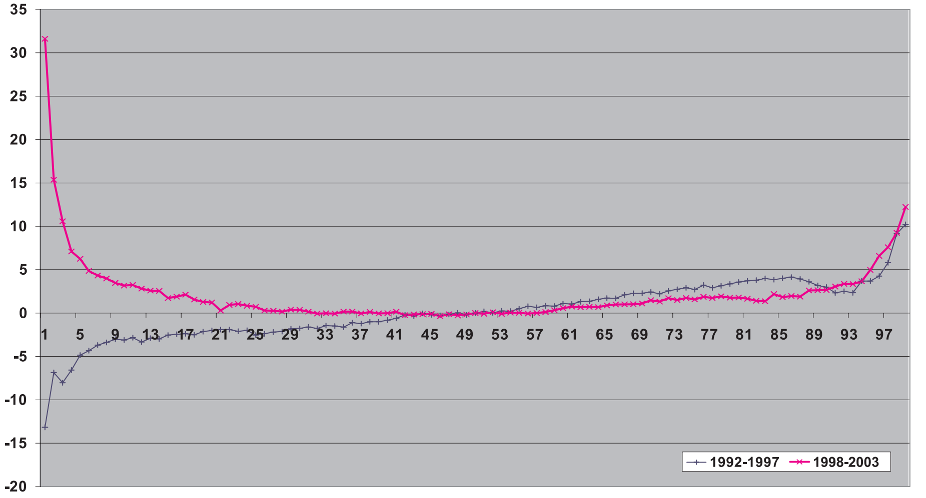
The first three elements will be discussed in this sub-section, the latter two will be discussed under section 7.3.6 Poverty and Social Exclusion.

Making work pay – National Minimum Wage

Upon its election the current government made a number of key strides to raise take-home pay for low-earning jobs. The most prominent measures were the introduction of, and later increases in the National Minimum Wage and the expansion of the Tax Credit system. The UK had had a system of industry-specific minimum wages set by Wages Councils dating back to 1917. As industries changed in importance many sectors were combined, but new sectors such as security remained uncovered. After 1979 the value of minimum wages set by Wage Councils declined, and they were finally abolished in 1993. In 1998 the Low Pay Commission set a new NMW (National Minimum Wage) for the whole country and all sectors, but the initial coverage was low by international comparisons. Indeed, even this level was not raised much above prices until 2001, after which a sharp increase in the minimum wage occurred, but only until 2006.

The core message of the impact of the NMW is set out in Figure 2.7.3. This shows wage growth at each percentile of the wage distribution compared to that at the median (50th percentile) for two periods: 1992 to 1997, prior to the NMW's introduction; and 1997 to 2003, which covers the introduction in 1998 and substantial increases in relative value in 2002 and 2003. Prior to introduction there is pretty much a continuous upward sloping line with twists at the top and bottom reflecting far slower growth in earnings in lowest decile and faster growth in the top decile. By contrast, after introduction the pattern is U-shaped, with the most rapid growth in earnings at the lowest paid part of the distribution, with growth in earnings 20 percent above that at the median (growth at the median was slightly faster in the second period than the first). The upper half of the distribution has continued in a very similar fashion as before. Note that the faster growth in earnings in the second period is evident all the way up to the 40th percentile, which is unlikely to be due to the NMW and probably reflects the tighter labour market. However, the impact of the NMW on the lowest paying 8 to 10 percent of jobs is marked.

Figure 2.7.3: Growth in Hourly Earnings by Percentile (compared to the median) 1992–2003



Note: value of y-axis = increase in percentile gross hourly earnings excluding overtime minus the increase in the median
Source: Low Pay Commission Report 2008

Making work pay – Tax Credits

Minimum Wages raise the pay of all low-paid workers, but take no account of family structure, such as the presence of children or numbers of earners or hours worked in a family. Hence the relationship between low hourly pay and low household income even among working families is far from close. Likewise, the working poor often do not have a worker in the lowest decile or so of hourly earnings. The government made clear its concern about ineffectual work incentives for benefit-dependent families with children in a series of publications (The Modernisation of Britain's Tax and Benefit System, numbers 1 through to 5, 1997 to 1999). The response was a major expansion of the country's Tax Credit system (then called Family Credit) under the banner of the Working Family Tax Credit (WFTC), which later split into two parts – Working Tax Credit and Child Tax Credit.

Before the 1998 Budget, support for children came from four sources: a universal per-child transfer (Child Benefit) normally paid to mothers, extra payments in means-tested benefits (Income Support) normally paid to the household head in workless families, a refundable tax credit for working families (Family Credit) paid to the mother, and one of two related non-refundable tax credits available to an earner within a couple[3]. The Government has increased the generosity of all four of these starting with the March 1998 budget, and all but Child Benefit have had some form of structural reform.

The increases in the generosity of Child Benefit in the 1998 and 1999 budgets together raised the real level of support by 27 percent for the eldest child. The increases in support for children in means-tested benefits was focused on younger children between April 1997 and 2001, such that weekly payments for children up to 4 years of age rose by £13.25 a week above inflation – a 73 percent real increase – whilst support for children aged 11-15 rose by just £4.25 in real terms. The result is that the level of financial support for children of all ages up to 15 have been equalized – older children had previously received more generous support. This reform partly reflects recognition by the Government that poverty rates were higher among families with younger children, and partly it facilitates the move to an integrated child credit.

The new Children's Tax Credit was a non-refundable tax credit that replaces two mutually exclusive and equal-valued tax credits: the Married Couple's Allowance (MCA) and the Additional Person's Allowance (APA)[4]. The overall impact was that married couples without children lose an extra tax allowance, and families with children, regardless of their marital status, receive around twice as much as before. Whereas the MCA and APA were available to all tax-

[3] There are approximately 7 million families with children in the UK, and 13 million children.

[4] The UK has an individual system of income tax. These credits and allowances appear in a person's tax code through which employers assess and then deduct income tax directly from pay checks. Allowances are typically less generous than in the US, so people start paying income tax at lower annual incomes. See Gale (1997) and Brewer (2000) for more comparisons of the US and UK tax systems.

payers, the Children's Tax Credit was withdrawn at 6.7 percent from people paying higher-rates of income tax (over £33,515 in April 2001).

The Working Families' Tax Credit (WFTC) was an evolutionary reform to the existing in-work benefit called Family Credit. It was announced in the Labour government's first full budget in spring 1998, and became available to claimants from October 1999. The WFTC was available to families where any adult member is working 16 hours a week or more. It consists of a per-family element – the same for couples and lone parents – and per-child elements. There is a flat zone where the maximum award is paid, and the credit is phased-out beyond an earnings limit of £92.90 a week at a rate of 55 percent of after-tax income. This equated to 38 percent of gross income for a person on the basic-rate of tax and National Insurance rates, or a total marginal deduction rate of 69 percent.

WFTC had four major differences from its predecessor. First, it was more generous, as both the family and the child elements have risen. For a family with one child, the WFTC was worth a maximum of £78.75 a week. Each subsequent child raised the maximum credit by £25.60 a week. Worth noting here is that, although the level of out-of-work support has also risen, these changes by themselves made little difference to work incentives. Second, families can earn more before support is withdrawn. The maximum weekly earnings before withdrawal starts was raised from £80 under the old Family Credit system to £92.90. Third, the phase-out rate was lowered from 70 to 55 percent of after-tax income. These three changes increased support for those in full-time or better paid part-time work (i.e., earning more than £92.90) and extended eligibility to in-work support to a large number of families. Lastly, the WFTC can help with childcare costs though a new Childcare Tax Credit, which paid parents 70 percent of childcare costs up to a (generous) maximum of £100 a week for 1 child or £150 for more than 1 child. The Childcare Tax Credit is restricted to households where all parents are in paid work, but lone parents are the prime beneficiaries to date.

The effect of these changes are shown in Figure 2.7.4a&b, which show the 2001 and 1997 support packages for a couple with one child. The increased generosity of the WFTC over the previous in-work benefit accounts for £2.7 billion of this £7.2 billion early reform package total, with £2.5 billion going to child payments in means-tested and universal benefits, and £1.8 billion on the Children's Tax Credit (see HMT 2000).

The impact of the increased generosity of the WFTC and the Children's Tax Credit is muted for those with medium to high rents. Low-earning renters are eligible for rent support known as Housing Benefit (owner-occupiers normally get no housing support). Housing Benefit is phased out as income rises, but at a faster rate than WFTC – 65 percent, and starting at a lower income level[5].

[5] All low-income households (not just renters) can apply for rebates for the local taxes in the UK, which are assessed against property values. This rebate – Council Tax Benefit – is administered alongside Housing Benefit, and phased out at an additional 20 percent. So if families receive both benefits, the combined withdrawal rate on post-tax income is 85 percent.

Figure 2.7.4 (a): Picture of Welfare Support available for Families with Children under the pre-1997 system

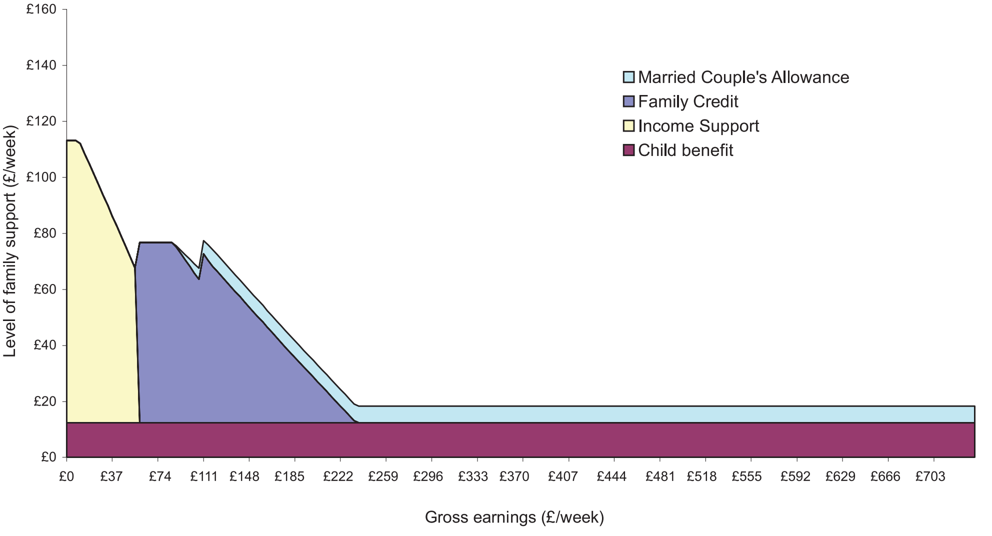
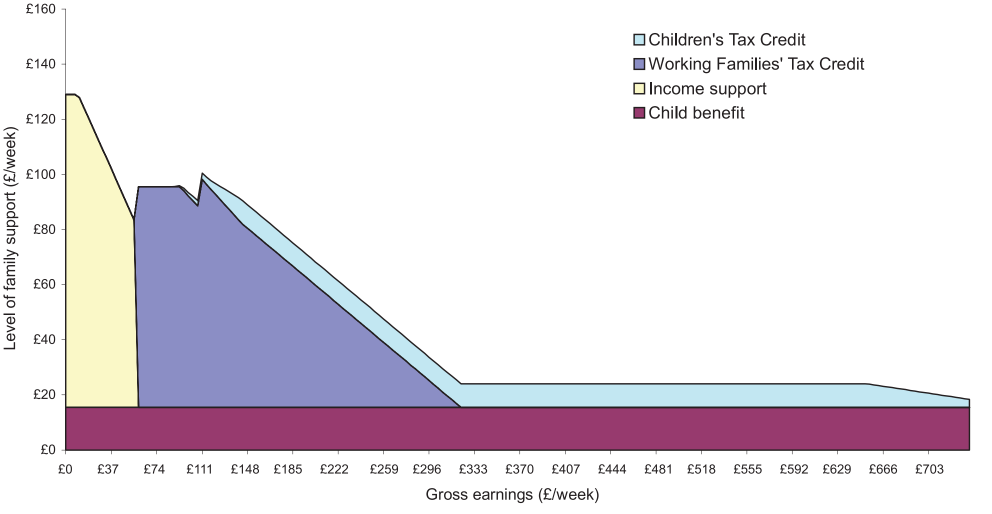


Figure 2.7.4 (b): Picture of the Working Families' Tax Credit (WFTC) circa 2001 system



Source: for above two figures: IFS TaxBen simulation model taken from Brewer and Gregg 2007

Under FC, the maximum marginal deduction rate could reach 97 percent[6]. The increased generosity of the WFTC compared to FC has meant that fewer households claiming in-work support are eligible for HB, and

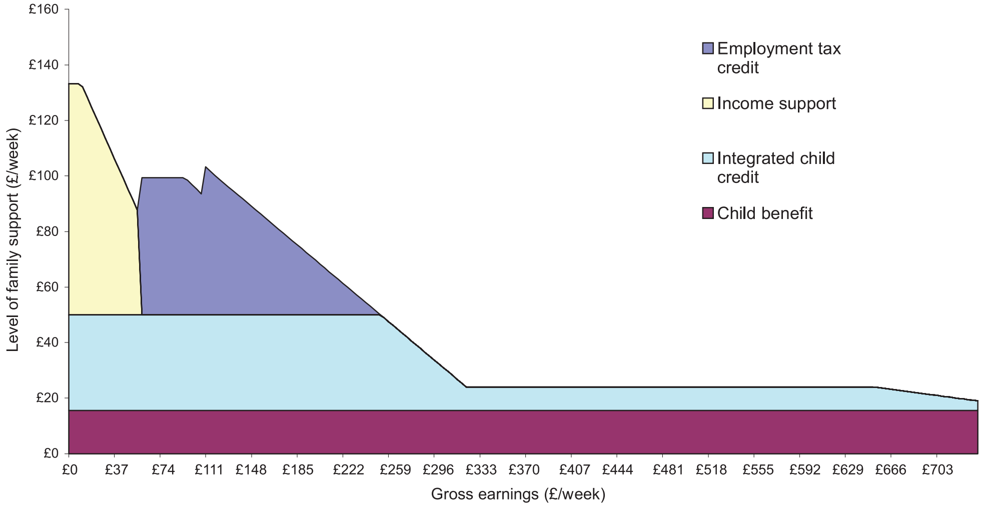
[6] Marginal deduction rate is the term used in the UK for the combined effect of taxes and benefit withdrawals (or phase-outs).

the reduction in the taper has eliminated the worst of the poverty traps. The effect of the multiple phase-outs, and the effect of the increased generosity in WFTC increased the range of incomes (or rents) over which people are on both WFTC and HB phase-outs has been sharply reduced. This comes at the cost of a large increase in the numbers with phase-out rates at around 70 percent stemming from the combination of income tax, National Insurance and tax credit withdrawal.

In 2003 a second round of reform occurred and the WFTC was split into two parts: a Working Tax Credit paid to the principal earner, and a Child Tax Credit paid to the principal care-provider. The later now included all the child payments inside Income Support and the tax system (Childrens Tax Credit) and is paid alongside child benefit – so that all child payments were now paid to the primary care-provider through a single system.

The new system had a number of other changes, including being assessed over annual income and paid through the year. Last year's income is used as a prediction of this year's annual income, and this is then reassessed at the end of the year, when any adjustments (through over- or under-payment) are then made. To avoid too many people repaying credits a disregard is employed, such that if income rises, but remains below this disregard, no repayment is required. This was initially quite low (around £3,000), but has since been raised to over £20,000. The second major change is that the withdrawal has been switched from an after-tax net-withdrawal rate of 55 percent to a gross (before tax) rate of 39 percent. The new structure is laid out in Figure 5 on the same basis as Figure 2.7.4 for a family in 2003.

Figure 2.7.5: The Post-2003 structure of Support for Families with Children



Source: IFS TaxBen simulation model taken from Brewer and Gregg 2007

Making work pay – Tax and National Insurance

The third element in making work pay entailed a significant reduction in income tax and NI contributions for lower earning individuals. This was done by extending the amount a person could earn before making NI contributions, and introducing a low starting rate of Income Tax at 10p in the pound. These early reforms have now largely been undermined since 2003, when tax- and NI-free allowances were linked to prices, not earnings. Further, the 10 pence rate was abolished in 2007, whilst the standard rate of tax was reduced from 22 to 20 pence.

Case management with limited conditionality

From 1986, under the ReStart program, the idea of job search conditions for the unemployed was enhanced and monitored with benefit sanctions if breached. This was greatly enhanced in 1996 under the move to Jobs Seeker Allowance (JSA). This renaming of unemployment benefits reflects the extra requirement to look for work actively or face sanctions. Claimants are required to keep a diary of job search activities, interviews etc., and they can be quizzed about this activity every two weeks, although in practice only those who are raise suspicions are checked in depth. Claimants cannot restrict the distance they have to travel to a job or the type of job after 13 weeks. This tightening of conditions has undoubtedly contributed to declining unemployment since 1986, but some of the displaced claimants have ended up on other benefits – mostly sickness and disability.

At this time there was limited support for job search activities for the unemployed. What was available included loans for things that would help secure work and the provision of short courses in preparing a CV or interview techniques, etc. However, there was nothing for other claimant groups. The strong conditionality meant a clear line between the unemployed and other claimant groupings (the sick, and disabled, and lone parents).

New Deals for the unemployed

The incoming government added a New Deal structure on top of the required activity explained above. For young people (aged 18-24) after 6 months of claiming JSA, the claimant was placed in an intensive job search regime with more monitoring and help and guidance with job search. This is called the Gateway phase. If after 10 months the claimant is still without work, then they must partake in a designated activity program. There are four major options: subsidized work, an education or training course that lasts from 9 months to a year, placement with a charitable body or environmental project or a self-employment start up. The decision of which branch to move onto is made in discussion between an advisor and the claimant, however, the education option is restricted to those with lower skills and the subsidized jobs are often in short supply. For older claimants a similar process starts at 18 months, but the activity program is more flexible in that people can move from one option to another, as the personal advisor deems most appropriate.

New Deals for Lone Parents, and sick, and disabled – personalised welfare-to-work support

The slightly later New Deals for those on inactive benefits offered a rather different structure. Participation for these groups was voluntary and so a more flexible approach to the support on offer and engagement with the personal advisor was created. This new approach is sometimes described as Personalised Welfare-to-Work Support.

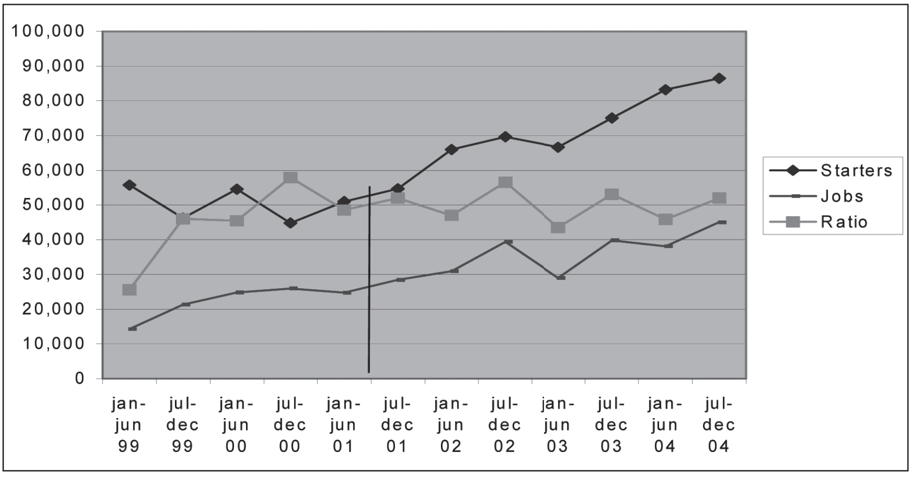
If the claimant agrees to pursue participation in the New Deal, an Action Plan is designed delivering a package of support services tailored to the individual's needs and brokered by the Case Worker. The Action Plans set out an agreement between the claimant and a case worker on a return to work strategy and time scale. These contain a range of potential support services which are tailored to individual circumstances (short skills courses, confidence building, work trials, condition management, help getting child care, etc.). One evaluation suggests that the New Deal for Lone Parents raises participants' moves into work by 22 percentage points (Dolton et al. 2005).

Work focused interviews

Upon introduction, participation rates were low in these New Deals for Lone Parents and the Disabled, but they were often successful in helping participants back into work. So it was decided to introduce a Work Focused Interview (WFI), whereby Lone Parents (from 2001) had to meet their case worker on a regular basis to discuss the potential for return to work. This was to include better calculations for specimen jobs, discussions on childcare and support based on the Action Plan. Attendance for Lone Parents is required, i.e., sanctions can apply if a claimant fails to attend. They will shortly amount to 6 monthly and will be even more intensive when the child turns 14. Evaluations suggest that the WFI regime has raised participation in New Deal for Lone Parents by 25 percent (Knight et al. 2004). There is a danger that such expansion could lead to reduced success in moving claimants into work, as the expansion includes less job-ready or less willing participants. Figure 2.7.6 suggests that this was not the case with WFIs. The figure plots the numbers participating and numbers entering work after 6 months on the New Deal. They track well with a fairly constant entry rate of about 50 percent. Note the increase in participation after WFIs were introduced in mid-2001.

The New Deal for Disabled People was very similar to that for lone parents, but with extra support for condition management to help people work with their conditions rather than waiting for the condition to improve. It had even lower take-up than that for lone parents – but again, for those that did, the outcomes were good. So following the use of WFIs for lone parents this approach was tried for the sick and disabled in pilot programs, ones discussed in more detail below.

Figure 2.7.6: Numbers Participating in the New Deal for Lone Parents and Entering Work within 6 months of starting a New Deal, 1999-2004



Source: Department for Work and Pensions – published in HM Treasury 2005

Policy reform and employment

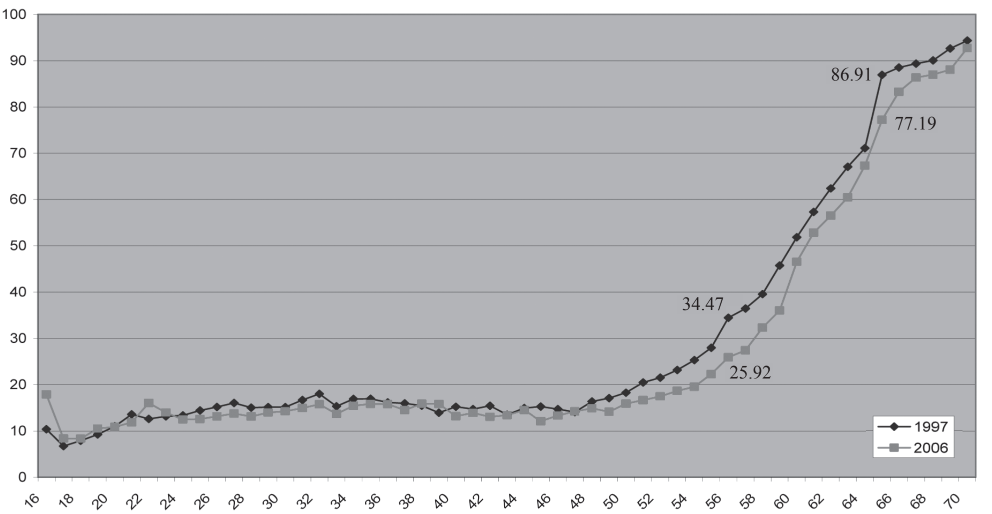
Figure 2.7.2 above charted how the numbers of claimants for the major out-of-work benefits fell from over 6 million in 1995 to 4.7 million in 2006. JSA unemployment benefits fell rapidly with the economic upswing from 1996 to 1999, and this decline accounts for 1.2 million of the fall. However, this stopped and reversed a little after 2004. The contribution of the New Deal program to this fall is minor, as the main point is to address long-term unemployment, and even then the contribution of the NDs is minor (van Reenan 2000). However, the making work pay strategy has made a larger contribution to reducing joblessness, especially among families with children. The numbers of Lone Parents on Welfare have fallen from 1,025 to 777 thousand (1995 to 2006) and the employment rate of this group has risen from 44 percent to 57 percent over this period. This is an extraordinarily rapid rise. Evaluation has consistently shown that the WFTC contributed around 4 percentage points to that rise between 1999 and 2003 (around 70,000) and policy is likely to have had continued effects since the move to the new Tax Credits (see Gregg et al. 2007 for a summary).

Figure 2.7.2 above also shows that over this period there was a slight rise in the numbers claiming sick and disability benefits, although this peaked in 2004 and has begun to fall. This group, along with lone parents, remain a major policy concern for the government in its bid to meet its targets on employment and poverty. Policy development for this group is further discussed below.

Current policy pilots and reform proposals

The process of welfare reform in the UK since 1997 has been a rolling one rather than a single big bang. Moreover, policy makers have regularly sought evidence of some degree of success from reforms in welfare-to-work programs before national introduction. There has thus been a culture of piloting reforms. The analysis above highlights some of the remaining important challenges before welfare reform in the UK, i.e., the large numbers of disability benefits, the slowing down of employment gains for lone parents, the ageing population, and – not described in detail here – the large numbers of working-poor families with two or more children.

Figure 2.7.7: Inactivity (excluding full-time students) by age, 1997 and 2006



Source: Labour Force Survey of the UK – author's calculations

Overall inactivity rates fallen only marginally to around 21 percent, but this broadly static picture of inactivity masks an ageing population and rising numbers in full-time education, and this pushes inactivity up. Improvements within key groups (such as lone parents, older workers and the emerging pathways evidence for the sick and disabled) suggest there have been improvements of substantial worth. Figure 2.7.7 shows inactivity rates by age (16 to 70) for the UK in 1997 and 2006, excluding full-time students. The picture shows that there have been marked falls in inactivity amongst those aged 50+, typically of around 5 percentage points, but we see little change among younger groups (around 1ppt declines between 25 and 50). The rise in education participation among the young and the general ageing of the population (in particular, the first postwar baby boom, 1947 to 1950, who are now approaching 60) mask this development in aggregate data.

Figures 2.7.1 and 2.7.7 therefore highlight the three (not mutually exclusive) target populations the government wishes to raise employment among: lone parents, the sick and disabled and those over 50. These groups must be brought back into the labour market if the government is going to meet its targets of reducing child poverty (by half the 1998 rate by 2010) and of raising the working-age employment rate to 80 percent (no specified time). Virtually all jobless families with children are now either on lone parent or disability benefits rather than JSA for the unemployed.

Current pilots

To address these issues the government has three major current pilot programs in the field which are producing information for the design of possible policy reforms in 2008 and beyond.

The three pilots are:

Pathways

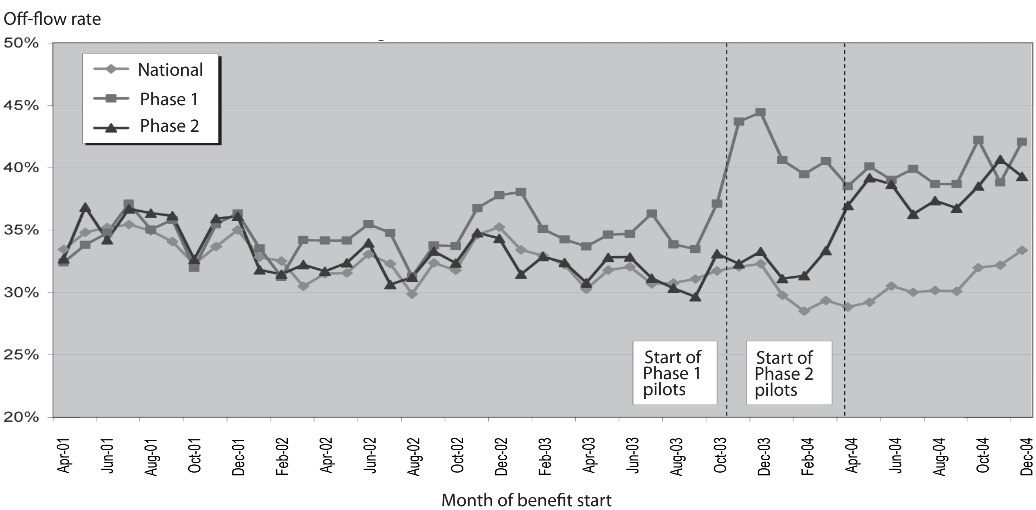
The Pathways program seeks to help claimants of sickness and disability benefits (Incapacity Benefit and Income Support with Disability Premium) get back to work. It consists of six Work Focused Interviews in the first 9 months of a person's claim. At these interviews the client is encouraged to join the Choices program (which can contain mixtures of rehabilitation and New Deal for Disabled People) and is supported by a Back-to-Work Bonus and a Job Preparation Premium. These help make sure work pays and that participants are able to meet any costs associated with the extra activity required. The Choices support package is almost always delivered by an outside contractor, rather than the government agency.

Pathways, to date, has applied only to new claimants, but an additional pilot for the "short term stock", that is, those who have been in receipt of benefit for between nine months and 3 years, has started. The pilots or "Pathfinder" areas have been chosen and implemented in three waves. The first covering four relatively small Job Centre Plus districts started in October 2003. The second wave started in April 2004 and a more substantive group, which brings coverage to around a third of the country, was implemented from October 2005 through to October 2006[7]. The Program will be rolled out nationally by the end of 2008.

[7] Current Pilot areas**:** Began October 2003: Bridgend & Rhondda, Cynon, Taff, Derbyshire, Renfrewshire, Inverclyde, Argyll & Bute; Began April 2004: Lancashire East, Essex, Gateshead & South Tyneside, Somerset PBR04 announcement: Phase 1 Jobcentre Plus Districts (October 2005): Glasgow, Cumbria, Lancashire West; Phase 2 Jobcentre Plus Districts (April 2006): County Durham, City of Sunderland, Greater Manchester Central, Liverpool & Wirral, Swansea Bay West Wales, Lanarkshire & East Dunbartonshire, Barnsley, Doncaster & Rotherham, Tees Valley; Phase 3 Jobcentre Plus Districts (October 2006) Staffordshire, Greater Mersey, Eastern Valleys.

Pathways appears to be having an impact on the number of those leaving incapacity benefits. Figure 2.7.8 shows the proportion of initial claimants in a month who are no longer in receipt of benefits 6 months later. Each month reported thus reflects the month of entry on to benefit. The count is of the proportion of the initial claimants who are no longer in receipt 6 months later, so any claimant who leaves but later returns to being a claimant counts as a benefit recipient. It is clear that both phases of Pathways' implementation have reduced the numbers of claimants by 7 percent after 6 months. There are also indications that this decrease has been associated with a reduction in the total number of benefit recipients in the pilot Districts. There is a risk, however, that it is the most job-ready who move into work and hence these people would have returned to work anyway, but at a later date (see Adam et al. 2006 for evidence on Pathways to Work).

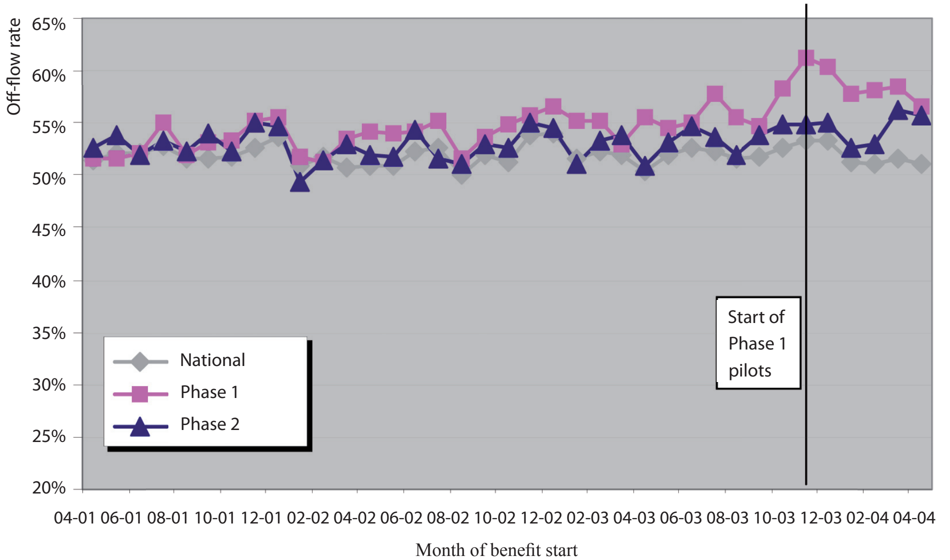
Figure 2.7.8: Percentage of Claimants Leaving Sickness and Disability Benefits after 6 months under the Pathways Program



Source: Department for Work and Pensions – published in HM Treasury 2005

So the crucial question is: how long can these reductions in caseload persist? Figure 2.7.9 shows the same information as Figure 2.7.8, but 1 year after claims have started, rather than after 6 months. The first monthly cohort of Phase 1 pilots to reach a year from the pilot start are shown by the vertical line and are still showing a 5 percent reduced caseload on welfare. So, whilst there had been some decay, there was still a marked lowering of caseload after a year. The Phase 2 pilots had not been running for a full year for this data period, but the pre-effect is apparent in the two months prior to start up. Early evidence suggests that the policy is not helping those with mental health problems (e.g., depression and anxiety), nor those with physical conditions.

Figure 2.7.9: Percentage of Claimants Leaving Sickness and Disability Benefits after 12 months under the Pathways Program



Source: Department for Work and Pensions – published in HM Treasury 2005

The effects of Pathways and the increasing focus on disability within JC+ is for the first time leading to a pronounced decline in the numbers of claimants. Numbers on both disability benefits had previously risen continuously, from around 700,000 in 1979 to a little over 2.77 million in November 2003, but they are now 100,000 below this peak. This represents healthy progress in tackling the problem.

New Deal plus for Lone Parents

The pilots addressing potential further support mechanisms for lone parents include an in-work credit of £40 on entry into work paid for one year and, in a reduced number of areas, a Work Search Premium designed to generate greater participation in NDLP and other programs. More recently a full package of potential support including the in-work credits and an activational payment (entitled Work Related Activity Payment – WRAP) has started, labelled the ND+LP pilot program. Early evaluation of this new package suggest that it has raised lone parent employment in targeted areas by 1.2 ppts, but it had a more marked impact in raising employment among those with over 12 months of claiming benefits previously (where the change was 7ppts after 2 years of the scheme).

Employment Retention and Advancement pilot

The Employment Retention and Advancement pilot (ERA) is aimed at understanding better what policy mix can support retention of re-entrants in the labour market after leaving welfare benefits. This focuses on time-limited financial support and follow up contact between the case manager, the worker (former claimant) and their employer. In addition, this pilot program is trying to engage with non-claimant/non-working partners of those in-work, but at risk of in-work poverty. The first evaluation evidence is now available and a few pointers are clear. Engaging non-working partners proved very difficult. The ambition to improve job retention has seen reductions in repeat benefit claims for both New Deal groups (NDLP and ND 25+) of 4-5 percentage points. Earnings advancement has a 29 percent increase in earnings for NDLP group (mainly by raising working hours rather than hourly wages with a 7pp increase in likelihood of working full-time), but much smaller effects on earnings for WTC/ND25+ groups. Skill development has also proved somewhat difficult, but an increase in likelihood of combining training/education with employment of 14 percentage points for lone parents on WTC, but much smaller for other groups. Compared to US evidence for such programs, this does appear encouraging[8].

Looking forward

New disability benefit

A Welfare Reform Bill currently in parliament suggests a new test for disability benefit claimants. The two different disability benefits (one contributory and one means-tested social assistance) are to be merged into one. Those making claims will be split into two groups: the most disabled will receive the full benefit without conditions, whilst those with less severe conditions (based on functional capabilities) will only receive the full benefit if they engage in the action plan process described earlier under Pathways. If they fail to meet the agreed activity requirements, they will lose part of their benefit (perhaps £30, which would take them done to the same rates as JSA).

Further lone parent reforms

A proposed further reform for lone parent benefits is to transfer lone parents on to JSA unemployment benefits when the youngest child reaches 12 and in due course to age 7 (rather than 16 at present). They will then be treated as a special category of the JSA unemployed, with extra support services to help the transition back to work. Therefore, this will be rather like the New Deals for the Unemployed, but the details are not yet clear.

These developments would move the UK much further toward a mixed approach of support services and sanctions, whereas to date conditionality has been used rather lightly.

[8] DWP briefing, sourced from Dorsett et al (2007). Implementation and first-year impacts of the UK ERA demonstration, DWP research report 412.

Old-age pensions

The population's ageing is putting increased strain on the UK pension system. Unlike many other OECD countries, there is not the prospect of rapidly growing state spending on pensions, but the pension system is not without its problems.

The first tier of the UK pension system is the Basic State Pension, a flat-rate, fairly minimal pension paid to men from age 65 and women from age 60, rising to 65 from 2020. Receipt of the full Basic State Pension depends on contributions and there are big gaps in coverage for those with caring responsibilities, with more than two-thirds of women retiring today failing to qualify for a full pension.

Since the early 1980s, the Basic State Pension has been up-rated annually in line with inflation (rather than wage growth) and its value has fallen relative to earnings. On top of the Basic State Pension sits a second tier of compulsory pension provision. The default is membership of the state scheme (formerly the state earnings-related pension scheme SERPS, now the state second pension S2P), but individuals can choose to opt out into a private pension. When it was introduced, SERPS was intended to pay a pension worth one-quarter of an individual's best twenty years' earnings (up to a specified upper earnings limit), but its value has gradually been reduced and in the medium term, S2P will become a flat-rate top-up to the basic state pension. Even at its most generous for individuals retiring at the turn of the century, however, the combined pension from BSP and SERPS yielded a replacement rate of around 40 percent for someone on median earnings. This is relatively low by European standards.

Rather than increasing the value of contributory pensions, the Labour government chose to target financial support at the poorest pensioners by raising the value of means-tested benefits through the introduction in 1999 of the Minimum Income Guarantee, changed to Pension Credit in 2003. These reforms were relatively successful in reducing pensioner poverty and raising replacement rates at the bottom of the income distribution, although take-up rates of Pension Credit are still quite low – estimated at around 60 percent of caseload. Since their introduction, the value of means-tested benefits for pensioners has been annually up-rated in line with earnings and, as their reach has crept up the income distribution, there has been growing concern about the potential disincentive effects on saving that such extensive means-testing might have. This was identified as a key issue by the independent Pensions Commission reporting on the state of the UK pension system in 2005. One of its central recommendations was to restore the earnings link in the Basic State Pension in order to reduce dependency on means-testing, and this is due to be implemented in 2012. There will also be more generous credits for those with caring responsibilities.

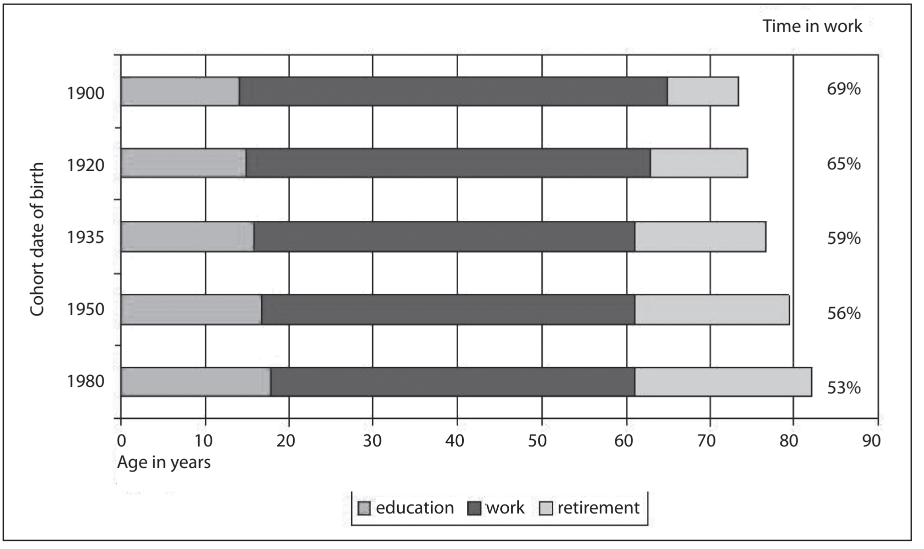
Compared to many other European countries, the UK has a relatively high level of private pension provision. Between 1978 and 1988 individuals could opt out of the state second tier into a defined benefit (final salary) scheme. From 1988 onwards individuals could additionally opt out into a defined contribution (money purchase) pension scheme. The option to opt-out of the state system helped to preserve occupational Defined Benefit (DB) pensions and encouraged take-up of individual Defined Contribution (DC) schemes. Nearly half of people now entering retirement receive more money from one of these private (occupational or individual) schemes than they do from the state.

However, the relatively low – and falling – generosity of the state schemes means that the overall system is very reliant on private schemes to deliver reasonable replacement rates to the middle and top of the income distribution. Moreover, there is concern about growing gaps in coverage of private schemes that will leave people with relatively low levels of income in retirement.

Cost pressures from increasing longevity, as well as from a growing burden of regulation, have caused many DB occupational schemes to close to both new and (albeit less frequently) existing members. Take-up of individual DC schemes has failed to fill the gap and, if anything, has also been in decline. The government introduced stakeholder pensions from 2001 to provide a regulated, but privately-provided individual DC scheme suitable for low- to middle-earners, but their introduction has had almost no effect on overall take-up rates. The government's policy towards private provision was initially one of "informed choice", underpinned by a belief that if "given the right opportunities, people will plan ahead sensibly". In other words, the government would provide information and make suitable products available, but leave individuals to make savings decisions themselves. However, there is a growing body of evidence from new behavioural economics that letting people make their own decisions does not necessarily yield optimal outcomes; that default options, for example, can have a huge effect on whether or not people belong to a pension, how much they save and where they choose to invest. The conclusion drawn from this literature is that the government can – and indeed should – encourage saving by framing individuals' pension choices. The result has been a move to introduce a new National Pension Savings Scheme which will automatically enroll all eligible employees into a low-cost individual pension account, albeit with the option to opt out. Individuals in the scheme will be required to contribute a minimum of 4 percent earnings, with employers contributing a further 3 percent, and the government, 1 percent. The introduction of automatic enrolment through this scheme, recommended by the independent Pensions Commission, and taken up by the Government in its recent White Paper, is intended to boost take-up of private pension saving.

The third main proposal from the Pensions Commission which has been adopted by the government concerns gradually raising the state pension age for men and women from 65 in 2020 to 68 by 2050. This follows a period of over twenty years from the 1970s to the mid 1990s during which retirement ages have fallen, in practice to well below the current state pension ages. Together with rising life expectancy, this has meant that people now spend a longer proportion of their lives retired (see figure).

Figure 2.7.10: Years spent in education, work and retirement, by date of birth cohort



Note and source to figure: Retirement age for 1950 and 1980 cohorts is assumed to be unchanged from 1935 cohort. Age when leaving school and retirement age based on Family Expenditure Survey. Data on life expectancy from ONS Population Trends 2004.

In raising the state pension age, the government wants to "signal the need for a behavioural change", for if we are living longer, we may need to work for longer. The UK already has a lower inactivity rate among older workers (aged 55-64) than much of continental Europe and the rate has fallen by 5 percentage points since 1997 to around 30 percent. In practice, what the government does to the state pension age is likely to have only a limited direct effect on employment among this group, since retirement decisions are likely to be more affected by incentives in private pensions than what is happening to the state pension. However, much of the evidence points to people working into older ages in the future.

Until recently, many DB schemes encouraged early retirement, but now, faced with growing deficits, they are reducing provision for early retirement and raising normal retirement ages. So, retirement ages among people with occupational pensions will undoubtedly rise in the future. For people with individual schemes, the age at which they retire will depend on the size of funds that they have been able to build up and their investment strategies (and asset returns) in the run-up to retirement. Preliminary evidence shows that people with individual DC schemes have typically built up far less pension wealth than those in DB schemes, again pointing to later retirement.

Among those with no private pension, it is income support and, more commonly, disability benefits that have provided an alternative route into early retirement before the state pension age. Nearly half the total 2.3 million incapacity benefit recipients are aged 50+. From 2008, the introduction of the Employment and Support Allowance will aim to encourage people off disability benefits and into work. However, since the reforms are primarily targeted at the flow of new claimants, rather than the existing stock of recipients, it may take a while to have a big impact.

In many European countries, the challenge of reducing projected spending on pensions without imposing big cuts in pensioners' real incomes has often resulted in political gridlock in pension reform. As noted by Disney et al. (2007), the UK stands in stark contrast for the frequency with which reforms have been implemented in recent years – a series of major reforms have come into effect in 1999, 2001, 2002 and 2006 (see Disney et al. 2007). The nature of the UK's "pensions crisis" is quite different to that in many European countries – the problem is not one of spiralling costs, but that past reforms which have brought down the costs (indexing the Basic State Pension to prices and scaling back on the generosity of the state second pension) have led to growing gaps in provision, exposed further by the likely decline in employer pensions. These past reforms also created a system of almost unparalleled complexity, which perhaps inevitably has led to further tinkering with individual elements of the system in order to achieve a better whole. Many of the changes, such as the expansion of means-tested benefit, have focused on short-term problems (poverty among current pensioners), but have carried the seed of longer-term problems (disincentives for saving) which require further reforms to be solved. The appointment of the independent Pensions Commission in 2005 to make an assessment of the current state of pension provision and recommendations for reform was not motivated by the need to overcome political stalemate, but rather a recognition of the need for a longer-lasting set of reforms. Whether it will achieve this or not remains to be seen.

Health

The period since 1997 has seen unprecedented growth in the resources devoted to the NHS in the UK. The long-run trend in annual increases in NHS expenditure since 1948 is around 3 percent. Real growth during the Blair era exceeded this and in the second Blair administration was around 8 percent per annum, meaning that the UK spent just under 9 percent of its GDP on health care in 2006. This increase in real resources was accompanied by the greater use of targets. There were targets set for inputs – staffing numbers, aspects of care, most notably waiting lists, and towards the end of the period for health outputs.

The record on growth in inputs was impressive. In 2006 compared to 1997 there were 26 percent more nurses, 56 percent more consultants, 20 percent more GPs (FTEs). This growth in numbers was accompanied by large increases in pay, ranging from 30 percent for GPs to 10 percent for nurses. Levels of staffing are now in the middle of the international league and the pay of salaried physicians is near the top of the league.

The impact on waiting lists has also been large. In 1997 the maximum allowed waiting times for non-emergency hospital inpatient treatment was 18 months. By 2005 this was brought down to six months. The average wait was considerably lower and had also fallen over the period. Performance on other non-targetted aspects of treatment was less satisfactory. Productivity increases were small. The volume of activity showed few change electives between 1998-2001, with some increase thereafter, though much of the growth was in emergency care. The growth in real inputs was quite similar, meaning that at aggregate level there was no general increase in productivity. In other areas, there was poor performance, for example, slow uptake of new cancer drugs relative to other countries.

The impact on health outcomes is less clear. Satisfaction levels have risen and there were some improvements in the health of the nation, as measured for example by falls in mortality from heart disease and cancer, but much of this fall appears to be a continuation of previous trends. In terms of levels of health, the UK remains in the middle of the international pack. Indeed, for some diseases (like cancer) survival levels are below those of other high income OECD countries. Obesity, which is even less susceptible to health service intervention, has been rising steadily and the UK is near the top of the international league for both adults and children.

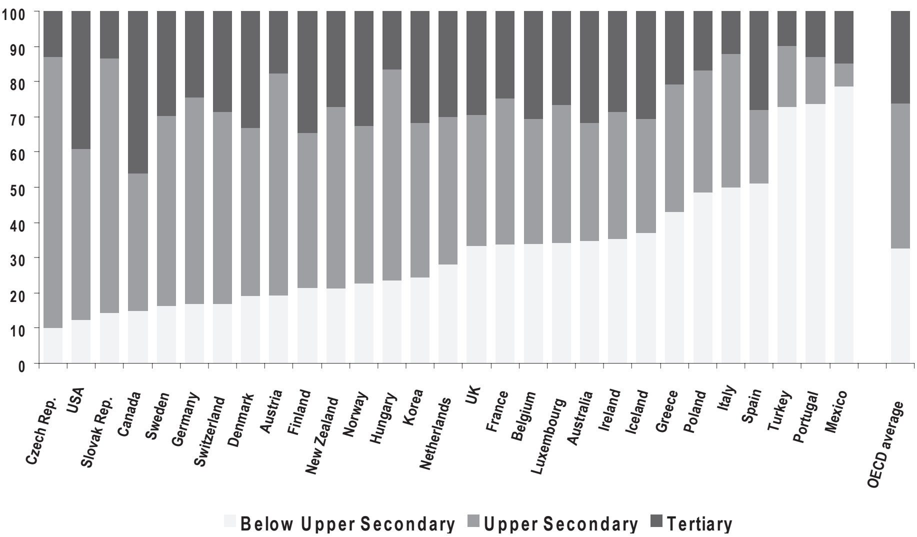
Education development

Education, like health, has seen a large increase of government spending since 2000. The long-run share of GDP spent on education is around 5 percent, but when the New Labour government was elected spending was below this average and fell to 4.5 percent, with tight spending plans in the first two years inherited from the previous regime and stuck to by the incoming one. Since then, spending has increased to 5.75 percent of GDP in a little under a decade (HM Treasury 2006). This puts the UK firmly in the upper half of spending in developed countries (OECD 2002).

The increases in spending have been primarily directed at three areas. First, capital spending on new schools and buildings has been implemented after what was seen as long-term under-investment. Second, there has been an increase in spending aimed at raising participation in schooling in the Upper Secondary and Tertiary areas. Thirdly, and perhaps most strikingly, is the pre-school period. This has involved a guaranteed free ½ nursery places for 4 year-olds from 1999 and to 3 year olds from 2003. Much of this was provided on school sites. In addition, there has been increased funding for nursery provision in deprived areas where supply was seen as weak. Moreover, the Sure Start program for the under 4s has also been targeted at deprived areas. This package is now being co-ordinated by Children's Centres in each neighbourhood to ensure delivery of Sure Start, nursery places, some health visiting services and after-school clubs and holiday schemes.

This program of spending has been focused at addressing what the government has seen as key weaknesses in the UK education system. First, as shown in Figure 2.7.11 below, is the large proportion of school leavers not going onto Upper Secondary Education. Despite sizable improvements in this area, the UK is still lagging behind many countries.

Figure 2.7.11: Educational Participation of School Leavers in OECD Countries



Source: OCED 2007

Further, the emerging evidence of a long tail of low-achieving children in the UK from studies such as PISA (OECD 2007) and the large educational gradient in attainment by social background of children on entry into the school system have led to the strong focus on pre-school years (see Feinstein 2003). Hence the strong focus on spending on pre-school services with extra funding in the most deprived wards. However, it is also true that on entry to school these social gradients continue to widen, and this raises concerns both about differential access to the best schools and the level of support for schools serving deprived communities.

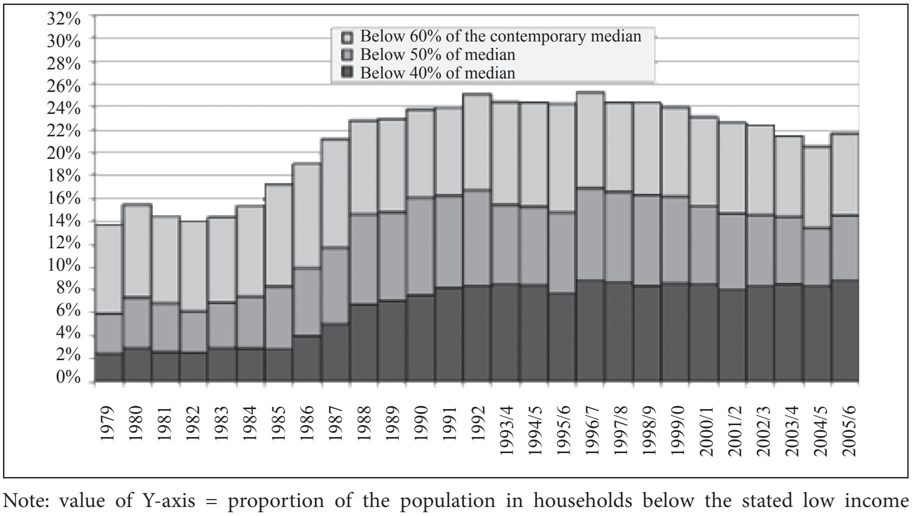
Poverty and social exclusion

Figure 2.7.1 showed how the fall in numbers of claimants has covered the increase in spending on children and pensioners where welfare payments have seen increased generosity and the cost of the WFTC. The tax credit system and tax allowances for children that existed prior to WFTC is not shown (owing to difficulty in finding data), but they accounted for 1/3 to 1/2 percent of GDP. Hence total welfare spending, including pensions and tax credits, has fallen by around 1.8 percent of GDP despite the expansion of tax credits, increased generosity of support for children in low-income households and low-income pensioners and an ageing population. In large part this has come from rising employment (and falling welfare rolls), but it also reflects a squeeze on the generosity of payments for jobless working-age adults and pensioners who have private incomes where support has remained linked only to prices. Again, with slower progress in reduction in welfare rolls and resources continuing to be put in to reduce child poverty, this decline in total spend halted from around 2003.

Poverty

Poverty measured as persons in households below 60 percent of median income (the UK uses two measures before and after housing costs) rose steadily from low levels in late 1970s to a peak in the early 1990s. Measured after housing costs are deducted, this peak showed around one in four people to be in poverty. For a decade poverty levels have fallen, except in the last year. But the improvement is moderate rather than dramatic.

Figure 2.7.12: Proportion of People Living in Poor Households 1979 to 2006

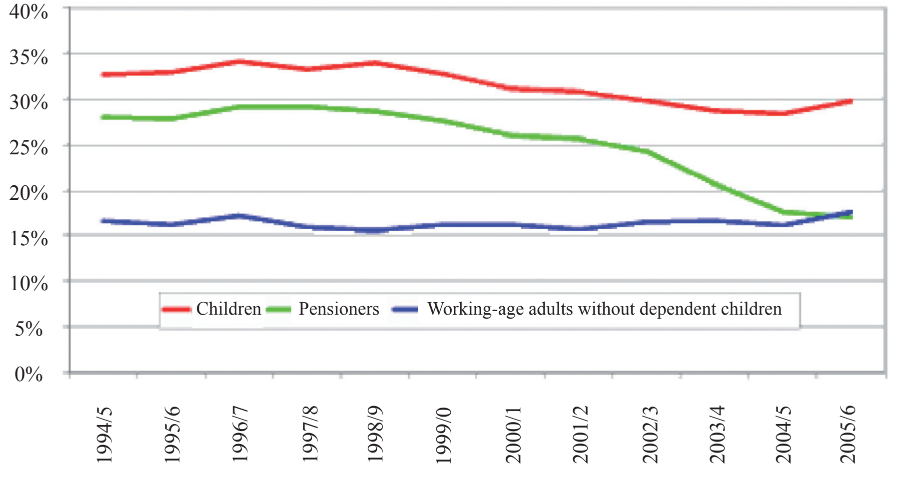


Note: value of Y-axis = proportion of the population in households below the stated low income thresholds after deducting housing costs

Source: Households Below Average Income, DWP (1994/95 onwards) and the IFS (earlier years); UK; updated June 2007

To a degree this masks two groups with marked decreases in poverty, children and especially pensioners with modest increases among childless working-age people (see Figure 2.7.13). The decline in poverty among families with children has come about partly through increased employment and partly through the increased generosity of benefits. However, much of the increased generosity compensates for rising earnings, as the standard benchmark in the UK is for benefits to rise only with prices. The sharp fall in pensioner poverty reflects the increasing incidence among newly retired groups to have occupational pensions or the second stage earnings related state pension. The Minimum Income Guarantee has also played a substantial contribution. Although poverty has fallen in the UK, Britain remains a high poverty country within Europe and child poverty is especially high.

Figure 2.7.13: Proportion of People in Poverty by population group 1995-2006



Note: value of Y-axis = proportion of the group in households below 60% of median income after deducting housing costs

Source: Households Below Average Income, DWP; UK; updated June 2007

A key supporting role has been attempted by reducing the incidence of longer-term damage that certain conditions, often described as social exclusion, can cause. This damage (described as "scarring") derives from evidence that falling into certain states reduces people's employment or earnings opportunities in the future, and often other dimensions of future opportunities, as well. These states include child poverty, long-term unemployment (especially for youth), teenage pregnancy, homelessness, and of course low educational achievement. Some of these states are directly targeted through welfare reform (poverty and long-term joblessness), but others were the target of other policy reforms delivered by other departments of government. The Educational Maintenance Allowance (EMA, which is paid to 16 and 17 year-olds from poor families at a rate of £30 a week to stay in full-time education) or the Sure Start program (to boost early child development in deprived areas) are clear examples (see Dearden et al. 2005 for an assessment of EMA and National Evaluation of Sure Start 2008).

Raising incentives for self-protecting savings

Most countries give tax breaks for certain forms of saving. This is close to universal for pension saving, such that contributions to pensions are not taxed. But this is often extended to interest received in certain other savings products, such as the Individual Savings Account (ISA) in the UK. Such tax breaks are paid at the marginal rate of tax, and hence non-tax payers do not receive them and they are worth more to those on higher rates of tax. The government has introduced a number of savings products which are worth more to low earners and non-taxpayers. These include the Savings Gateway, Stakeholder Pensions and Children Trust Funds. These are saving schemes where, rather than tax relief, there are matched payments from the state, which are thus also a form of conditional financial support. The aim is to support self-protection against income loss through unemployment, illness or retirement among lower income groups. This approach still remains in its infancy, however.

2.7.3. Europe and the UK welfare state

The UK came closest to the European Social Model in the 1970s when there was a concerted effort to bring trade unions into a more co-ordinated dialogue with business and government, with the Social Insurance Model still central to the workings of the Welfare State. Widespread industrial unrest, culminating in the Winter of Discontent (1978/79) undermined this approach and was followed by a clean break with the election of Mrs. Thatcher's government. Mrs Thatcher steered the UK rapidly away from the Social Model concepts of social solidarity, collective responsibility and social justice, toward a firm focus on individual freedom and responsibility and entrepreneurial incentives (low marginal tax rates for the wealthy). The shift in the welfare system was toward a residualised low-value means-tested safety net and personal saving, and away from a social insurance model. The relationship with the EU over this period was always arms length and often hostile, especially in the areas of labour market regulation.

The New Labour government from the outset made it clear that it was not going to return to tripartite institutions and widespread regulation of markets, but it did place a clear emphasis on social justice (reducing poverty and social exclusion). Hence the UK has developed a model that has a rather distinctive flavour compared to most European countries, with some aspects of models used in the US and the Scandinavian countries. The UK model however, is perhaps closer to that of Canada, Australia and New Zealand than most European countries.

Denmark and Sweden have long had models encapsulating high benefits with strong activational support systems and required activities after certain durations. Richard Layard, an early advocate of the New Deal program in the UK, was influenced more by Sweden than the US in his thinking (see Layard et al. 1991). Swedish and Danish childcare and maternity leave laws have also heavily influenced UK policy developments over the last few years. However, the strong history of experimentation and evaluation in the US has been very influential too, although it has not always led to similar policy outcomes. The Minnesota Family Income Program, the Canadian Self-sufficiency Program, and the Californian GAIN Program were influential on the development of UK welfare-to-work programs such as the NDLP. The Earned Income Tax Credit was the inspiration behind WFTC and Early Head Start evidence drove the development of Sure Start in the UK.

Within Europe, the UK model most closely resembles a less generous version of the welfare systems in Denmark or Holland, which are sometimes referred to as embodying Flex-security. This evolutionary process of New Labour's reforms had some antecedents prior to 1996, but has really come to the fore since that date. The UK has for some years seen itself as setting the pace on aspects of welfare reform within Europe. In areas such as job protection and labour market regulation it has long resisted European harmonization or extensions of policy. More recently it has been engaged in advocating aspects of its model to the rest of Europe, most particularly tax credits and activation in welfare. It has thus wanted to be seen positively in cross-country reports or reports from international bodies such as the OECD and IMF. Whilst this view has some merit when comparisons are made with the other major EU countries (France, Germany, Italy and Spain), it rather ignores similar but earlier developments, along with evidence of success being made in smaller countries such as Denmark and Holland.

In other areas the UK debate views itself to be lagging behind other countries and is thus more prone to learning from other European countries. Childcare and maternity leave is one area that has been mentioned earlier, but the biggest debate in the UK is probably around school attainment differences between low- and high-ability children, which are much bigger in the UK than most other countries. Another related issue is that of school attainment gaps between poor and affluent children. Other areas include children looked after by the state, mental health, obesity, and teenage pregnancy.

In this way commentary acts as an open method of coordination, and the UK has wanted to prove itself fully informed of international best practice and to be one of pace setters. There remains at best a lukewarm attitude to the EU within the UK government, with strong concerns of expansion of EU competencies into areas of national sovereignty. Additionally, the position of the UK outside the Euro area means that the Growth and Stability Pact has little traction, with more focus on the government meeting its own "Golden Rule" of borrowing only to invest over the economic cycle. Despite this rule, the government appears to be running large structural deficits derived from strong spending on health and education rather than weak revenues.

2.7.4. Conclusion

In the UK, welfare has undergone two very profound periods of reform since 1979. The first was a move away from a contributory social insurance model to a low-value social assistance model: this lasted up to 1996. The second phase started in 1996 and involves a move to an activational welfare model with greater emphasis on incentives, support services and conditionality.

The emerging UK model has a rather distinctive flavour, compared to most European countries, with some aspects of US thinking and some aspects drawn from Scandinavian examples. The UK model however, is perhaps closer to that of Canada, Australia and New Zealand than most European countries. Within Europe the model most closely resembles a less generous version of the welfare systems in Denmark or Holland, which are sometimes referred to as embodying Flex-security.

As a direction of travel from the previous regime(s), this represents an increase in engagement and support functions, increases in the (disciplinary) required activities, combined with increased financial support and personalised support services. However, in areas of social inclusion the UK has been much more open to ideas and current programs used in different EU countries and the process of the Open Method of Coordination, and in particular the spread of best practice through evidence and research is widely supported in government and the wider academic and campaigning sectors.

As a move away from the ethos and regime established in the Conservative years, this represents a degree of modest convergence between the UK and continental Europe. However, this is not convergence driven mainly by the EU, for the spread of ideas and best practice, the concept at the heart of the Open Method of Coordination is an imprecise reality for UK policy-making. There has been a strong emphasis on evaluation, piloting and knowledge transfer emanating from the government in these areas.

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Chapter III
European social policy (supranational)

The aim of this chapter is to describe the present state of EU activities in the area of social policy. The chapter starts with a short history of EU social policy, showing that right from the start of European integration an asymmetry was created between the strong Community competencies in the economic sphere on the one hand, and weak social competencies on the other. However, the social dimension of European integration has grown over time.

In the next section, the concept, actors, and methods of EU social policy are described. Both the meaning and methods of social policy at the EU level differ from the usual understanding and methods of social policy in the member states. Whereas national social policy is to a large extent "material", EU social policy is mainly "regulative", and is implemented by various "soft" methods.

In the subsequent section, the main or traditional areas of EU social policy are presented: the free movement of workers, coordination of social security, working conditions including occupational health and safety, and industrial relations, gender equality, and equal treatment.

The following social policy areas are discussed in the context of the Lisbon Strategy: social inclusion, pensions, health, and long-term care. They constitute the core areas of national social policy, but the EU's competencies are very limited. This is why a new "soft" method has been used in those areas of EU social policy – namely, the Open Method of Coordination (OMC), based on the experiences of the European Employment Strategy. Education is also mentioned here, although the OMC has not (yet) been implemented in this area.

This chapter is concluded by a short description of the indirect influence of economic integration on the member states' social policies. Even without the extension of direct EU competencies in the area of social policy, the progress of economic integration, especially Economic and Monetary Union, competition rules, capital flows and freedom of services, do exert influence on national social policies.

3.1. The development of EU social policy

Before establishing the European Economic Community (EEC) there were discussions concerning the social dimension of the new Community. France in particular was trying to include the harmonization of social protection into the competencies of the EEC. Other countries, especially Germany, opposed this proposal. The Treaty of Rome included a compromise: rising living standards became one of the Community's objectives (see section 3.2.4) with competencies in the area of social policy remaining with the member states (Maydell et al. 2006).

Of course, the member states of the original Community, as well as those of the present extended European Union, share common values, including basic social values like equality, solidarity, and social dialogue. Thus, right from the start these elements were included into the list of the Community's objectives. Member states also assign a crucial role to the state as an instrument to implement them. In both senses – common values and the crucial role of state social policy – there is a European Social Model (see Introduction). However, it was also decided right at the birth of the EEC that the main competencies in these areas would remain with the member states.

In this way the "constitutional asymmetry between policies promoting market efficiencies and policies promoting social protection and equality" was created. Whereas at the national level economic policy and social policy have the same constitutional status, at the EU level there is an asymmetry between the strong position in economic policy and the weak one in social policy. During the 50 years of European integration this asymmetry has grown, as economic policy have been more and more Europeanized, while social policies remained at the national level. However in the 1980s and 1990s (Single Market, Economic and Monetary Union), when the EU's economic integration was greatly deepened, we witnessed an increased influence of social policies at the national level, without the response of a necessary common social policy at the European level (Scharpf 2002).

Thus, harmonization of social policies has been "the road not taken" (Scharpf 2002), due to the established differences (path dependency) that have grown with the consecutive enlargements of the EU's membership. Competencies in the area of social policy have remained with the member states. EU social policy, in keeping with the principle of subsidiarity, has been restricted mainly to guaranteeing the free movement of workers. Moreover, it has become clearly subordinated to economic integration, especially the functioning of the labour markets. Accordingly, in the European context "social policy" has gained a meaning that varies from the usual national understanding (see section 3.2.1).

Although social policy has remained within competencies of the member states, the "social dimension" of European integration has been steadily enhanced. Especially in the 1980s (Single European Act) and even more in the 1990s (Maastricht and Amsterdam Treaties), EU social policy competencies were extended (Falkner 2006) (table 3.1).

Table 3.1: The attribution of explicit social policy competencies to the EU's informal Treaty reforms*

Explicit Community competence for:**	EEC Treaty, 1957	Single European Act, 1986	Maastricht Social Agreement, 1992	Amsterdam Treaty, 1997	Nice Treaty, 2001***
"measures" to improve cooperation between States	-	-	-	-	++
"incentive measures" to combat discrimination	-	-	-	-	++
action against discrimination on grounds of sex, race, ethnic origin, belief, disability, age, sexual orientation	-	-	-	+	+
"measures" combating social exclusion	-	-	-	++	++
"measures" assuring equal opportunities and treatment of both women and men	-	-	-	++	++
employment policy coordination	-	-	-	++	++
funding for employment policy	-	-	+	+	-
social security and protection of workers	-	-	+	+	+
protection of workers where their contract of employment is terminated	-	-	+	+	+
collective interest representation, codetermination	-	-	+	+	+
employment of third-country nationals	-	-	+	+	+
working conditions (general)	-	-	++	++	++
worker information and consultation	-	-	++	++	++
gender equality for labour force	-	-	++	++	++
integration in labour market	-	-	++	++	++
working environment (health and safety)	-	++	++	++	++
social security coordination	+	+	no impact	+	+
free movement of workers	++	++	no impact	++	++

Key: ++ = adoption by (qualified) majority vote; + = unanimity required; - = not mentioned

Notes: * The stage at which the relevant powers were conferred is given, and whether these were maintained in subsequent Treaty reforms. A broad definition of social policy is used, which also encompasses non-discrimination as referred to in Article 13 of EC Treaty and freedom of movement for workers. ** Unless otherwise stated (e.g., "measures" or "coordination"), this means legislative power. *** In some cases the Council may unanimously decide on this basis that the co-decision procedure (and thus qualified majority voting in the Council) is applicable (protection of workers on termination of their contract of employment, representation and collective defense of worker and employer interests, and interests of third-country nationals; cf. Article 137.2 of the EC Treaty).

Source: Falkner 2006: 81.

A new phase in the history of European social policy started in 2000 with the Lisbon Strategy and the introduction of the Open Method of Coordination (section 3.4).

The EU's enlargement eastward was carried out in two steps: in 2004 (by ten countries) and 2007 (by another two). This was largest enlargement in the history of European integration, and it has greatly increased the economic and social differences within the Union. This fact itself has often been seen as an additional challenge for the European Social Model (Vaughan-Whitehead 2003). The interplay between social policies in the new member states and European integration, especially in the area of social policy, will be analyzed in the following chapters.

The Treaty of Lisbon marks a further step in the strengthening of EU social policy, especially through introducing the Charter of Fundamental Rights into European primary law. The Charter lists all the fundamental rights under six major headings: Dignity, Freedom, Equality, Solidarity, Citizenship, and Justice. It also proclaims additional rights not contained in the European Human Rights Convention, such as data protection, bioethics, and the right to good administration. It reaffirms important steps to outlaw discrimination on the grounds of gender, race and colour. It also mentions social rights applied within companies, e.g., workers' rights to be informed, to negotiate, and take collective action. However, after the referendum in Ireland, the outcome of the ratification process remains open.

3.2. The concept, actors, and methods of EU social policy

3.2.1. The meaning of social policy

The term "European social policy" is used here synonymously with the "EU social policy". For after the recent enlargements the difference between "EU" and "Europe" has decreased substantially. Even so, it is only for reasons of convenience that we use "European" in the meaning of "EU". After all, Switzerland, Norway, Ukraine, and Serbia belong to Europe, but not to the EU.

The meaning of social policy at the EU level is different from that at the national level. At the national level social policy consists mainly of social protection and income redistribution. At the EU level "social policy" covers mainly labour (including labour mobility), workers' rights, industrial health and safety, and gender equality (see table 3.1).

On the European Commission's website for Employment, Social Affairs and Equal Opportunities are the following sections: Priorities and Objectives (The Social Agenda); Employment (European Employment Strategy, Employment analysis, EURES, Local development); Funding Programmes (European Social Fund, PROGRESS, European Globalisation Adjustment Fund); EQUAL (Community initiatives); Working conditions (Social dialogue, Corporate social responsibility, Labour law, Restructuring, Improving work conditions, Health & safety at work, Free movement of workers, Coordination of social security schemes); Inclusive Society (Social situation and demography, Social inclusion, Social protection in the EU, MISSOC, Action against discrimination, Civil Society, Disability issues); Gender Equality (Equality between women and men); and Horizontal activities (Enlargement, International affairs, Knowledge society, Evaluation, Socio-Economic Research).

This *sui generis* understanding of social policy at the EU level is a result of the development of European integration and its “social dimension” (see section 3.1). The EU’s legitimacy rests on the separation of efficiency from redistribution (Majone 1996). As a consequence, “the EU will engage with social policy to the extent to which it is efficiency-enhancing” (Daly 2006).

3.2.2. Actors

“EU social policy” is also usually taken to be synonymous with “European Community (EC) social policy”. This is because the European Coal and Steel Community and the European Atomic Energy Community, containing – as they did – certain provisions of relevance to social policy, have only a narrow scope and are sector-specific (Falkner 2006).

As major competencies in the area of social policy remain with the member states, the Council of the European Union (short: the EU Council, or: Council), consisting of ministers representing various policy areas of the member states, plays the decisive role – especially in the legislative process. In the present structure, most social policy issues are covered by the Employment, Social Policy, Health and Consumer Affairs Council. Some relevant social policy issues also fall within the scope of the Education, Youth and Culture Council.

The European Parliament mainly plays a control function. Social policy issues are covered especially by the Committee on Employment and Social Affairs, and also by the three other Committees on Culture and Education, Women’s Rights and Gender Equality, and Environment, Public Health and Food Safety.

The central role in conducting, advancing and deciding EU policy, also in the area of social policy, is played by the European Commission (Maydell et al. 2006). Most of the social policy issues fall into the competencies of the Directorate-General for Employment, Social Affairs, and Equal Opportunities. The Commissioner responsible for that policy area is Vladimír Špidla, the former Prime Minister of the Czech Republic. Other Directorates General (DG) that cover certain social policy areas are: the DG for Education and Culture and the DG for Health and Consumer Protection. Social Protection Committee (SPC) has been established in 2000 (see section 3.4.3).

An important role in the development of European social policy has been played by the Court of Justice of the European Communities. Through fulfilling its main task to examine the legality of Community measures and ensure the uniform interpretation and application of Community law, the Court of Justice has also played a role of a "motor of the Community", including in the area of social policy (Maydell et al. 2006).

The European Economic and Social Committee (EESC) is "a bridge between Europe and organized civil society" (EESC website). Set up by the Rome Treaty in 1957, it is the central consultative body for the Commission and the Council, in which interest groups (employers, employees, and others) are represented. One of the six sections of the EESC is that on Employment, Social Affairs and Citizenship.

Social dialogue is also present at the European level through representations of interest groups such as trade unions, employers, NGOs, social insurance institutions, etc., that are involved in the legislative process and policy formulation. Social dialogue has also been included into the Open Method of Coordination (see section 3.4).

There are also a number of other EU institutions, notably Community agencies dealing with social policy issues, mainly through providing information, advice and expertise, in cooperation with EU institutions, member states, and relevant non-governmental organizations. Among them are:

- the European Foundation for the Improvement of Living and Working Conditions (EUROFOUND) in Dublin, set up in 1975;
- the European Centre for the Development of Vocational Training (Cedefop) in Thessaloniki, established in 1975;
- the European Training Foundation (ETF) in Turin, set up in 1990;
- the European Medicines Agency (EMEA) in London, established in 1995;
- the European Agency for Safety and Health at Work (EU-OSHA) in Bilbao, set up in 1996;
- the European Centre for Disease Prevention and Control (ECDC) in Stockholm, established in 2004;
- the Education, Audiovisual and Culture Executive Agency (EACEA) in Brussels, set up in 2005;
- the European Union Agency for Fundamental Rights (FRA) in Vienna, set up in 2007 as a successor of the European Monitoring Centre on Racism and Xenophobia (EUMC), established in 1997;
- the European Institute for Gender Equality in Vilnius, set up in 2006, and which commenced its activity at the beginning of 2008.

3.2.3. Instruments

National social policy may use all methods of state intervention: regulation, finance, public production, and income transfers (Barr 2004). At the EU level, production, finance and income transfers (constituting extensive "social budgets" in the member states) may hardly be implemented, due to restricted EU competencies in this area and very limited financing sources.

Thus, whereas national social policy is to a large extent “material”, the EU social policy is mainly “regulative”. First, EU social policy rests mainly on regulation, and is restricted to the limited competencies conferred upon it by the member states. Secondly, political campaigns (e.g., various action programs, resolutions etc.) are widely used at the EU level to promote social policy objectives. Finally, there are some EU funds available in this area for a “material” EU social policy, mainly the European Social Fund.

In the upcoming sections the following three instruments of EU social policy will be described: legislation, political activities (“soft” instruments), and EU funds, mainly the European Social Fund.

The indirect influence of the EU’s economic integration on the member states’ social policies will be described separately in section 3.5.

3.2.4. Legislation – EU social law

European social policy rests on legislation (Maydell et al. 2006: 153). Primary legislation includes the Community’s founding treaties. The Treaty on the European Union (article 2) formulates among the objectives of the Union: promotion of economic and social progress, high level of employment, strengthening of economic and social cohesion, and the free movement of persons. The Treaty establishing the European Community (EC Treaty) has an even longer list of social objectives in article 2: a high level of employment and of social protection, equality between men and women, the rising standard of living and quality of life, economic and social cohesion, and solidarity among member states.

The EC Treaty also includes several regulations, with Community competencies, in the area of social policy (broadly understood, see section 3.2.1). They include: combating discrimination based on sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation (article 13), freedom of movement for workers (articles 39-41), coordination of social security for migrant workers and their dependants (article 42), European Employment Strategy (articles 125-130), “social provisions”, including working and living conditions, consultation of management and labour, equal pay for women and men (articles 136-145), the European Social Fund (articles 146-148), education, vocational training and youth (articles 149-150), public health (article 152).

On the basis of the competencies formulated in the treaties (primary law), the Community institutions have created an extensive secondary legislation[1]. The social law of the Community has been formulated most prominently in two forms of binding Community legislation: regulations and directives. “Quantitatively speaking, the body of EU social law in existence to date is impressive” (Falkner 2006). The legislative activity of the Community has

[1] The complete legislation in force in the section “Freedom of movement for workers and social policy” may be found on: eur-lex.europa.eu/en/repert/index_05.htm.

grown substantially, especially in the 1990s. This was related to the extension of the EU's social policy competencies through the Single European Act, the Maastricht Treaty, and the Amsterdam Treaty (see table 3.1). More than a half of all new social directives (on "social provisions", thus excluding freedom of movement, coordination of social security, and ESF) adopted between 1957 and the end of 1999 were adopted in the 1990s. Most social directives concerned workers' health and safety, then came other working conditions, and next non-discrimination and gender equality (Falkner 2006).

3.2.5. Political activities ("soft" instruments)

In the area of social policy there are many forms of action that do not have a binding effect like the above mentioned legislation. These include e.g., action programs, green and white papers, resolutions, etc. They may influence social policy development, especially in the long-term perspective (Maydell et al. 2006).

The best-known example is probably the Charter of the Fundamental Social Rights of Workers, which was adopted in 1989 in the form of a declaration by all member states except the UK (which later signed it in 1998) and contained "moral obligations". The rights set out in the Social Charter were later included into the Charter of Fundamental Rights, proclaimed in Nice in 2000 and incorporated into the European Constitution. The Constitution has not become law because of the outcome of the referenda in France and the Netherlands. However, the Charter has been included again into the Treaty of Lisbon. This example shows that political activities may lead to legislation.

An analysis by Falkner (2006) shows that, contrary to popular belief, non-binding forms of EU action in the social policy area have not replaced those which are binding: both forms have grown considerably over recent years.

A special kind of a non-binding political activity is also the Open Method of Coordination (OMC). It is often seen as a new method of governance. As a vital method for reaching new objectives related to the Lisbon Strategy, the OMC will be discussed in section 3.4.3.

3.2.6. EU funds, mainly the European Social Fund

The European Social Fund is as old as the European Economic Community. At present, it is "devoted to promoting employment in the EU. It helps Member States make Europe's workforce and companies better equipped to face new, global challenges" (EC website). The ESF has become one of the instruments of the European Employment Strategy (section 3.4.4), and thus an instrument to finance "the employment pillar of the Lisbon Strategy" (section 3.4.2). For the period 2007-13 some 75 billion EUR will be spent from the ESF.

There have been many EU programs in the area of social policy. In 2007, PROGRESS, a new EU employment and social solidarity program started. It will work alongside the ESF until 2013. It is to support policy in five areas:

employment, social inclusion and protection, working conditions, non-discrimination and gender equality. It has a global budget of 743.25 million EUR for seven years.

Also in 2007 the European Globalisation Adjustment Fund (EGF) started with a budget of some 500 million euro a year. Its aim is to help workers made redundant as a result of changing global trade patterns to find another job as quickly as possible.

In the EU budget for 2006 some 9.9 percent went to the policy area "Employment and social affairs". It was the third largest policy area after "Agriculture and rural development" (45.2 percent) and "Regional policy" (23.8 percent) (my own calculations from EC 2007).

Some commentators have thus concluded that, "contrary to popular belief, the level of financial resources deployed by the EC by way of redistributive social policy is considerable" (Falkner 2006). However, like most of EU social policy, ESF expenditures are also subordinated to economic objectives: employment, the workforce, competitiveness, growth. Thus, the ESF is also an instrument for economic efficiency rather than for redistribution (social justice).

3.3. EU social policy areas

3.3.1. The free movement of workers

Since the start of European integration (see table 2.1), the free movement of workers was included into the Treaty as one of four basic economic freedoms, alongside the free movement of goods, services, and capital. It is laid down in article 39 of the EC Treaty and it includes the right to look for a job in another member state, to work in another member state, to reside there for that purpose, to remain there, and to equal treatment in all respects related to employment. An extensive secondary legislation and the case-law of the European Court of Justice have developed this fundamental right. One EU instrument to facilitate the free movement of workers is EURES – the European Job Mobility Portal.

From an economic perspective, the free movement of labour is seen as a way of promoting the labour market's efficiency by improving the way available labour supply is matched to the demand of employers (EC 2006). Thus, this original European social policy area arose from clear economic motivations – it has been an "efficiency-enhancing" social policy. This area is still of basic importance for the functioning of European labour markets and thus of economies. To promote mobility, the European Commission declared 2006 as the European Year of Workers' Mobility.

The actual mobility of workers within the EU has been relatively low. In 2005 only some 1.5 percent of the total working age population of the EU-25 were working age foreign nationals from the EU-25. This may be explained mainly by the convergence within the EU and thus the success of European integration. By contrast, immigration pressure from outside the EU has been growing – the above mentioned share for non-EU-25 nationals living in the EU-25 was 3.4 percent in 2005 (EC 2006). This figure would be much higher without heavy immigration restrictions.

As before the southern enlargement in the 1980s, so it was that before the recent enlargements of 2004 and 2007 the free movement of workers became one of the most discussed issues (Maydell et al. 2006). There were fears of a potentially large migration from the East to the West, mainly because of large income disparities (see table 3.1). Transitional periods have enabled the old member states to keep their restrictions until 2011. In the meantime, most member states have opened their labour markets, and most of the worries proved ill-founded. Nonetheless, this remains one of the central dimensions of EU accession in (at least some) new member states – namely, the "sending countries", especially Poland.

Ageing populations will create a growing demand for immigrant workers in Europe. Migration policy is therefore likely to become a key political issue in the EU in the twenty-first century (Holzmann, Münz 2004).

3.3.2. Coordination of social security

The coordination of social security systems follows directly from the original competence regarding the free movement of persons. Given the diversity of social security schemes in member states, mobility between them could be restricted if migrant workers were to suffer disadvantages in their social security, for example through losing certain entitlements. Thus, very early a system of coordinating social security for migrant workers was adopted – this was in fact the first social legislation in European integration (see table 3.1). To date the system is based on Regulations 1408/71 and 506/72. The new legal base should soon be Regulation No. 883/2004. There is also an extensive case law of the European Court of Justice in the field of social security coordination.

The coordination system has been treated as the core of European social law. It has been clearly subordinated to the freedom of movement of workers, and thus economic objectives. The system of coordination may also be seen as an excellent example of implementation of the subsidiarity principle. The system does not replace different national systems by a common one. Every member state is responsible for its own social security system: the EU, through its coordination rules, only solves problems which go beyond the borders of member states and can more effectively be solved at the Union level.

Applying coordination rules requires knowledge of social security systems in other countries. This is also important for migrant workers, as social security forms an important element of their working and living conditions. Thus, an important informative role is fulfilled by MISSOC – the Mutual Information System on Social Protection, established in 1990.

3.3.3. Working conditions, including occupational health and safety and industrial relations

Working conditions are regulated by labour law, which is of course strictly related to social policy. Usually, however – with the exception of work accident protection – it is not treated as part of social policy in the national context. Again, as with the freedom of movement of workers, this area is at the core of EU social policy.

The legal basis of EU intervention in working conditions is article 137 of the EC Treaty. There is extended legislation in this field. In fact, the growth of legislation in this area has been especially impressive (see section 3.2.3). In this area the EU usually uses the legal form of directives, which are not binding directly (as regulations). For they are declared objectives, which means that the objectives should be accomplished through introducing given rules into the national legislation (e.g., the Labour Code, as in the case of Poland). As in other EU legislation fields, the European Court of Justice has played a crucial role in the development of this area.

Legislation concerns such areas, as e.g., working time, fixed-term work, part-time work, employer insolvency, informing and consulting workers, workplaces, work equipment, specific risks, violence at work, protection of some categories of workers (like pregnant women or young workers).

As it is formulated on the Commission's website, "the adoption of legislation setting minimum requirements has improved labour standards and strengthened workers' rights and is one of the EU's main achievements in the field of social policy". Again, economic motivation is clearly stressed. The first aim has been to guarantee common labour standards, and thus not to distort competition. The recent objective has also been to "make it easier for the EU to adapt to evolving forms of work organization, which is crucial if it is to achieve the growth and employment objectives of the Lisbon Strategy" (EC webpage, visited on 25.06.2008).

3.3.4. Gender equality, equal treatment

Equality between women and men (or gender equality) was enshrined in the EC Treaty in 1957. The scope of the principle has expanded from equal pay through equality in all areas of employment to equality in all areas of life. This has led to the idea of gender mainstreaming, i.e., the integration of gender perspective into every stage of policy processes – design, implementation, monitoring, and evaluation. There has been extensive legislation in this field, and extensive case law has developed with the European Court of Justice.

Recent priorities of EU policy on gender equality for the period 2006-2010 indicate close relations to the employment field: reaching the Lisbon employment targets and promoting women entrepreneurs are seen as a way to achieve equal economic independence for women and men. Reconciliation of work with private and family life has become a clear priority.

As gender equality has gone beyond the labour market, other priorities concern different areas, like women's participation in politics and in science and technology, eradication of gender-based violence, and elimination of gender stereotypes. However, as in other spheres, the EU has competencies to act through law almost only in the areas related to the labour market.

3.3.5. Other areas

There are other areas of social policy in which the EU has been active. Even if some cooperation in these areas has a long history, their new development in the context of the Lisbon Strategy is the reason that they will be analyzed in the next section:

- the European Employment Strategy
- social inclusion
- pensions
- health
- education and youth.

3.4. New social policy developments in the context of the Lisbon Strategy

3.4.1. Introduction

The Lisbon Strategy of 2000 began a new period in the development of the EU, including its social policy. Some social policy areas, like employment, social inclusion or pensions have become, probably for the first time in the history of European integration, top issues on the EU's political agenda. However, this has not been related to the extension of the Union's competencies in this field (any increase of its social dimension). But again, it has been clearly related to the EU's economic objectives in the face of global competition. To solve the dilemma of serious common social problems whose solution is necessary for attaining EU (economic) objectives while not having EU competencies, the new "Open Method of Coordination" (OMC) has been invented.

Whether Lisbon and the OMC have really marked an important breakthrough in the history of European integration is rather questionable. At the very least, it is too early for a definitive answer. But as our study is concerned mainly with the newest developments and the possible future development, we deal with this period separately.

Of course, this structure of the chapter makes problems as well. All the areas described in section 3.3 are still valid. They are also changing and adapting to the new circumstances. Thus, the picture of EU social policy so far consists of both sections 3.3 and 3.4.

3.4.2. The Lisbon Strategy

The European Council on March 23-24, 2000 in Lisbon agreed on a new strategic goal for the Union until 2010: "to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion". The Council also stated that achieving this goal requires "an overall strategy aimed at:

- preparing the transition to a knowledge-based economy and society by better policies for the information society and R&D, as well as by stepping up the process of structural reform for competitiveness and innovation and by completing the internal market;
- modernizing the European social model, investing in people and combating social exclusion;
- sustaining the healthy economic outlook and favourable growth prospects by applying an appropriate macro-economic policy mix" (EC 2000).

The Lisbon Strategy
The Integrated Guidelines for Growth and Jobs

Macroeconomic policies for growth and jobs

1. To secure economic stability for sustainable growth;
2. To safeguard economic and fiscal sustainability as a basis for increased employment;
3. To promote a growth-and employment-orientated and efficient allocation of resources;
4. To ensure that wage developments contribute to macroeconomic stability and growth;
5. To promote greater coherence between macroeconomic, structural and employment policies;
6. To contribute to a dynamic and well-functioning EMU.

Knowledge and innovation – engines of sustainable growth

7. To increase and improve investment in R&D, in particular by private business;
8. To facilitate all forms of innovation;
9. To facilitate the spread and effective use of ICT and build a fully inclusive information society;
10. To strengthen the competitive advantages of its industrial base;
11. To encourage the sustainable use of resources and strengthen the synergies between environmental protection and growth.

Making Europe a more attractive place to invest and work

12. To extend and deepen the Internal Market;
13. To ensure open and competitive markets inside and outside Europe and to reap the benefits of globalisation;
14. To create a more competitive business environment and encourage private initiative through better regulation;
15. To promote a more entrepreneurial culture and create a supportive environment for SMEs;
16. To expand and improve European infrastructure and complete priority crossborder projects;

More and better jobs

17. To implement employment policies aimed at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion;
18. To promote a lifecycle approach to work;
19. To ensure inclusive labour markets, enhance work attractiveness and make work pay for job-seekers, including disadvantaged people, and the inactive;
20. To improve matching of labour market needs;
21. To promote flexibility combined with employment security and reduce labour market segmentation, having due regard to the role of the social partners;
22. To ensure employment-friendly labour cost developments and wage-setting mechanisms
23. To expand and improve investment in human capital;
24. To adapt education and training systems in response to new competence requirements.

Thus, several social policy elements have been included in the Lisbon Strategy: employment (more and better jobs), education and training ("knowledge-based economy", investing in people), social cohesion (combating social exclusion), and modernizing the European social model (social protection).

On the one hand, Lisbon may seem a big change in the asymmetry or "decoupling" (Scharpf 2002) of economic and social policy at the EU level, through bringing the two areas together. Some commentators argue that Lisbon has gone "beyond the market", especially through its focus on poverty and social exclusion, an area in which intervention can be justified in terms of efficiency only to a limited extent (Daly 2006). Others see it altogether differently, as colonization of the welfare state by economic policy (Chalmers, Lodge 2003).

After four years, a High Level Group headed by Wim Kok, the former Prime Minister of the Netherlands, was established to prepare for the European Council a mid-term review of the implementation of the Lisbon Strategy. The review was rather pessimistic as far as the progress towards Lisbon targets was concerned and called for redoubled action (EC 2004). A new start for the Lisbon Strategy was begun in 2005, focusing on stronger, lasting growth and more and better jobs – a Partnership for Growth and Employment (for an early assessment, see Begg 2006).

3.4.3. The Open Method of Coordination (OMC)

The Open Method of Coordination (OMC) is a new method of policy-making[2], implemented in the EU since 2000 in several areas of social policy. It was based on the idea of policy benchmarking, earlier implemented in the Economic and Monetary Union (in a "hard" version, with binding Maastricht criteria) and (in a "soft" version) since 1997 in the European Employment Strategy.

The OMC consists of three phases. In the first, common objectives in a given area are agreed, and then common indicators are established as a means of measuring progress in reaching objectives. The second phase consists of translating EU objectives into national strategies, and then preparing national reports by member states. The third phase is an EU-wide analysis of national policies and the drawing up of conclusions and recommendations in a joint report.

A key role in the process is played by the Social Protection Committee (SPC), which was established in 2000 as a vehicle for cooperation between the European Commission and the member states about modernizing social protection systems (Pochet 2006).

[2] The intentions connected with introducing the OMC are the result of discussions on the competencies of the EU vis-à-vis the competencies of the member states. They have led to a compromise or middle-way solution whose goals are to be hammered out jointly, although under EU guidelines. However, the means for realization remain with the member states. This problem is being addressed especially in the political science perspective, i.e., in the context of the loss of state sovereignty in result of European integration (cf.. Buechs 2007).

The OMC rests on ideas of policy benchmarking, identifying best practices, and mutual learning. This is a "soft method", as there are no sanctions for not achieving objectives. The OMC was devised by the EU in order to facilitate change and influence policy in areas where the competencies lie with the member states.

The OMC has been discussed extensively as a new method of policy-making and governance (see e.g., de la Porte, Pochet 2001; Hemerijck 2002; Behning 2003; Chalmers, Lodge 2003; Ashiagbor 2004; Daly 2006; Edquist 2006; Papaioannou 2007; Pochet 2006; Trubek, Trubek 2006). Lisbon and the OMC may be seen as a new answer to new risks facing Europe (Larsen and Taylor-Gooby 2004). The OMC may be seen as an economic analysis of law and as a tool for harmonizing law – without, however, using traditional methods for doing so (Eichenhofer 2002).

Some commentators see the OMC as a powerful new tool which will have influence on social policy in the EU, strengthen the role of the EU in this area, and lead to convergence (de la Porte, Pochet 2001). Some possibilities for the productive combination of hard and soft legal measures are explored (Ashiagbor 2004; Trubek, Trubek 2006). Participation of non-go-vernmental organizations in the OMC is stressed, although with limited "social activism" (Edquist 2006).

Other commentators state that the novelty of the OMC, as well as its potential to induce change, have been overstated by authors who focus exclusively on the European Union. The OMC may be seen as a subtype of multilateral surveillance, as used in the OECD and the IMF. "Governments select voluntarist procedures mainly to secure their own competencies rather than to realize common goals" (Schäfer 2006).

The OMC is a common method that is applied in a range of areas. But on the other hand, it is specific in every area of its implementation. Indeed, some argue that there are as many OMCs as areas in which this method has been used. For example, there is an important difference between European Employment Strategy (EES) and other areas. In the areas other than the EES, the OMC is not based on a formal provision in the Treaty. Thus, it depends on the political will of the member states (Pochet 2006). The following sections present very briefly the areas of the OMC's implementation.

3.4.4. European Employment Strategy

The European Employment Strategy (EES) was launched by the Luxembourg Job Summit in November 1997 on the basis of the new Employment title introduced into the EC Treaty in Amsterdam. Thus, the EES is older than the Lisbon Strategy. It was constructed according to the same logic as the OMC, even if the name was not used at the time. The EES came first – and the OMC was modeled precisely on its methodology (Ashiagbor 2004).

On a yearly basis since 1998, the National Reform Programmes (NRP) (until 2005 National Action Plans) have been prepared. They present how the Employment Guidelines are implemented at the national level. The NRPs are examined by the Commission, which then presents a progress report to the Council. The Council and the Commission adopt a Joint Employment Report. The Council also approves Guidelines for the national employment policies of the member states. Since 2005, the employment guidelines have been integrated with macroeconomic and microeconomic policies, and are set for a three year period. In 2005 Employment Guidelines for 2005-2008 were adopted.

With the Lisbon Strategy, the EES has become "the Employment pillar of Lisbon Strategy". Quantitative objectives have been defined for the EU until 2010 – namely, to reach an employment rate at the level of 70 percent for the entire working age population, 60 percent for women, and 50 percent for older workers (55-64 years of age). Table 1.1 shows that the EU was far away from reaching the 70 percent-target in 2006. This has provided one reason for a "new start" of the Lisbon Strategy and focusing it on growth and jobs.

Flexicurity has become a kind of best practice or benchmark for EU employment policy – a new concept for simultaneously promoting both high flexibility on the labour market and high security, in the sense of active labour market policy and income protection. Denmark and the Netherlands are the best examples of where this strategy has been implemented[3].

The components of flexicurity (European Commission 2007)

1. **Flexible and reliable contractual arrangements** (from the perspective of the employer and the employee, of "insiders" and "outsiders") through modern labour laws, collective agreements and work organization;
2. **Comprehensive lifelong learning (LLL) strategies** to ensure the continual adaptability and employability of workers, particularly the most vulnerable;
3. **Effective active labour market policies (ALMP)** that help people cope with rapid change, reduce unemployment spells and ease transitions to new jobs;
4. **Modern social security systems** that provide adequate income support, encourage employment and facilitate labour market mobility. This includes broad coverage of social protection provisions (unemployment benefits, pensions and healthcare) that help people combine work with private and family responsibilities such as childcare.

Employment is a crucial element in every social policy field. For it is the best way to combat social exclusion, to secure adequate and sustainable pensions, and to reach gender equality etc. Thus, the EES has become a central element of EU social policy.

[3] Flexicurity Research Programme at Tilburg University: www.tilburguniversity.nl/faculties/law/research/flexicurity/

3.4.5. OMC on social inclusion

For a long time, combating poverty was not addressed directly at the EU level, that is, on grounds of subsidiarity. However, in the 1990s the awareness grew of the challenges facing European social protection. Several Commission communications, along with academic research, prepared the ground for policy innovation. The 1999 Communication for a concerted strategy on social protection (EC 1999) identified four pillars for such a strategy: making work pay, guaranteeing secure pensions and sustainable pension systems, promoting social inclusion, and guaranteeing a high, sustainable level of health protection. The Lisbon European Council (2000) decided to start an OMC on social inclusion. “The idea was to get things moving on a matter of general agreement – the need to fight poverty in order to address a much more sensitive theme: social security” (Pochet 2006).

The Nice European Council (December 2000) adopted the first set of common objectives. In June 2001 member states submitted the first set of National Action Plans against poverty and social exclusion (NAP/incl) 2001-2003. The first Joint Report on Social Inclusion was published in 2002. In December 2002 the common objectives were revised, also on the basis of academic research (Atkinson et al. 2002). The second “round” of the OMC/incl was done in 2003-2004. The new member states submitted their first NAPs/incl in 2004. A year later the 15 older member states prepared implementation reports of their NAP/incl 2003-2005, including an update on actions proposed for the period of 2005-2006. In the framework of the new “streamlined” OMC (see section 3.4.8), an annual Joint Report on Social Protection and Social Inclusion has been published since 2005. At the end of 2006 National Reports on Strategies for Social Protection and Social Inclusion for 2006-2008 were submitted. Table 3.1 shows two indicators of social exclusion in EU-27 in 2005. In February 2007 the Joint Report was ready.

The new common objectives for the streamlined OMC on social protection and social inclusion agreed in 2005 (EC 2005) in the area of social inclusion are: active social inclusion by promoting participation in the labour market and by fighting poverty and exclusion among the most marginalized; access for all to the basic resources, rights and social services; good coordination of social inclusion policies, with involvement of all relevant actors, mainstreamed into all policies and gender mainstreamed.

The extensive literature on the OMC on social inclusion (e.g., Atkinson et al. 2002; Edquist 2006; Daly 2006; Pochet 2006; Room 2005) is ambiguous. On the one hand, important advantages are stressed, including: dealing for the first time at the EU level with a strictly social policy issue without direct subordination to economic policy (see section 3.4.2); development of common objectives and indicators; the possibility of mutual learning; and wide social participation and mobilization. On the other hand, the OMC on social inclusion, unlike the EES, is not based on a EU competency provided by the Treaty.

Thus, it remains a "soft" method, whose success is fully dependent on the political will of member states. Some fears have also been raised that through streamlining, social exclusion might become a marginal topic compared with pensions and health care. To address this, the title for the integrated OMC was chosen to be: "social protection and social inclusion" (Pochet 2006).

3.4.6. OMC on pensions

Prepared in 2000, the OMC on pensions was decided in 2001. In November 2001 common objectives were also agreed – eleven objectives in three groups: adequate protection, financial sustainability and modernization or adaptation to changes. Thus, "adequate and sustainable pensions" became the short title for this OMC. The first National Strategy Reports were prepared by October 2002. On their basis the first Joint Report was prepared by the Commission and the Council. The second round was made in 2005 (National Strategy Reports from 25 member states) and 2006 (Synthesis Report on adequate and sustainable pensions).

Pensions arrived on the political agenda of the EU in the context of public finances, as public pension spending constitutes a big share in public finance. This is the reason why pension systems raised interest among EU finance ministers in the late 1990s. The OMC on pensions is demonstrated as a compromise between purely financial analysis of pension systems and analysis including the social objectives of pension systems, represented by ministers responsible for social protection (Scharpf 2002; Pochet 2003).

There are strong links with employment, and thus the EES. Two out of five common objectives on financial sustainability concern employment. A high employment level is a necessary condition for the functioning of every pension system, and people should work longer in life. As pensions are the biggest institutions of social protection systems, their modernization is crucial for adjusting the whole of social protection systems to new economic and social circumstances. The OMC offers a chance to learn from others.

As with social inclusion, in the field of pensions the EU also lacks competence to induce political change, which is seen as a weakness of the OMC by some commentators. On the other hand, others have raised fears that this "soft" method is likely to lead to an increasing role of the Commission and to end with some kind of "Maastricht criteria" for pension systems (Schmähl 2005).

3.4.7. OMC on health care and long-term care

As in other areas of social protection, the EU lacks competencies in health care systems, apart from some competencies in public health (article 152 of the EC Treaty), such as communicable diseases and health promotion. There are, however, many points where EU law influences health care systems, like the regulations for health care professionals (mutual recognition of diplomas) or access to health care abroad (Maydell et al.: 191ff.). Still, construction of the health care system is solely within the competence of member states, just as the field of pensions.

After social inclusion and pensions, health care and long-term-care is the third social policy area in which the OMC was started in the EU, in line with a Council decision from October 2004. Common objectives have been agreed: access for all and addressing inequalities in access to care and in health outcomes; quality; adapting to changing needs and preferences; strengthening responsibility; affordable and sustainable care through promoting healthy and active life styles; good human resources; and a rational use of resources (EC 2005).

To date this OMC has been relatively “underdeveloped”. In 2005, member states delivered Preliminary National Reports on Health Care and Long-Term Care. The Commission prepared a review of them in 2005. The 2006 National Reports on Strategies for Social Protection and Social Inclusion for 2006-2008, as well as the Joint Report of February 2007, include – and for the first time – specific parts on health care and long-term care.

As with pensions, the EU has engaged in health care and long-term care mainly in the context of financial sustainability, which is threatened especially by the ageing of the population. Health is also “investment in people”, as embodied in the Lisbon Strategy.

3.4.8. “Streamlining the OMC”: Social protection and social inclusion

On the basis of a Commission proposal from May 2003, the OMC has been “streamlined” through integrating three areas – social inclusion, pensions, health care and long-term care – into one field: social protection. The reasons were to create a stronger process and to integrate it better with the Lisbon process, in particular the Broad Economic Policy Guidelines and Employment Guidelines. In 2005 and 2006 the two first Joint Reports on Social Protection and Social Inclusion were prepared.

In March 2006 the European Council adopted a new framework with a new set of common objectives, ones based on a proposal from the Commission (EC 2005). In line with them, at the end of 2006 National Reports on Strategies for Social Protection and Social Inclusion for 2006-2008 were submitted. The Joint Report on Social Protection and Social Inclusion 2007 was adopted by the Council in the spring of 2007. In March 2008 the Joint Report 2008 was adopted.

3.4.9. Education

We end this overview of social policy areas that have been developed since Lisbon with education, an area in which the OMC has not (yet) been introduced. In the national context (e.g., in Germany), education has not always been seen as part of social policy. Also at the EU level, education falls not under Employment and Social Affairs, but is a separate policy area with separate structures in the Council: Education, Youth and Culture, and the Commissions for Education and Culture.

As with the social areas of inclusion, pensions or health, according to the subsidiarity principle, competence in education lies with member states (in some federal states it may be even the regional level, e.g., in Germany). The EC Treaty provides for cooperation between member states in the area of education (article 149) and vocational training (article 150).

The mobility of young people has been especially promoted, e.g., thanks to the ERASMUS program, since 2007 a part of the new Lifelong Learning Program replacing Socrates/Erasmus. 1.2 million students have benefited from a study period abroad (Eurostat 2007)[4].

The Lisbon Strategy moves education and training, including lifelong learning, very high on the political agenda ("knowledge-based economy", investing in people). Education and training has also been included into other processes: the EES and the OMC on social inclusion.

The European dimension of education goes beyond the scope of the European Union only. EU member states participate in the Bologna process, aimed at the creation of a European Higher Education Area by 2010.

3.5. The indirect influence of the EU on the member states' social policies

The channels of the indirect influence of European integration (especially of the deepening economic integration) on national social policies are primarily the Economic and Monetary Union, competition policy, as well as basic freedoms.

3.5.1. Economic and Monetary Union

The Economic and Monetary Union (EMU) is based on "hard" convergence criteria, forcing the member states to keep balance in public finance under control. One big item of public expenditure, and thus of public finance, is expenditure on social benefits, i.e., on social policy. In order to keep balance in public finance under control, it may be thus necessary to restrict (at least an increase of) social expenditure. In this way the EU is influencing national social policies, where the competencies are generally within the member states, via the strong EU competencies in the economic sphere.

An example may be the pension reforms introduced in France and Italy in the nineties, in the face of preparation for EMU membership (Pochet 2003). The indirect influence of monetary EU integration on the reforms of unemployment insurance and health care in France are also indicated (Palier, Petrescu 2007).

As was indicated in section 3.4.6, pensions arrived on the political agenda of the EU in the context of public finances, as public pension spending constitutes a big share in public finance. In 1997 the Economic Policy Committee

[4] Eurostat (2007), Statistical portrait of the European Union 2008, Luxembourg.

(EPC) suggested that expenditure on pensions should be reduced, among others ways through postponing retirement, making the system more individualized, and developing funded systems. Since then pensions have remained on the agenda of the EPC, the European Central Bank, and especially of the influential Economic and Financial Affairs Council (ECOFIN).

3.5.2. Competition law, the free movement of services, and the free movement of capital

Unlike in social policy, the EU competencies in the areas of competition, the free movement of services, and the free movement of capital are very strong. “Competition” has been classified as an area in which decisions are taken at both the national and EU level, and “capital flows” as one in which most policy decisions are taken at the EU level (Longo 2003).

Problems are emerging as a consequence of marketization and the partial privatization of social policy. For example, obligatory pension funds (like those in Poland) are part of the obligatory and universal pension systems, and thus of social policy, with national competence. On the other hand, they are managed by private financial institutions operating on the financial market, with strong EU rules on competition and basic freedoms.

One conflict between the national competence in social policy and EU competence in competition and the freedom of services may also concern other parts of social policy, such as health care – especially in the case of the competition between health care providers.

Thus, the deepening of economic integration has consequences for social policy. This influence of the EU on the social policies of member states may be described as the “Europeanization” (in the EU sense) of social policy “by the back door” – through progress in economic integration, without a clear strengthening of EU competencies in social policy.

Sometimes it is also hard to distinguish between the real influence of the EU and its use by politicians (and other public actors) for internal purposes.

3.6. Conclusion: EU social policy after Lisbon

From the start of European integration EU social policy has been subordinated to economic goals. “EU policy-making accepts the Schumpeterian argument that market freedom is essential to economic success” (Taylor-Gooby 2004). This has not been crucially changed with the Lisbon Strategy. Although the deepening of economic integration in the face of global competition has led to increasing the role of social policy goals, they are still mainly seen as productive forces. As the economic competencies of the EU have grown even further, the “constitutional asymmetry” between EU economic policy and social policy has remained. However whether the “constitutional asymmetry” between EU economic policy and social policy will (or should) change was long an open question. However, together with subsequent National Action Plans carried out within the framework of the OMC, a more intensive debate began on the topic of reducing this asymmetry. That debate revealed very divergent approaches to the subject material and range of the EU's social policy. For purposes of clarity, that debate may be summarized as follows:

- Social policy is treated in categories of the social dimension of economic policy. In accepting the goals of economic growth and building an innovative European economy as of highest priority, the welfare state is examined both on the European level and the level of member states in terms of how well it furthers or hinders the ambition to create a globally competitive economy. One example of that approach is *The Sapir Report* (2004), which recommends activating new (and strengthening existing) factors that foster growth. This is to be done primarily at the EU level, but with rapid impact on member states. Thus, social policy is becoming an instrument of a very ambitious economic policy. Its goal is to create an educated and modernized society able to meet the economic challenges, and thereby secure the welfare state's functioning at a decent level and in a modernized way by carrying out institutional reforms in the realm of traditional social policy. This mostly pertains to that group of countries which exhibit relatively the lowest levels of both effectiveness and equality (Mediterranean Social Regime).
- The EU's social policy is treated exclusively in categories of accepting and coordinating harmonized solutions, ones necessary with regard to the mobility of the citizens of member countries whether as employees, students, tourists, or patients. This policy is quite clear in this area, where it most concerns the technical and legal level and addresses harmonized issues. In the course of the efforts to coordinate joint solutions, numerous controversies have emerged regarding the institutional and legal basis of the harmonization undertaken. Which standard is to be upheld? The standard of the receiving countries where policy originates? – of the country that is sending people? – or perhaps some new common standard?
- Social policy is treated in categories of the influence of European integration on the changes to working conditions and the welfare of member countries[5]. This thrust of the debate may be labeled the social dimension of European integration. It manifested itself most starkly following the rejection of the European Treaty by France, Holland, and Ireland. The pronouncements of experts and politicians are addressed to societal fears that arise from the development of the common and enlarged market.

[5] Within this thrust of this debate, EU social policy embraces basically only four areas: 1) regulations concerning the labour market (occupational safety, employees' rights, equal treatment), 2) industrial relations (work councils), 3) the free flow of workers, and 4) the influence of social expenditures through stabilization and public debt requirements.

These fears relate to potentially disadvantageous consequences for both national and regional markets – and for social policy, as well – due to the free flow of workers and services following the EU's expansion. The service directive elicited a veritable media storm. Its poster boy was of course the Polish plumber, who was said to be stealing work from and/or lowering the wages of home-country specialists who, under the guise of small service companies, in fact work alone. One example of the reaction to this type of fear was that of Jacques Peklamn (2007), who argued, "there is nothing particularly a-social about the internal market or the EU at large". On the contrary, the economic advantages are obvious when we observe matters from a broader and more long-term perspective. The problem, however, is that of inadequate information, education, and communication about both the advantages and "real problems" of European integration on the level of member states. Maurizio Ferrea here states that "the caring dimension of Europe is not visible enough to its citizens and not vigorous enough as a spur for policy making" (2006).

- Social policy is treated as a balanced and integral element of EU policy, both in the political and economic spheres, as well as the social. For constructing a common Europe requires the acceptance of European political objectives, economic growth in member countries, and meeting halfway the common social challenges and problems in those countries' societies. Despite the differing living conditions, those problems and challenges are similar, something we evaluate in the next chapter. Examples of that type of voice are heard in *The New Social Europe*, the manifesto of Poal Rasmussen and Jacques Delors (2006), which was approved by the Party of European Socialist. These two men – the former Prime Minister of Denmark and the founder of Notre Europe and chief of the European Commission from 1985 to 1995 – proposed 10 goals designed to uphold the hitherto goals of the EU (full employment, equal treatment, a cohesive and inclusive society, investment in childrens' development and education, and social dialogue). Those 10 goals also introduce new measures aimed meeting ecological challenges and tackling climate change. In so doing they stress the significance of the proportionality of European solidarity: "rights and duties for all – the essence of cohesion".
- Social policy is treated in categories of the problems and goals Europe faces in regard to the challenges of the future and globalization. As these problems and challenges concern areas which have not to date been embraced within the traditional scope of social policy, such scope is being importantly expanded. Indeed, the reports on the topic of the European Social Model also weigh problems concerning the natural environment, securing energy supplies, conditions for the growth of

innovation and the development of R&D, and support in dealing with the results of globalization[6]. Such the case, the postulates regarding the welfare state are undergoing both an expansion and a change of priorities that even includes a relocation of social expenditures. The significance of the problems connected with the changes the future will bring (whether demographic, health-related, educational, and infrastructural) is therefore increasing at the cost of direct redistribution in the aim of compensating for income and consumption disparities.

- A certain portion of the debate focuses not on defining what the subject of the European welfare state should be, but on the question of which level is appropriate for decision-making – the national or supranational. As Andre Sapir suggests (2005), when important elements of economic policy (such as monetary policy and regulations on flows of capital and products) are found at the EU level, then leaving fiscal policy and labour market policy to the member states cause inordinately costly coordination efforts – and furthermore, one of uncertain effect[7].
- The debate on expanding the competencies of the EU in fiscal and social policy is accompanied by the debate on the adequacy of the methods employed to reach established goals. "There is a real question about whether the method of Lisbon (OMC) is equal to the task – to implement arguably the most expansive vision of EU social policy and effect the greatest inroad into social policy yet on the part of the EU". (Daly 2006).

The debate on European social policy makes us aware that understanding the subject of its focus is altogether diverse, and also that its stated goals are oft'times entirely distinct, and that its methods are inadequate. To put the matter in stark terms, social policy can be a tool for achieving other goals (whether political or economic), or an autonomous goal, though one that fosters other goals and challenges of the future that will impact people. Regardless, however, of the goals assigned to social policy within the debate at the EU level, a critical tone predominates. This is why, in follow up to the position of the European Commission (2008) we may well draw attention to the evident achievements. Above all they concern harmonization efforts such as: easy access to medical treatment when traveling, working abroad, social security coverage abroad. They next concern uniformization of standards in the realms of: healthy workplaces, equal treatment of women and men, and protection against discrimination in extended areas outside employment.

[6] We will try to analyze its possible future development in chapter 5. Especially, in chapter 5, some broader challenges to the European Social Model will be discussed, which go beyond its traditional understanding as social policy only.

[7] The arguments in favour of strengthening supranational competencies are also advanced in economic circles, where it is stressed that carrying out structural and macroeconomic reforms has a basic meaning for dynamizing the economies of Europe's countries in accord with the Lisbon Strategy. And this may be done faster and more effectively at the EU level (cf.. Stefan Collignon 2008).

Also noted with some satisfaction are the goals connected with the Lisbon Strategy, particularly more and better jobs (since 2005 some 7 million jobs have been created in member countries, and evenly so for men and women) and investing in people. Moreover, the European Commission emphasizes the role of social dialogue at the supranational level, especially in the areas of improving working conditions, the health of workers especially at risk, and such threats as bullying, sexual harassment, and physical violence at the work place. Because the present change in the character of work and the new forms of work engender a range of new problems concerning working conditions and employment security, the presence of social partners at the EU level allows them to be solved in a way that is both more competent and sensitive to divergent interests.

The debate on the European Social Model in the new member countries is no doubt less intense than in the older member countries. However, at the same time, expectations for the EU and trust for European institutions are increasing (see the next chapter). Those expectations also vary. On the one hand they concern support for more dynamic systemic and economic changes – on the other they concern the expansion of the range of social policy in the process of catching up with the West as regards living conditions and social security. As both observers of and participants in that debate, we may point out two contrasting positions: the hope for greater social security, and the fear of Western Europe's low incentive to be active and its social transfer dependency. However, the problems and challenges of the future for the new member countries are not sufficiently recognized and accepted – and this will likely become the core of the new Social Agenda. Its understanding and acceptance require greater information and attention to be applied to Europe's problems and its search for more symmetrical socio-economic solutions, ones that pay heed to the existing differences and stages of economic and institutional development in the European Union's 27 member countries.

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Chapter IV
Diversity, similarity and commonality: Member States' social policies and EU social policy

Introduction

This chapter is an attempt to compare the national social policies in the Czech Republic, Denmark, Estonia, France, Germany, Poland and the UK, as presented in chapter II, and to confront them with the EU's social policy described in chapter III.

We are keenly attuned to the differences concerning the level of general welfare (particularly between the EU's older and newer members), as well as to the differences associated with the institutional model for social policy in the older member states. Nonetheless, our analysis rests on the thesis that there indeed are shared challenges to be met. Moreover, the manifold ways those challenges are approached – that is, the social policies currently being pursued in the EU's older member states – have become more and more convergent.

Thus, the present chapter first seeks to identify the differences between the seven EU countries in conditions and living standards, as well as in their historically-shaped institutions. Next we indicate the shared challenges and tendencies, ever bearing in mind divergent scales. Lastly, we examine the thrusts and methods of the social policies being pursued. The chapter concludes with an evaluation of whether the EU and its social policy have an influence on the similarity of the solutions being adopted. If so, is this happening because of direct or indirect influence? Has the debate on EU social policy become a real issue on the agenda? Are we dealing with a process of convergence in which the role of integration within the EU is of central relevance?

The primary basis of our comparative analysis is above all that of the country reports presented in chapter II. Quotations come mainly from that chapter. However, we have also made avail of statistical information taken from international data bases that have elaborated a methodology enabling fully legitimate comparisons. They are listed in the table below.

Table 4.1: The sources of statistical comparative analysis

Fields of analysis	Provider of comparative data base	Collections of data and methods used for comparability
Demographic data	Eurostat UN	Population censuses and projections
Employment	Eurostat European Commission	Labour Force Survey – standardized national data
Social protection	Eurostat	ESPROS methodology
Inclusion	Eurostat	EU-SILC data
Education	OECD	PISA Studies and *Education at a Glance* from OECD data
Health	OECD WHO	National Health Accounts (NHA) Health data for all (HDA)
Family	European Commission Eurostat	MISSOCC EU – SILC data
Social values	European Commission European Social Survey Net	Eurobarometer European Social Survey

4.1. Differences: economic conditions, population, social values and legacy

The countries of Europe are distinct in many regards. This includes their economic potential and level of general welfare, their demographic potential and the phase of their populations' development, as well as the scope of redistribution and social welfare regimes. The primary differences occur between the older and newer member countries. This is one reason why Central and Eastern Europe (excluding the post-Soviet countries not within the EU) is treated as a single region, one distinct from Western Europe, in statistics covering the countries of the world.

Deeper comparative analysis reveals that the division into Europe's western and eastern countries is not always valid. After all, among the countries of Central and Eastern Europe (CEE) we find relatively prosperous countries with a level of social security that exceeds the EU's average – namely, the Czech Republic and Slovenia. Moreover, among the countries of the EU-15 are relatively poor countries with a low level of social security – to wit, Portugal and Greece.

Germany, France, Great Britain, and Denmark are the countries we have chosen for analysis from the west of the European Union. These countries exhibit a similar level of general welfare, although they differ institutionally. From the EU's eastern half we examine the Czech Republic, Poland, and

Estonia, countries which have differing developmental levels, although they hail from a shared systemic and institutional past. They all had a centrally planned economy and a Soviet type of social policy. Thus, we face differences both between the two groups, as well as within each of them.

4.1.1. Economic development – GDP and the structure of the economy

As far as the general economic background is concerned (see table), the three new member states we analyze have a much lower GDP per capita than do the four older member states. The Czech Republic is the closest to attaining the average level for the expanded EU. But convergence has taken place, as the new members have grown much faster than the old ones. This is clear when we consider GDP per capita. In 1995 GDP per capita in Estonia and Poland was not even one-third of the average for the EU. However, by 2007 Estonia's had reached 60 percent of that average, and Poland's was close to 50 percent. Nonetheless, the road to convergence in this area still stretches out far ahead. According to the prognoses of the European Commissions, the 10 new member states that joined in 2004 will not fully catch up with the EU-15 until 2035-2040.

Table 4.2: Main indicators describing economic differences among the countries analyzed; data from 2007

Indicators	CZ	DK	EE	FR	DE	PL	UK	EU average
GDP per capita in PPS, 2007	82.0	122.8	72.1	111.3	113.2	53.6	115.9	EU-27 =100
Share of agri-culture in eco-nomy; % of gross value added, 2006	2.9	1.6	3.2	2.0	0.9	4.4	0.9	1.8 (EU 27)
Growth rate, %, 2007	6.5	1.8	7.1	2.2	2.5	6.5	3.1	2.9 (EU 25)
Labour productivity per hour worked* EU 15 = 100	53.3 (2006)	100.3	50.7	119.5 (2006)	109.8	45.5	89.8	91.6
General govern-ment debt - % of GDP	28.7	26.0	3.4	64.2	65.0	45.2	43.8	59.3 (EU 25)
Public balance - % of GDP	-1.6	4.4	2.8	-2.7	0.0	-2.0	-2.9	.

Notes: CZ = Czech Republic, DK = Denmark, EE = Estonia, FR = France, DE = Germany, PL = Poland, UK = United Kingdom, * GDP in PPS per hour worked

Source: Eurostat 2008 and country studies presented in chapter II

The new member states continue to have a differing and less modern economic structure. Their labour productivity is significantly lower than in the older EU countries, but the dynamism of their modernization and the improvements in the productivity of their labour force is very high – at its highest in Estonia. As recently as in 2000 the indicator for labour productivity in Estonia was just 35 percent of the average for the old EU – today it is above 50 percent.

The differences in the economic area also concern of the indicators that portray the condition of state finances. Here the dividing line also runs between the old and new member states of the EU. In the older countries the indicator of public debt in the GDP stands at 60 percent. Indeed, in the EU's two largest countries – France and Germany, both analyzed in this book – the public debt exceeds the level settled upon in Maastricht (see the table below). Denmark (along with Ireland) ranks among the exceptional countries of the old EU, that is, those which have maintained a low level of public debt. Denmark's level is presently at 26 percent, although in the mid-90s it was at about 70 percent.

4.1.2. Demographic potential and the stage of demographic transition

Among the countries we analyze one is very small (Estonia), two are small (Denmark and the Czech Republic), one is mid-sized (Poland), and three are the EU's largest countries – Germany, France, and Great Britain. In result of the demographic changes underway over the past years (and especially the low fertility rate), the populations in all the countries of Europe have been shrinking. This decline has been steepest in the postcommunist countries[1], as during the transformation period the fertility rate in these countries dropped dramatically. Among the countries of the old EU-15, only those that sufficiently early began to pursue pro-family social policies have higher total fertility rates (TFR). France is the most telling example, although even the French rate is less than 2.1, which is considered the minimum level for replacement fertility.

In the older EU countries the decline in native population is compensated by the high influx of immigrants. In this regard the countries of Europe may be divided into receiving countries and sending countries. Great Britain, Germany, and France belong to the countries that are receiving the largest foreign populations[2]. The phenomenon of immigration has also appeared among the new member states. The highest level of foreign influx has been in the Czech Republic. Poland, in turn, belongs to those countries exhibiting the greatest scale of emigration, although most Poles concerned return to their homeland after relatively brief periods abroad. Such people are better thought of as migrants, rather than émigrés, as they are primarily focused on finding work and/or higher earnings for relatively brief periods, and are mobile in

[1] The World Bank report on this topic had the poignant title "From red to gray" (Chawla et al. World Bank 2007).

[2] In recent years Spain, Italy, Belgium, and Ireland have joined this group.

doing so. Indeed, they sometimes go from country to country, and usually return to Poland (see the country report on Poland).

Table 4.3: Main indicators describing population potential and stage of demographic development

Indicators	CZ	DK	EE	FR	DE	PL	UK	EU
Population at 1.01.2008 - millions	10.4	5.5	1.3	63.8	82.2	38.1	61.2	495.1 (EU 27)
Natural population increase; average annual change in % of population, 2005	- 0.06	+0.17	-0.2	+0.4	-0.2	-0.01	+0.2	+ 0.6 (EU 27)
Total fertility rate	1.33	1.83	1.55	2.00	1.32	1.27	1.84	1.48 (EU 25)
Share of foreigners in population -%, 2007	2.9	5.1	17.6	5.7	8.8	0.1	6.0	5.7 (EU 27)
Net migration (000), 2007	+ 83.9	+20.2	+0.1	+71.0	+47.1	-20.5	+174.6	1 907.5 (EU 27)

Source: Eurostat 2008 and http://epp.eurostat.ec.europa.eu/portal

4.1.3. Living conditions

Because of differences in economic development and in labour productivity, the living standards of the populations in the countries under examination are markedly distinct. Earnings in the new member states are 4-5 times lower than in the old member countries. They are highest in Denmark. Next comes Germany, and in third place is France.

The differences in earnings became a powerful incentive to seek employment abroad once the new member states joined the European Union in 2004, as some of the EU-15 opened their labour markets in compliance with the principle of the free flow of people seeking employment. At the same time there was intense pressure back home in the new members states to increase wages, whose growth since 2004 has in fact been very high. This has accelerated the convergence of earnings, but at the risk of causing price instability. Indeed, the rise in earnings in many sectors has surpassed labour productivity (Economic Commission for Europe 2007).

Comparisons of the old and new EU countries also reveal differences in housing and in the area of communal infrastructure. The consumption of fixed commodities, including cars, is becoming quite similar.

Flats in Poland and Estonia are on average twice as small as those in Denmark, but in the Czech Republic they are the same size as in Great Britain. In research conducted by Eurobarometer into housing needs, respondents from the new member countries wish for larger flats that would permit privacy, for better quality of flat conditions, and better surroundings, ones that are tidy, safe, and not vandalized. Such wishes were less often heard from Czech respondents, which fact would seem to indicate that their housing needs are better met than in the other new member countries (Eurobarometer 2007).

The countries of Europe are also distinct as concerns the sense of security, i.e., the fear that in a trying material situation one may lose the roof over his head. In the new member countries this fear is greater than in the EU-15. Among the seven countries we have analyzed here this fear is the worst in Estonia. In the EU-15 there is a much greater sense of certainty. It is relatively high in Denmark and Germany (Eurobarometer 2007).

Table 4.4: Main indicators describing living conditions in the countries analyzed

Indicators	CZ	DK	EE	FR	DE	PL	UK	EU average
Earnings in industry and services* in euro, 2005	6.6	32.0	5.5	30.3	27.7	6.0	24.5	20.5 (EU 27)
Average persons per households, 2005	2.6	2.0	2.4	2.2	2.2	2.8	2.2	2.4 (EU 25)
Average size of dwelling – m^2, 2004	84	111	60	90	90	69	85	·
Average persons per occupied dwelling, 2004	2.6	2.1	2.5	2.4	2.2	3.2	2.3	·

Note: * average hourly labour cost of full-time employees in enterprises with 10 or more employees
Source: Eurostat 2008, Federcasa 2006

4.1.4. Social values and social inequalities

The differences in the realm of values between the countries of the EU are equally as significant as the differences in the material realm. Differently than in the case of economic living conditions however, the differences in values do not so clearly break down along the old-member/new-member fault line. Regarding religious values, for instance, it is among the new member countries where we find the societies that exhibit both the greatest religiosity (Polish) and the least – Estonian and Czech societies.

Concerning family values, declarations in this area are similar across Europe, although in Estonia family has a bit lower importance than on average. Leisure time is highly valued in Denmark and Great Britain, and much less so by all the societies of the new member countries (except Slovenia – Eurobarometer 2005 and 2007).

The differences between the countries also pertain to social capital. One of the elements of that capital – trust toward other people – is highest in the Scandinavian countries, represented in our analysis by Denmark. The lowest level of social trust is found in the postcommunist countries, the Czech Republic included. Moreover, those countries exhibit difficulty in creating social and voluntary organizations. At the same time, competition on the part of the demanding labour market, mass consumption, the world's new openness, and new media reduce interest in and time for involvement in non-governmental organizations – despite their advantageous regulations, ones that are particularly favorable in Poland.

The attitude toward equality is quite varied. In the countries where income inequities are higher, society pays little regard to the aim of social policy, formulated as the systematic reduction of differences between rich and poor. Among the seven countries we have analyzed it is Germany's citizens who are most attached to that goal. The least so concerned are the people of Great Britain, where income inequality is among the highest in the old EU-15. Income inequalities in Denmark are relatively quite small, and so society's interest in addressing this matter as an important political issue is none too high, although it is higher than the average for the EU-25. Crime, terrorism and care for the elderly are the three main concerns today.

The low level of interest in inequalities in the Czech Republic cannot be so easily interpreted as in the case of Denmark. The Czechs, similarly as the citizens of the other postcommunist countries, pay special heed to the labour market, particularly to unemployment. Concerns about health care and pension problems are also quite high among the Central Europe countries. By way of contrast, in Great Britain concerns about crime and terrorism seems to be the highest (Eurobarometer 2007).

The differences between the designs of social policy are partly related to the differences between societies. High trust toward others, large social capital and trust towards the state have created a quite different basis for welfare state development in Denmark, as compared to Poland and Estonia, where there is a very low level of social capital (civil society) and a weak state[3].

[3] The low level of social capital in Poland is confirmed by numerous comparative studies, not only those of Eurobarometer, but also the European Social Survey (Domański 2005). This fact is peculiar in light of the unparalleled scale and outcome of the social movement *Solidarność*. Polish sociologists (Sztompka 1996 and Rychard 2006) in confirming that finding, call attention to the uniqueness of social life in Poland, where the institutionalization of the relations of the rich in social advantages is rather low. Social capital exists in informal structures, ones difficult to identify. For more on this topic see the chapter on Poland (Golinowska).

Table 4.5: Main indicators describing social values within societies of the countries analyzed – % of respondents

Indicators	CZ	DK	EE	FR	DE	PL	UK	EU average
Religious and spiritual beliefs	19	31	16	34	47	80	38	52 (EU25)
Trust toward other people	17	76	33 (or 22 ESS)	22	35	10	36	30 (EU25)
Importance of family*	88	88	80	86	86	90	92	86 (EU 25)
Importance of leisure time	39	50	39	53	36	36	58	48 (EU 25)
Distrust in national political institutions**	74	19	47	63	66	81	63	62 (EU 25)
Confidence in the European Commission	53	55	52	44	42	53	28	47 (EU 27)
Inequality of income distribution*** 2006	3.5	3.4	5.5	4.0	4.1	5.6	5.4	.
Importance of issues: gap between the rich and the poor****	14	19	20	22	32	19	9	17 (EU 25)

Notes: * % of answers – very important (other answers: fairly important, not at all important, don't know, important). ** Three political institutions were included: parliament, government, political parties (Eurobarometer 2007). *** The ratio of total income received by the 20% of the population with the highest income (top quintile) to that received by the 20% of the population with the lowest income (lowest quintile). **** respondents can select 3 national issues they are most concerned with: unemployment, the cost of living, pensions, crime, gap between the rich and the poor, health care, terrorism, immigration, the environment, education, care for the elderly, integration of foreigners, economic growth, helping each others, globalization, care for disabled people, transport and infrastructure

Source: European Commission: Eurobarometer 2005 and 2007, European Social Survey 2007, Eurostat 2008

4.1.5. Legacy, institutional development, and social regimes

The differences in the institutional picture of the social policy of the countries here analyzed involve three factors, ones described in the country reports. They are: 1) legacy; 2) the specific set of political, economic, and social problems faced during each country's postwar development period; and 3) the influence of European integration. In the case of the new member states we are dealing with an additional factor, that is, the literally radical transformation from a centrally planned economy to a market economy.

The task of characterizing the social policies of the new member states is replete with difficulties – ones even greater when we grapple with the CEE countries as a whole. One often hears it said in this debate that the countries of the former Soviet bloc are more divergent today than are the countries of Western Europe. Shared historical experiences are held to have less influence than do current conditions and challenges. Institutional developments in the social sphere among the young CEE nation states after the First World War were based on the Bismarckian model for social insurance, although the demographic embrace of such insurance schemes varied in regard to scale and the degree of industrialization. After the Second World War all of those countries began to pursue a universal type of social policy based on the imposed Soviet model. However, the transition to the Soviet model was not complete. Indeed, in some of the CEE countries a mixed model took shape. This is most true of the former Czechoslovakia (see Potůček's report in chapter 2), Poland, and Hungary, where there were elements of social insurance based on employment- and earning-related pensions along with a universal system of health care[4].

During their period of transformation, Europe's postcommunist countries indeed began to diverge in regard to the institutional solutions being introduced. Some transformed their public institutions along market lines very quickly, as was the case of Estonia (see Aidukaite in this volume). Others carried out reforms at a more gingerly pace in order to shield their societies from dis-ruptions (the Czech Republic – see Potůček in this volume). Still others deliberately postponed decisive social reforms for both political reasons (pertaining especially to legitimacy) and economic ones (e.g., the priority of economic growth and integration with Western structures). This is the case of Poland and Hungary. In sum, the models implemented were divergent. As Katharina Mueller (1999) argues, the countries that already had significant debt (like Poland and Hungary) heeded the advice of the World Bank and accepted other help in implementing programmatic reforms. In result of these distinct approaches we have today's differing social policies. The three CEE countries analyzed here well show these differences. The Czech Republic represents the model for gradualist transformation that respects traditional institutions and social goals. Estonia's is that of shock therapy, both in the economic and social realms. Poland, in turn, opted to modernize its economy, leaving social matters to fend for themselves, as it were. In fact, Poland has not been carrying out social reforms to their conclusion, as there has not been sufficient determination.

[4] For a precise characterization of this combination and the phenomenon of path dependency in the countries of Central Europe during the communist period see the work of Tomasz Inglot from 2008.

The older countries of the EU represent still other models for the welfare state, ones that are carefully described in chapter 2. The differences they evince seem to be quite significant, and may even take some aback, in that the "old Europe" is so often thought of as a homogenous group of countries. This assumption is also revealed in recent surveys conducted by Eurobarometer (2008), in which 61 percent of respondents agreed with the statement that the EU countries have similar values and institutions. Only 41 percent expressed the view that those values are the values of the Western world, not only of Europe.

Nonetheless, analysis of the institutional solutions in the social sphere (as based on socially determined and accepted approaches and programs) display a wealth of diversity and various parallels. The UK, the most liberal welfare state among the analyzed group, is closer to Canada, Australia and New Zealand than to other EU member states. Denmark has maintained a purely tax-financed welfare state almost without contributions or payroll taxes, and has followed a generous, flat-rate universalism. France, in turn, seems to have taken an altogether unique road, albeit one that arises from Gallic tradition. Germany has undertaken to reconstruct the Bismarckian model for social security in response to its current economic challenges, namely: low economic growth, declining employment rates, an ageing society, and a weak family. The consistent, incremental German reforms presented by Hinrichs in chapter 2 show a certain turning away from the Bismarckian model, one that for nearly 120 years has been the paradigm for the countries of continental Europe. Hinrichs suggests that this turn around reflects some influence of EU policy, especially the Lisbon Strategy. This would indicate the real impact of the supranational level, something that is ushering in a new epoch in the development of social policy in the countries of Europe.

4.2. Similar tendencies and common problems, different magnitude

Despite differences in economic and institutional development among the group of analyzed countries, throughout them we see similar thrusts and trajectories concerning the shaping of demographic structure and the appearance of new societal problems. This is the result of the functioning of similar factors in the conditions of globalization, as well as of a similar policy of accepting standards and regulations (whether directly or indirectly). This occurs primarily within the framework of the European Union, but it is also due to World Bank guidelines (especially relevant in the new member states) and the postulates of the OECD and such UN agencies as WHO, ILO, Unicef, and UNESCO. However, there are also differences concerning the magnitude of the otherwise similar and common problems. Thus, we shall identify both the similar tendencies and common problems and shall indicate some examples of their different magnitude.

The first group of similar tendencies relates to demographic phenomena. Here we need again stress that the countries we analyze in this work differ significantly in terms of the size and structure of their populations. The relevant indices show that they also differ in family formation. Nonetheless, there are tendencies in the development of demographic phenomena that evince marked similarity throughout the seven countries. Noteworthy is the fact that those tendencies are more dynamic in the postcommunist countries (Chawla et al., World Bank 2007).

The current indices on the ageing process, e.g., the old-age dependency ratio, show that today's Polish and Czech societies are in fact younger than those of Germany, France and Britain. But those differences will vanish in short order. In fact, the societies of the older EU countries will become the younger in the future. The point, however, is that all the countries we have analyzed have had to face the same challenge, namely how to increase the number of working years, how to create conditions for good health across longer lives, and how to provide dignified old-age pensions.

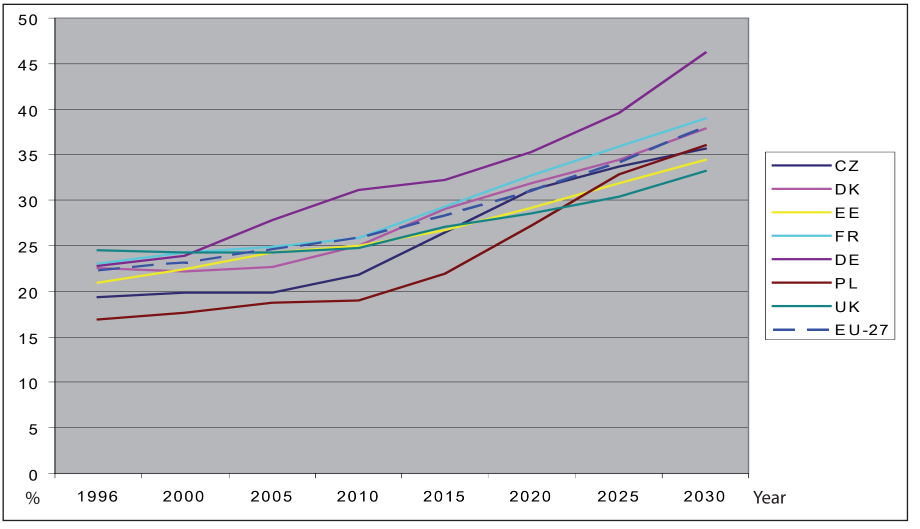
Such matters as changes in the process of family formation, older age for marrying and having children, the prevalence of small families, divorce, weakening intergenerational bonds, and new forms of family life – these have combined to undermine the traditional social-welfare functions of the family. However, the development of institutions to replace those functions are insufficient and costly. Although the thrusts of these tendencies are similar, important differences remain. For instance, the family in Poland is much more traditional than in Denmark, as the table below starkly reveals in the case of the inactivity rate for women aged from 15 to 64. But the challenges are much the same for all, namely: how to try and uphold the care-taking functions of the family toward the elderly in a situation requiring an increase of working years? – and how to improve fertility rates at the same time as fostering the professional activity of partners in the family?

Table 4.6: Similar tendencies of demographic, economic and societal development 2006-2007

Indicators	CZ	DK	EE	FR	DE	PL	UK	EU average
Old-age-dependency ratio (65+/15-64), %, 2007	20.2	23.2	25.1	24.9	29.9	19.0	24.1	25.2 (EU 27)
Projection 2050	54.8	41.3	47.2	44.7	56.4	55.7	38.0	
Mean age of women at childbearing years, 2006	28.91	30.29	28.36	29.72	29.56	28.34	29.17	·
Inactivity rate of women (age 15-64), % 2006	37.7	23.0	30.7	35.9	30.5	43.2	30.8	37.1 (EU27)
Gross value added from services % of total, 2006	58.7	72.3	67.7	77.2	69.7	63.9	76.2	71.7 (EU 27)

Source: Eurostat 2008

Figure 4.1. Old-age dependency ratio



Source: Eurostat data 2008

The next area of shared or similar tendencies concerns the changes in employment structure that have resulted from changes in the structure of the economy as a whole. The countries of "old Europe" here analyzed are ones that are in a post-industrial phase of development. That phase is typified by the predominance of creating added value and by employment in the service sector. The new member states have not yet entered that phase in their economic structure. For instance, Poland still exhibits an enormous role for agriculture, and the Czech Republic is dominated by industry. However, the direction of change among the new member countries is similar. Moreover, their dynamism in this area is significantly greater. This spawns numerous problems on the labour market. The challenge of these new labour market conditions arises from the growth of non-standard forms of employment and the need to assure a form of security that addresses the mobility of employees and the market's changing conditions. Whether or not the Danish concept of *flexicurity* would be a suitable response is one of the most urgent questions of the day. It is discussed and supported in the European Union.

Another tendency the European countries share is the stark improvement of the material conditions its peoples enjoy, along with the relatively high level of social security. On the other hand, the phenomenon of social exclusion persists. In the modern Western world there is no longer the problem of hunger, cold, and death from exposure (although isolated cases do occur). Thus, social exclusion has greater potential in explaining contemporary social problems. It may also offer superior thrusts for social policy.

Social exclusion today is a problem that accompanies the processes of globalization, international labour mobility, and the dramatic changes on the labour market. In the countries which recently liberated themselves from communism social exclusion has certain unique features. For instance, it occurs in result of the simultaneous appearance of three grand contemporary processes: systemic transformation, globalization, and integration with the European Union (Sztompka 2000). Each of these has unfolded dynamically. Hence, social exclusion has been much more apparent in these countries because of the wrenching character of the systemic changes, the deliberate restructurings of economies, and numerous social reforms designed to help adapt society to the market economy and modern developmental tendencies.

Despite the thoroughgoing nature of the changes enacted by the new member countries, all the countries of the European Union face the challenge of having to devise a strategy for inclusion, one that would both prevent exclusion and maintain the hitherto level of social security. This would necessarily involve principles tailored to the growth of intergenerational proportionality.

4.2.1. Similar social policy directions?

Comparison between national social policies often relates to decisions on funding and financing, the allocation of resources, and the direction of reforms. In what follows, all three elements will be discussed.

On the basis of our analysis we venture the hypothesis that the main directions of social policy are rather similar. This is so, although the countries we have analyzed possess completely divergent potentials for carrying out social policy. Table 4.6 shows the dramatic differences that starkly divide the new and old EU countries. Among the new member countries there are, however, exceptions that make some indices place these countries closer to the old countries. This mostly concerns the Czech Republic.

France, Denmark, and Germany belong to the welfare states with the highest social expenditure in the world: they all spend around 30 percent of their GDP on social protection. The new member states' expenditure on social protection in terms of GDP is clearly lower: about 20 percent in the Czech Republic and Poland, and below 13 percent in Estonia. The difference in spending in terms of PPS is much larger: in the extreme case, almost five times higher in Denmark than in Estonia, due to the differences in wealth.

Independent of the level of social expenditures, the countries we have analyzed are strenuously undertaking to limit their growth, and even to reduce them. However, the richer countries of the old EU are more reluctant to do so. Their expenditures are unlikely to decrease. Conversely, the new member countries (excluding the Czech Republic and Lithuania – Eurostat 2008) are striving to make reductions, albeit at the cost of creating and/or deepening social inequities.

Table 4.7: Social protection expenditure

Indicators	CZ	DK	EE	FR	DE	PL	UK	EU average
Expenditure on social protection, % of GDP	19.1	30.1	12.5	31.5	29.4	19.6	26.8	27.3 (EU 27)
Differences 2005 – 1997, percentage points	+0.5	0.0	-1.5 (2005–2000)	+1.1	+0.5	-1.4 (2005–2001)	-0.5	+0.3 (EU 15)
Expenditure on social protection per head, PPS	3 292	8 498	1 761	8 044	7 529	2 236	7 176	6 087 (EU 27)
Old age benefits as % of total social benefits	41.7	37.5	43.1	37.4	42.2	54.5	41.7	41.4 (EU 27)
Sickness / health care benefits as % of total social benefits	35.3	20.7	31.9	29.8	27.3	19.9	30.9	29.6 (EU 27)
Social protection receipts by type, % of total receipts								
- employers' social contributions	54.3	10.3	79.0	44.7	35.0	28.0	32.4	38.3 (EU 27)
-social contributions paid by protected persons	26.4	18.5	0.4	20.9	27.7	22.3	15.5	20.8
– general government	18.1	63.2	20.4	30.6	35.6	39.2	50.5	37.6
– other receipts	1.2	8.0	0.1	3.8	1.6	10.4	1.6	3,4
Differences in employers' social contribution 1997 – 2005, percentage points	+1.9	+1.5	- 0.2	-1.9	-3.2	-2.5 (2000–2005)	+6.3	-0.4 (EU 15)

Source: Eurostat 2008

Thus, the scale of social protection differs in the analyzed countries, but its structure shows many similarities. In all member states social benefits related to old age constitute the largest item, followed by sickness/ health care. Still, there are also striking differences – in this case not so much between the old and the new countries, but within these groups. For example, among the analyzed countries, the share of expenditure on sickness/health care is the highest in the Czech Republic and the lowest in Poland. Denmark and Estonia devote the highest share of their expenditure to family/children, whereas the UK and Poland assign the lowest.

The structure of funding sources for social protection systems also differs between the analyzed countries. Denmark and the UK finance social protection primarily from taxes, but the others do so from social contributions. In most cases the share of protected persons in the financing of social protection is not negligible: between 15.5 percent in UK and 27.7 percent in Germany. Here Estonia is an exception with only 0.4 percent.

There seems little reason to believe in any rapid change to the existing differences in financing the welfare state, whether in regards to the source of revenue or the direction of expenditures. Analysis of the shape of social expenditures from 1997 to 2005 (Eurostat 2008) proves that the new member states have exerted greater effort to bring about change. Despite their smaller economic potential, they are reducing social expenditures and are carrying out more significant structural changes.

The ostensible irony here is that everywhere we observe similar social policy goals. This more often concerns the realm of political declarations and freshly adopted legal regulations than it does what statistics reveal of real processes. Nonetheless, the similar thrusts of social policy may be generalized as follows:

- The financial sustainability of social policies over the long turn seems to be the main common objective throughout the social policy areas of all the analyzed countries. This has been approached through various measures, including a decrease in the generosity of benefits, activation, and moves towards private solutions. In the face of increasing global competition, lowering labour costs has become a common objective. It has been pursued through moving from work-based toward universal benefits, and from contribution toward tax-financed means. However, in the countries where the relationship between social security contributions and taxes is more advantageous for employers, there is a tendency to balance the proportions and the growth of the employers' contributions in financing social protection. This most concerns the situation in Great Britain, but also in the Scandinavian countries to a lesser degree.
- Activation has become one of the main tendencies of social policy reforms. Activation primarily means pursuing policies of employment, taxes, and benefits that motivate people to remain active throughout life. It is targeted especially to people having low qualifications, who work in difficult conditions and have onerous family responsibilities. It may be described as a policy that places a social premium on upholding universal access to employment[5]. But such work must however meet certain conditions, namely, it must be well paid. Hence the motto "making work pay" and the introduction of minimum pay in Great Britain. It must also be taxed in such a way so as not to engender the traps of inactivity and poverty. This is why we have seen the broad implementation of tax

[5] Various concepts of activation and approaches to pursuing such a policy are presented in a work based on analyses of the research project (IV FP) – INPART (van Berkel, Moeller 2002).

credits not only in the UK, but also in France in regard to those with low earnings. Activation should also carefully take into consideration the family situation of employees, and this should include local policy and the social responsibility of business. The policy of activation is most basically aimed at reducing the demand for the traditional benefits of the welfare state. However, this kind of policy requires an increase in expenditures through investment in people with the goal of upgrading their employment qualifications. This prominently includes tailoring the education system to the needs of the labour market and life-long learning. This tendency has been related to the move toward social policy as social investment or investment in human capital.

- Inclusion policy. This thrust in policy may be treated as an element of activation broadly conceived. It concerns, however, somewhat different addressees than does the general policy of activation, as inclusion focuses on people who are especially vulnerable to social exclusion, those who are passive on the labour market, and those who have been unemployed for long periods. Thus, inclusion policy is targeted at enabling and motivating those people to get "back to work". As this target group has lower employability, special measures are applied, ones tailored to activating their addressees in reliance on ALMP (active labour market policy) and social work. This kind of policy is applied in Germany, France, and is being developed in Poland within the framework of "social economy".
- Increase obligations; conditionality. This thrust, one that derives from American practice, is being developed in systems of social assistance. It is based on authorizing the receipt of benefits on condition of acceptance of the responsibility to behave appropriately, i.e., lifting oneself out of a situation that needs rely on benefits (e.g., via education, new employment, etc.). This kind of obligation has been introduced in France in the form of a minimal income guarantee (MIG). When application of this approach is difficult or is not socially acceptable, then what we see is broad-based monitoring of welfare recipients and efforts to motivate them to make changes in the patterns of their lives. This has met with criticism that has dubbed it "the watchdog state" (Jordan and Jordan 2000).
- Decreasing the generosity of benefits has become a common element of many social policy reforms. It has been justified mainly by concerns for financial sustainability, but also by the ideas surrounding activation.
- But in certain other cases improving adequacy (quality) has become the objective. This is documented in the present volume by the cases of health and education in the UK, and pensions in Estonia.
- Flexibility and individualization has become a common policy objective to account for new flexible lifetime paths, new labour markets, new family patterns, and open markets in a globalized world. Labour market

rigidities have been limited in many countries. Pension entitlements have been more equivalent to income over the course of life and individualized by introducing a personal accounts system.

- Generational equity has also become a new concern. For two things have become clear: 1) the long established pension systems have improved the situation of the elderly, and 2) the younger generation has become more exposed to the risk of poverty (European Commission, The Social Protection Committee 2008). The observation of Potůček "Children can be seen as important losers of the social transformation" is not only true for the Czech Republic, but also for Poland. In Germany, as well, the poverty risk to children has become a growing concern.
- "Paradigmatic" versus "parametric" changes have become classifications of social policy reforms, e.g., in pension systems. According to this distinction, Poland and Estonia, for instance, have introduced a paradigmatic pension reform, whereas the Czech Republic has introduced a parametric one. However, this distinction may well be questioned, if only because the criteria for this distinction are not clear-cut, For example, the German case is classified as parametric by the proponents of paradigmatic changes (R. Holzmann, M. Orenstein, M. Rutkowski (eds.), *Pension Reform in Europe: Process and Progress*, Washington DC: World Bank 2003). However, the same is classified as paradigmatic by others (Hinrichs in this volume). The distinction is questionable also because the consequences of a series of "small" changes often may have very serious consequences and lead to a "paradigmatic" change (Hinrichs, Kangas 2003). The Danish pension system's development also shows that a deep transformation ("the century's biggest pension reform" – Goul Andersen in this volume) may happen "silently", i.e., without legislation.
- The new public-private mix has also been a common tendency of social policy reforms. Private institutions have played a growing role in such areas as pensions, health care, education, social care and labour market policy. In Denmark, "the most significant marketization of welfare services has taken place in home help services" (Goul Andersen in this volume). Privatization in several social policy areas has most notably taken place in the new member states, e.g., the obligatory, privately-run pension funds in Poland and Estonia, and choice in health care and education between public and private providers in all the countries.
- Different administrative changes have also been part of the social policy reforms. Sometimes they have gone in the direction of decentralization and devolution (Poland, the Czech Republic). On the other hand, the administrative reform in Denmark that came in force in 2007 entailed a consolidation of regions.

- Public management has been developed in many social policy areas. In Denmark, "the major institutional change since 2001 is the choice revolution everywhere in the public sector, guided by new public management philosophies" (Goul Andersen in this volume). In Poland, the government in the early years of the new century regarded improvement in public management as one of the priorities of the country's long-term development strategy.

The new member countries evince additional and unique tendencies. Firstly, the discussed thrusts of reform in social policy are sometimes even more pronounced. Nonetheless, social policy in these countries is not a first-rank issue on the broader policy agenda. This becomes visible when we note that these countries lack a strategic approach and sound coordination of various areas. "But social policy issues have never belonged to the group of issues given top priority in the Baltic States" (Aidukaite in this volume) – the same may be also said of Poland. The shift from collectivism to individualism, documented in the chapter on Estonia, happened to some extent in all the countries. People in the new member countries are clearly less satisfied with the quality of the social policy systems in their countries than are the citizens of the older member states. In a recent Eurobarometer survey only 19 percent in Poland, 23 percent in Estonia, and 45 percent in the Czech Republic answered that the social policy system in their countries provided sufficiently broad coverage. This compares to 55 percent in Germany, 64 percent in the UK, 66 percent in Denmark and 74 percent in France (only in Luxembourg, with 75 percent, was the share higher). Also, approximately three out of four persons in Denmark and France, but only about one in ten in Poland and Estonia think that their welfare system could serve as a model for other countries. (Eurobarometer 2007).

Secondly, in the new member states we see that the demands placed on social policy are sometimes shifted to other areas. This occurs despite the fact that the alternatives to state social policy – social organizations, smoothly functioning local government, and business' civic responsibility – remain underdeveloped. The many elements of the unique situation and social policy approach in the new member countries have led to a proposal to create a distinct post-socialist welfare regime in social policy research.

4.3. Developments in social policy areas: differences, similarities and common problems

In individual branches of the welfare states both clear differences as well as certain similar tendencies and common problems may be identified.

This analysis makes avail of sets of basic indicators that describe each of the spheres of the welfare state we undertake to examine. These indicators first reveal the present status and the achievements to date in social development, along with the main social problems and challenges in each of those areas. Later they identify the types of policies targeted at attempting both to solve those problems and to meet the challenges.

4.3.1. The labour market situation and employment policies

The appraisal of the labour market situation and of employment policy in the countries we analyze was drawn up primarily on the basis of employment indicators that can be trusted to capture and portray the various forms and intensiveness of labour. In this way we may venture to evaluate the scale and tempo of the changes affected in the direction of flexible employment.

Table 4.8: The labour market situation and policy in the countries analyzed

Indicators	CZ	DK	EE	FR	DE	PL	UK	EU average
Employment and labour conditions								
Employment rate 15-64 – total, %, 2007	66.1	77.1	69.4	64.6	69.4	57.0	71.3	65.8 (EU 25)
Employment rate 15-64 – females, %, 2007	57.3	73.2	65.9	60.0	64.0	50.6	65.5	57.2 (EU 25 2006)
Employment rate 55-64, %, 2007	46.0	58.6	60.0	38.3	51.5	29.7	57.4	43.5 (EU 27 2006)
Usual hours worked, fulltime employed persons, 2006	41.3	39.4	41.0	39.1	40.3	41.2	42.4	40.5 (EU 27)
Part-time working, % of total employed, 2006	5.0	23.6	7.8	17.2	25.8	9.8	25.5	18.1 (EU 27)
Persons in employment with second job, % of total employed, 2006	2.1	10.1	3.5	3.0	3.5	7.5	3.6	3.7 (EU 27)
Employed persons with a contract of limited duration, % of total employed, 2007	8.6	8.7	2.1	14.4	14.6	28.2	5.8	14.5 (EU 27)
Serious accidents at work 1998=100, 2005	80	83	126	90	65	80	84	78 (EU 27)
Unemployment								
Unemployment rate, % 2007	5.3 4.4	3.8 2.7	4.7 4.1	8.3 7.4	8.4 7.4	9.6 7.5	5.3 5.2	7.1 (EU 27)
Unemployment rate of young people aged less than 25, % 2007	10.7	7.9	10.0	19.4	11.1	21.7	14.3	15.3 (EU 27)
Long-term unemployment rate, %, 2007	2.8	0.6	2.3	3.3	4.7	4.9	1.3	3.1 (EU 27)

table 4.8 (cont.) Indicators	CZ	DK	EE	FR	DE	PL	UK	EU average
Unemployment benefit type and % of reference earnings	50%	Subsidized employment 90%	40-50%	40-57%	60-67%	Flat-rate allowance 50% of minimum wage	Job Seeker Allowance based on contribution flat-rate	.
Labour relations								
Trade unions (TU) density**: proportion of employees in union % 2007	22	80	11	8	22	16	28	25 (EU 25)
Workplace representation (works councils and TU) coverage, % of employees number	35	.	22	50	75	20	.	59 (EU 15)
Financial characteristics								
Gender pay gap in unadjusted form*, 2006	18	17	25 (2005)	11	22	12	21	.
Social security paid by employer, % share of total labour costs, 2006	26.10	11.59	25.08	28.59	23.30	16.59 (2005)	18.37 (2005)	.
Public expenditures on labour market measures, % of GDP, 2006 - Total - On active measures	0.358 0.126	4.178 1.517	0.125 0.050	2.075 0.681	2.705 0.611	1.070 0.359	0.233 0.046	.

Notes: * Difference between men's and women's average gross hourly earnings as a percentage of men's average gross hourly earnings, **http://www.worker-participation.eu/national_industrial_relations/across_europe/trade_unions (ETUI-REHS 2008)

Source: Eurostat 2006, 2007 and 2008.

The situation in employment is very different within the group we have analyzed: Denmark and the UK's employment rates have for many years been among the highest in the EU, clearly above the Lisbon target for 2010, whereas Poland has the lowest employment rate in the whole EU. At the same time, the annual growth rate in employment in Poland and Estonia over the past three years has been the highest in Europe. In Poland the employment rate for people over 55 is especially low. Compared to Poland, Denmark, Estonia and Great Britain have twice as many people employed between 55 and 64. The change of behaviours in this area and the change to the policy toward older people is currently a priority strategy for Poland's labour policy.

Flexible employment is being pursued in sundry ways (see the table above). Whereas part-time jobs predominate in the older EU countries, in the new member states this is not a popular solution – not even with women. However, over the past few years Poland has seen a dramatic increase in the number of contracts for limited-duration employment. Indeed, that number is the highest in Europe today. Moreover, in certain new member states unofficial employment continues to be significant. Recent studies carried out in this area in Poland indicate the buffering role of unofficial employment in mitigating difficulties on the labour market (IPiSS/CASE 2008).

Excepting the case of Estonia, working conditions exhibit an improving tendency. The number of serious and fatal work-related accidents has dropped. This improvement is connected with the changes in Europe's economic structure, which is ever more post-industrial and ever more reliant on off-shoring. But this may also result from EU policy regarding occupational health and safety, as the EU has applied strong regulations in this area.

The unemployment rate was almost three times lower in May 2008 in Denmark than in Poland, France and Germany. Labour costs differ dramatically between the old and new members states – indeed, by a factor of six between the extreme cases of Denmark and Estonia in 2006. Additionally, expenditure on labour market policies differs dramatically, from 0.1 percent of GDP in Estonia to 4.2 percent of GDP in Denmark.

The essential differences also pertain to industrial relations. Together with privatization and building a market economy, the new member states have experienced a steep decline in the participation of employees in labour union organizations. Although it is true that we also observe such decline in the older EU countries (for instance, in the UK and Germany), it not nearly so steep as in the EU's new members, where it figures at about a 2-fold fall in Poland and the Czech Republic, 3-fold in Estonia and almost 4-fold in Hungary in the period of 1995-2006. At the same time, the drop in the EU-15 amounts to only 5 percentage points (Kohl 2008). In the European Union's older member states, labour unions in the work place are being replaced with employee councils (whether as an alternative or a duplicate solution). But in the new member countries this form of employee representation is only beginning to develop on the basis of EU directives[6]. Because of the enormous changes in economic activity and the changes relating to the transformation from a planned economy, to restructuring, and to the challenges of globalization, employee organizations in the postcommunist countries have found them-selves in a phase of marked disorganization. However, this phase does not stem from "the end of organized capitalism", as is the case, e.g., in Great Britain (Lash, Urry 1987). What seems clear is that new organizational forms are taking shape, ones better tailored to contemporary trends and the challenges of economic development. For example, in Poland territorial organizations of social dialogue have emerged that include labour unions[7]. These organizations act to absorb local

[6] Directive on Information and Consultation of Employees in European Enterprises of 2002.
[7] Since 2002 social dialogue in Poland was supplemented with the Voivodeship Social Dialogue Commissions (WKDS). Five years of operation of WKDS (2002–2006) show that they play the role of both advisory bodies and intermediaries in negotiations on conflicting regional problems, very often connected with privatization and restructuring of public sectors (Zalewski 2007).

conflicts arising from restructuring and the privatization of enterprises and offices providing social care, especially in the health sector.

These large differences notwithstanding, four common tendencies in the labour market policies of all the analyzed countries may be identified. They are: activation and flexibilization, decreasing the generosity of benefits in most cases, lowering labour costs through inter alia changes to funding structure, as well as administrative changes and development of public-private mix.

Activation and flexibilization

The most common tendency of labour market policy development may well be that of activation and flexibilization.

The UK's social policy development from 1996/97 has been described as a move to the activational welfare model. Of symbolic significance was the replacement of unemployment benefits by the Job Seeker Allowance, which is based on the requirement to actively seek employment. The New Deal, which includes an intensive job search regime, along with Welfare-to-Work Support etc., have aimed at the activation of various groups (for example, young unemployed people, single parents, the disabled etc.).

The Danish "flexicurity" model has been based on low employment protection, but high benefits for the unemployed and an active labour market policy that rests on the requirement for the unemployed to actively participate in the measures offered. For instance, the obligation to seek any job and the duty to accept long commuting time, etc. were strongly tightened after 1994. Recently, conditionality has increasingly approached "workfare".

In the new member states active labour market policy was underdeveloped at the beginning of the transformation. Its development became a priority in Estonia in 1997, and it is now also of priority in Poland. It is reported that the Czech Republic "significantly lags behind on active employment policy in terms of both expenditure and the number of beneficiaries" (Potůček in this volume).

Decreasing the generosity of benefits

In most cases activation has been accompanied by trimming back on the generosity of unemployment benefits. "Hartz laws" in Germany have curtailed insurance benefit eligibility from 32 months to 18 months for the unemployed aged 55 and older. The earnings-related unemployment assistance has been replaced by a means-tested benefit with a flat-rate benefit. Also in Denmark, which has a very generous unemployment benefit, the duration of the benefit was gradually reduced in the second half of the 1990s.

The level of unemployment benefits in Poland for many years has been mainly at a flat rate and quite low (50 percent of the statutory minimal wage). Development has gone in the other direction in Estonia, which had the least generous unemployment benefit, i.e., less than 10 percent of the average net salary. Unemployment insurance was introduced in 2003 in order to increase benefits for the unemployed.

Lowering labour costs through inter alia changes of funding structure

One of the main objectives of the reform aimed at increasing employment has been to decrease (at least the growth of) labour costs. In Germany, funding of labour market policy has partly shifted from social insurance contributions to the federal budget. In Denmark, since 1985 there have been several steps of tax reform aimed at lowering taxes on labour. "As a consequence, taxes on labour have become very moderate in Denmark" (Goul Andersen in this volume). In Poland, the lowering of high non-wage labour costs has been seen as one of the main elements in the policy aimed at decreasing the country's very high unemployment, until recently the highest in the EU.

Administration changes and development of public-private mix

Administration changes and development of public-private mix were also part of the reforms of labour market policy. In Denmark, municipal job centers were created within the municipal reform of 2004-06. They combined labour market policy with social assistance. Moreover, private providers of activation projects have been welcomed by the government, which has tried to generate quasi-markets for them.

In Estonia, the reform in 2003 created two tiers of unemployment benefits: financing for the first tier comes out of the Unemployment Insurance Fund, while the second tier is still funded by the State Budget and is means-tested for those who do not qualify for unemployment insurance benefits.

4.3.2. Education development and education policy

The level of education is measured in terms of the participation of graduates of institutions of higher learning among the adult population of a given country in Europe. It is still quite varied in result of the impact of the past on the present day. This is why the indices for Poland and the Czech Republic are so much as twice as low as those for Denmark and Great Britain. Poland and the Czech Republic began to create their national education programs not until after the First World War, after which they systematically expanded schooling across all levels. Following the Second World War they carried out a rationed, as it were, system of secondary education that was fundamentally conditioned by the character of the development of their centrally planned economies. In Poland what dominated was basic vocational educational with specializations that prepared for employment in the developing branches of industry.

The index for the comparative level of education between men and women also shows variation. In the postcommunist countries (with the exception of the Czech Republic) and in the Scandinavian countries the percentage of women with higher education is higher than that for men. That same index is exactly even for men and women in Great Britain, and is nearly so in France. However, in Germany men have higher education levels than women. Those differences will slowly even out, as more women than men are entering institutions of higher education in Germany today (OECD 2007).

Despite the fact that women in the new member countries are better educated than men, their earnings are lower. The greatest difference in pay along gender lines at the level of higher education is in Hungary, where it is 2.5-fold. It is also significant in Poland, measuring nearly 30 percentage points (see table 4.7).

The differences in the progression of education levels are surprising. In Poland the index for the education of small children (4 year-olds) is the lowest among the EU countries – and yet it is the highest at the secondary level, and is quite high at the post-secondary level. In Great Britain and Denmark little children almost universally attend early education, but there are fewer graduates of secondary schools in a given cohort than in other countries, as more young people leave their schooling early. The highest rates of entering tertiary education apply to Estonia, but also to Denmark and the UK. Those rates are also high in Poland, although here the percentage of those who complete their studies is lower than in France or Germany.

Education policy in the countries of Europe evinces both shared and diverging elements. The first divide runs between the new and old countries of the European Union. In the new member countries the amount of expenditure for education figured per pupil and student in essentially two times lower than in the older member countries. The greatest expenditures are observed in Denmark and Sweden. Those countries pursue a policy of full and equal access to education at every level. Moreover, Denmark is especially generous in extending scholarships to students of higher education (Andersen, Carstensen). In all the other countries we examine the indices for such expenditures are lower than in the Scandinavian countries, although there is little difference between them.

Many EU countries have vigorously debated how education is to be paid for, particularly at the level of higher education. In result, certain payments for tertiary education have been introduced (in the Scandinavian countries and Germany, as well), but this is not tantamount to tuition in that it does not cover costs. This can therefore be seen as a form of offsetting costs (cost-sharing).

All the countries have a private education sector. In many cases this includes schools and colleges having a certain mission (perhaps religious or focused on creating an elite, perhaps for ethnic minorities or pursuing pedagogic experimentation). These institutions are subsidized by the state. Traditionally, the greatest extent of standard private schools and colleges is in the UK. Yet today private education in the new member countries also has a significant share of the "market". In Poland today the preponderance of college students is found at private, not public schools.

One shared trend in the reforms undertaken in the education system is that of activities oriented toward improving both the quality of education and the economic effectiveness of how schools operate. The results of the PISA tests that were conducted by the OECD motivated many EU countries to redouble efforts to improve the quality of education. The superior achievements of children from the countries of Asia made Europeans aware that education is the key to success in global competition. In the aim of improving economic effectiveness they have applied instruments from new public management, albeit very selectively. Some instruments, for example, outsourcing, have met with the negative appraisal of both experts and those directly concerned (Goul Andersen in this volume). However, orientation on the "client" has set into motion a number of mechanisms for including and involving parents in running schools.

Harmonization efforts are currently being taken due to the influence of pan-European programs such as the Bologna and Copenhagen Processes. But they have been running into tangible barriers of institutional development. Great difficulties have appeared in the new member countries. For, as Arnost Vesely writes in the chapter on the Czech Republic, in the 1990s the transformations in the education systems of the postcommunist countries were no less than revolutionary. After all, they concerned the organizational structure of the education system, the subjects taught, decentralization of schooling, the autonomy of institutions of higher learning, and financing. New schools and colleges arose that were essentially private. They offered new curricula and avenues for education. Freedom of choice instead of the earlier regulated access, along with the unparalleled development of a wide variety of schools, served the educational aspirations that proved so prevalent in the new member countries. In just a few years education experienced unprecedented growth at the secondary and tertiary levels.

Students of higher education in the new member countries have been quite effective in making avail of the openness and harmonization of European colleges and scholarship programs (Socrates, and Erasmus). And indeed, student exchange seems to be one of the more important factors for the real integration of the societies of the European Union.

In the late 1990s new challenges appeared before the education systems of the new member countries. Those challenges pertained to their admission into the European Union, as well as to improved adaptation of the school system to meet the changing needs of the labour market. At the same time there appeared certain shortcomings of the hitherto revolutionary development, ones that of course varied from country to country. In Poland one of the bigger problems was that of the overly radical departure from vocational secondary education, which led to the burdensome phenomenon of mismatch on the labour market (UNDP Poland 2007). Moreover, the low quality of education in the burgeoning private school sector began to elicit negative attitudes toward that sector[8]. In the Czech Republic the accent on vocational education seems to have remained too great. The main problem for the Czechs, however, is in their new organizational structure's selectiveness, as it spawns a situation in which the worst pupils, along with those from the Gypsy minority, complete their schooling after only 6 years of elementary school. In Estonia, the country having the highest aspirations in education among EU countries (along with a high turnover in higher education), the problem has concerned the inclusion of the Russian minority within the country's integrated educational system (Aidukaite in this volume).

Another persistent problem for the EU's educational systems and their institutions is that of the challenge of responding to the Lisbon Strategy, as this requires productive employment and increased innovation. How to ensure that graduates find and create good places to work and remain innovative? How to prepare them to excel in conditions of global competition? The EU has also set out goals connected with including those who fall out of participation on the labour market. How to prevent their exclusion? This is one reason for the emphasis on developing institutions of life-long learning. For life-long learning has significance in the way it helps people to continually adapt their qualifications to new demands on the labour market, and also in the way it strengthens the employability of those susceptible to exclusion. Among the countries analyzed here Denmark and Great Britain have "respectable" indices for life-long learning. The new member countries are only beginning to build systems for the continuous upgrading of the qualifications of adults, and are counting on cooperation with employers to achieve further success in this area.

Table 4.9: Main indicators describing status, achievement and effectiveness of education

Indicators	CZ	DK	EE	FR	DE	PL	UK	EU average
Educational status of population (25-64); share with university level (tertiary), 2005	13	34	33	25	25	17	30	(EU 19) 24
- male	14	31	27	24	29	15	30	23
- female	12	36	39	26	20	19	30	24
Kindergarten enrol-ment; Share of 4 year-olds enrolled in kindergarten	86.5	93.4	86.1	100.0	93.1	41.2	91.3	87.7 (86.8)
Education attainment at secondary level, 2007	91.8	70.8	80.9	82.4	72.5	91.6	78.1	77.8 (EU 27)

[8] The wave of negative attitudes in society toward privatization and the private sector that has "inundated" Poland in recent years was mainly connected with the subsequent dynamic restructurization of enterprises and with the reduction of work places. But it impacted other areas, as well – education and health care, too. Research into this topic has confirmed the hypothesis that when economic growth and inequality go hand in hand, a climate of frustration emerges, along with social dissatisfaction. In consequence is the lack of acceptance for further such development (Grosfeld, Senik 2008).

table 4.9 (cont.) Indicators	CZ	DK	EE	FR	DE	PL	UK	EU average
Early school-leavers**, 2006	5.5	10.9	13.2	13.1	13.8	5.6	13.0	15.3 (EU 27)
Entry rate into tertiary education	52.2	81.8	91.1	·	50.0 (type A+ B)	77.0 (type A+ B)	81.2	66.9 (EU 19)
Survival rates in tertiary education, 2004 (OECD panel data)	63	·	·	79	75	66	71	·
Students mobility (incoming and out-going), 2006	6.6	5.5	2.9	47.2	57.9	33.9	10.4	458.0 (EU 27)
Life-long learning participation	5.6	27.4	5.9	7.1	7.7	4.9	27.5	9.6 (EU 27)
Employment rate by educational attainment*** %, 2005								(EU 19)
- below upper secondary	41	60	50	58	52	38	52	53
- upper secondary	75	80	74	75	71	62	80	74
- tertiary	86	86	84	82	83	83	88	84
Earning differences by educational level, upper secondary aged 25-64 = 100								
- below upper secondary	72	82	.	86	88	78	69	·
• male	79	82	.	90	93	77	72	·
• female	72	85	.	91	77	68	70	·
- tertiary	181	126	.	144	156	163	155	·
• male	199	133	.	152	151	179	142	·
• female	169	126	.	142	151	151	180	·
Spending on education								(EU 27)
- percentage of GDP, 2004	5.0	7.2	4.9 (public)	6.1	5.1	6.0	6.0	5.4
- share of private spending	0.6	0.3	·	0.5	0.9	0.6	1.0	0.6
- spending by pupil/ student as % of GDP per capita	3. 7	7.6	·	6.2	6.2	2.7	6.2	5.5

Notes: * 25-64 year-olds with as university education a percentage of the population, ** % of people aged 18-24 without secondary education, *** employed aged 26-64 as % of the population in the same age.

Source: OECD 2007, Eurostat 2008

4.3.3. Health and health policy

Both health status and the health care systems in the analyzed countries show important differences. The first divide runs between the older EU countries and the new member states. The basic index – life expectancy at birth – is markedly lower in the countries of Central and Eastern Europe. Among the postcommunist countries we have analyzed the Czechs are the closest to the average life expectancy in Western Europe, and the Estonians the furthest. The differences between men and women are also greater in the new member countries than in the older EU countries. This reflects the premature death of men, a phenomenon that appeared in the 1960s on a great scale in the countries which experienced industrialization later than in the West (Okólski 2004).

All the countries we have analyzed exhibit a steady improvement in life expectancy, one that is more dynamic for men, and thereby diminishes the lower expectancies in comparison with women. As we see in the table below, the differences in life expectancy according to gender in the new member countries are significantly greater than in the older EU countries. The difference in Estonia is a full 10 years.

Despite the astounding achievements in increasing life expectancy, the basic challenge today relates to the dynamic process of ageing societies. It is often called "healthy ageing". Various attempts to estimate the period of healthy living have not produced a uniform picture[9]. For instance, Poland has better indices in this area than do the older EU countries. This may mean that longer life spans in the old EU countries, in current conditions, mean more years with disability.

The primary cause of death in the EU countries is that of circulatory diseases, which amount to 41 percent of deaths. Next comes cancer at 25 percent (Eurostat 2006). Whereas in the older EU countries the main killer is losing its standing among the causes of death, in the new EU countries the relevant figures on death from circulatory disease are still very high – at their highest in the Baltic countries, especially Estonia, where it is 3-times above the average for the EU-25. The most marked improvement in this area has occurred in the Czech Republic and Poland.

In the countries we have analyzed the indices on the population's health status are at their worst in Estonia, where they are much worse than in all the other countries of Central and Eastern Europe (WHO – database HFA). The rate of death from circulatory disease (and from such causes as accidents, murder, and suicide) is even 4-times higher than in the EU-25. Among the deadly diseases is HIV/AIDS, which occurs more often in Estonia than anywhere else in the region. Information provided in the chapter on Estonia (Aidukaite in this volume) shows that the health status of the Russian minority in Estonia is worse than that of the Estonian population.

Among the factors determining a population's health status[2] of basic relevance are the figures concerning living standards (GDP per capita), health awareness (education), lifestyle, and the quality of the environment people

[9] The determinants for health have been studied for years, and they confirm the quantitative meaning of the factors listed. Current quantitative research done for comparative analysis have been carried out within the framework of OECD projects (Jourmard, Andre, Nicq and Chatal 2008).

[2] New medical technologies have strongly influenced the costs of medical benefits.

live in, both the natural and social environment. Recent research findings reveal that in the group of countries with higher incomes (OECD) one important factor is the health care system, which is characterized by the level and growth of expenditures on protecting health and on the quality of health care services. In some analyses[10] the attempt is made to evaluate the factor of new medical technologies. What they suggest is the ever greater importance of such technologies.

Differences in expenditures on health in the countries analyzed, both absolute and relative (as per GDP), are strongly correlated with a given country's economic development. In the older EU countries the level of expenditures on health is high, from 9 to 11 percent of GDP. France spends the most, and the UK somewhat less. Among the new countries it is the Czechs who spend the most – and Estonians the least (see the table below). When the general level of expenditures for health care are low, the expenditures for public health (health promotion, prevention) are proportionally lower. Obtaining a positive result with health status is becoming much more difficult. The EU's new members therefore have serious problems in swiftly improving health because financing health care is at a low level. At the same time health needs are higher and higher due to such indicators as: the increasing level of society's "health literacy", ageing, and new medical technologies. These create pressure to meet health needs and to spend more on health.

Regardless of the level of expenditures, nearly all the EU countries are undertaking to reform their health care systems. The goal of those reforms is to halt the dynamic growth of expenditures and stabilize them at a level that permits the health care systems to meet rationally defined health needs. This is why we may say the reforms are situated between rationing and rationalization. We may say these reforms do produce the desired effects to a certain extent, as the latest report *Health at a glance* (OECD 2008) shows a relative decline in expenditures within the group of countries exhibiting high incomes. The lowest dynamic in the growth of overall health expenditures has been in Germany (OECD 2008).

Health service reforms in the new member countries had an additional objective: to change the system into one that better conforms to the market economy and the needs of society with its changed demographic and socio-economic structure. These reforms, begun in the countries of Central and Eastern Europe in the 1990s, were based on introducing required health insurance in the place of the state health service (i.e., a return to the Bismarckian system), on introducing public contracts between insurers and health service providers (private, as well), and on applying methods for financing hospital services called DRG instead of a global budget for hospitalization measures.

[10] For instance, the project carried out jointly by the European Commission and the OECD, which made avail of the OECD tax-benefit model (OECD 2007).

Table 4.10: Health and health policy indicators in the countries analyzed

Indicators	CZ	DK	EE	FR	DE	PL	UK	EU average
Health status								
LE at birth – in years, 2006	76.7	78.4	72. 9 (2005)	80.9	79.8	75.3	79.1	78.9 (OECD average)
Gender gap in LE at birth – in years, 2005	6.4	4.5	10.9	7.1 (2004)	5.3	8.5	4.0	5.7 (EU 27)
Differences between LE and HLYE Male Female	 15.0 19.4	 12.4 (2003) 19.2 (2003)	 19.3 26.0	 16.1 (2004) 19.9 (2004)	 10.8 (2003) 16.6 (2003)	 9.8 12.7	 13.9 16.1	 11.5 16.0 (EU 15-2003)
IMR – per 1000 live birth, 2007	3.1	4.0	5.0	3.8	3.8	6.0	4.5 (2006)	4.2 (EU25)
Ischaemic hearth per 100 000, 2006	168.8	about 100	253.3	40.4 (2005)	97.9	111.2	128.6	89.0 (EU 25)
Share of disabled people (LSHPD indicator*)	20.2	19.9	23.7	24.6	11.2	·	27.2	16.4 (EU 15)
Risk factors**								
Daily smokers among adults %, 2007	32%	31%	34%	33%	28%	33%	30.0%	30% (EU 27)
Any exercises or rarely, %, 2007	40%	23%	34%	23%	14%	25%	18%	24% (EU 27)
Drink a bit too much alcohol	4%	7%	6%	7%	7%	15%	15%	7% (EU 27)
Resources								
Physicians per 1000 population, 2006	3.5 (2005)	3.6	3.2 (2004)	3.4	3.5	2.2	2.5	·
Nurses, 2006	·	·	·	7.6	9.8	5.1	11.9	·
Funding and financing								
Health spending as % of GDP, 2006	6.8%	9.5%	5.5% (2004)	11.1%	10.6%	6.2%	8.4%	8.9% (OECD average)
Health spending per capita – USD PPS, 2006	1490	3349	·	3449	3371	910	2760	·
Share of private spending, 2006	12%	17%	24% (2004)	20%	23%	30%	13%	·
Share of spending on drugs, 2006	23.4%	8.5%	·	16.4%	14.8%	27.2%	·	·
Performance								
Consumer assessment of the health care – ranking within European zone countries (EU 29)***	15	9	12	3	5	27	17	x

Notes: * LSHPD – percentage of population aged 16-64 stating that they have a long-standing health problem or disability-based on LFS survey for 25 European countries 2002; ** based on European Commission Survey – Special Eurobarometer 2007; *** raking is build from 5 indicators: (1)information and patient rights, (2) waiting time (3) health outcomes, (4) generosity of the health system, (5) access to medicines, Health Consumer Powerhouse 2008

Sources: OECD 2008, WHO data base: Health for all 2007, European Commission 2007, Eurostat 2003 and 2008, Health Consumer Powerhouse 2008 and country reports

At the same time, supervision and the "ownership functions" vis-à-vis health care providers were entrusted to territorial self-government (Golinowska, Sowa 2007). The success of those reforms has turned out to be limited. For radical organizational changes were carried out in reliance on a low level of expenditures, steadily shrinking medical personnel (because of the lower scale of education and emigration), and the still underdeveloped capability to administer in line with new public management.

Meeting the increasing health needs is being done mainly via the growth of private expenditures, the growth of co-payment, and the development of the private segment of health services (not always with the participation of private health insurance). The appraisal of the changes has been rather negative, even in the Czech Republic, which has shown the best indices among the new member countries. As the authors (Potůček and Mašková in this volume) of the report on the Czech Republic write, the collision of the institutional changes (decentralization, disintegration, and privatization) and their financing (the introduction of health insurance) with the growing needs and demands of the population and of health care providers has resulted in a limited capacity to control dynamically changing processes in the more complex health sector.

The challenges the new member countries have faced in the area of health care include catching up with Europe in terms of health status and meeting halfway the needs of the dynamically ageing population in conditions of limited financial and personnel resources. These issues have made the health care sector the most politically sensitive area of social policy. Which is to say that there is little chance of introducing quick and simple reforms.

4.3.4. Family problems and policies

Family policy primarily concerns the family in the context of certain defined issues of demographic and societal development. This has provided the basis for distinguishing four types of family policy (Gauthier 1996). The first concerns demographic development. The family is treated as the place of procreation and raising an appropriate number of offspring, i.e., one that meets the generational replacement level. This policy is called "pronatalist". Second is the context of changes in the family. Family policy in this instance is focused on activities that serve the maintenance and legal support of the institutions of marriage and the family as the fundamental social institution. This is called "pro-family". Third is the context of emancipation and achieving equality in the relations between men and woman. Here the family is treated as the site of equal-rights policy, where the thrust is to shape partnership relations between spouses. This policy is relatively new, and has become quite strong in the European Union. Its framework undertakes to promote a departure from the single (i.e., male) bread-winner model in favour of support for a family in which both partners are professionally active. This is mainly pursued by social services that help to reconcile professional and family obligations.

Table 4.11: Family formation and family policy indicators in countries analyzed

Indicators	CZ	DK	EE	FR	DE	PL	UK	EU average
Marriages per 1000 persons, 2005	5.1	6.7	4.5	4.3	4.7	6.6 (2007)	5.2	4.8 (EU 25)
Divorce rate per 1000 persons, 2007	3.0	2.6	2.8	2.2	2.3	1.7	2.6	2.1 (EU 25)
Live birth outside marriage - share of all live birth in %, 2007	34.5	46.1	58.1	50.5	29.9	19.5	43.7	.
Extended families: 3 and more children, % of total population, 2005	5	10	7	9	8	8	7 p	8 (EU 25)
Lone parent families* as % of total population	4	7	7	5	8	3	9 p	5 (EU 25)
Share of children living with only one of their parents**; % of children 0-17	24	15	31	17	16	21	24	19
Inactive rates of women 25-54 due to family responsibilities in % 2006	12.4	2.3	8.5	4.9	9.9	12.0	1.9	10.2 (EU25)
Children (0-17) at-risk-of-poverty rate***	18	10	21	14	14	29	21	19 (EU 25)
Family allowances (child benefits) - construction	Means-tested	Universal	Universal increases by number of children	Universal	Universal	Means-tested	Means-tested child benefit	x
Family friendly taxations	Tax credit	Non-wastable tax credit= cash transfer	Tax credits for parents	Tax reduction	Tax exemp.	Splitting for one parent families	Working Tax Credit and Integrated Child Credit	x
Parental leave - duration of paid parental leave	156 weeks (up to age 3)	32-40 or 52 weeks (agreement with employer) (up to age 8)	455 days with maternity leave (up to age 3)	36 months with maternity leave	up to age 2	24 months	26 weeks (up to age 5)	x
- construction of benefit	154% of existence minimum, universal from 2004	to 70 % of the maximum level of unemployment benefit, universal	universal, act from 2004	earning related with ceiling, paid for second or later child	below family income ceiling and means tested	means tested	unpaid	x
- level of benefit****	40% of average salary	65% of individual wage	100% of individual wage with ceiling (3 times of average salary) or minimum wage	460 euro	300 euro	400 PLN; about 15% of average salary	-	x
Children cared 0-2 as proportion of all children of the same age group, in % • 1-29 h • 30h	 x 2	 13 60	 3 9	 16 16	 8 8	 0 2	 24 6	.

Notes: * single parent 1+ child, ** data from national population censuses 2000 – 2002 (Eurostat), *** based on EU-SILC data 2004-2005, **** OECD Family Database: www.oecd.org/els/social/family/database.

Source: Eurostat 2008, European Commission – Social Protection Committee 2008, OECD 2007

The fourth's focus is on the material support of families when they find themselves in dire circumstances in the aim of counteracting the children's poverty. This support may potentially have a more universal character based on the redistribution of incomes from childless families to families with children, particularly to families with larger numbers of children.

In practice, all the countries we have analyzed pursue (to one extent or another) each of the family policy types, although most often with one or two being predominant. Moreover, family policy may be pursued *explicit* as such, or *implicit* – that is, concealed within the foci of other policies, such as labour policy, educational policy, and social assistance. And this encumbers careful definition of family policy. Table 4.11 proposes a set of indices that serve to show the issues regarding the development of the family and family policy in our seven countries.

On the basis of the analyses of the data and solutions presented in the country reports, we may make bold to state that, despite the fact that the demographic changes and labour market changes evince similar tendencies, family policy in the European Union varies, and is strongly conditioned by tradition and ideology – indeed, significantly more so than in other areas of social policy. What results from this is a certain mirroring of processes concerning family formation. For example, traditional values and the conservative family policy in Poland contribute to the lowest indices in Europe of divorce and childbirth outside wedlock. At the same time, material support for the family is also the lowest and women's responsibility for the family is the highest. Hence Europe's highest poverty rate for children.

In 2003 joint research into incomes and living conditions were carried out on a broad European basis – namely, the Community Statistics on Income and Living Conditions; EU-SILC. The findings of that research permit a reliable comparative appraisal of phenomena pertaining to social policy in EU countries. From the point of view of family policy, the appraisal of poverty among families and children is of particular meaning. The latest report on this topic (European Commission 2008), one that of course takes the new member countries into consideration, reveals an altogether dramatic picture of the living conditions of families and children in those countries. In all of them the relative poverty rate for children[11] is above the average for the population as a whole in each country. Poland – along with Hungary, Bulgaria, Slovakia, Lithuania, Latvia, and Romania – belong to the group of countries having the highest degree of disparity in regard to the average. Only the Czech poverty rate for children is lower than the average rate. In the older EU countries only the Scandinavian countries of Denmark, Sweden, and Finland have poverty rates for children that are lower than the average.

[11] Defined as the participation of persons living below the poverty line set at 60 percent of the national median equalized household income (based on OECD modified equivalence scale).

France for years has conducted a generous family policy that has a rich instrumentarium. It is oriented both on population growth (fertility) and on "child and family well-being" (cf. Starzec in this volume). Indeed, French policy meets with the admiration of experts the world over, including those from America (Renzetti, Curran 2005: 338-339). This especially pertains to the development of care-taking and upbringing services for children, above all the *école maternelle*, the model for preschool solutions. Some 26 percent of children two years of age attend preschool, and 99.8 percent of those aged three.

The Scandinavian countries pursue an effective family policy from the perspective of demographic development and the situation of children and families. However, as Jørgen Goul Andersen and Martin B. Carstensen confirm in their report on Denmark, from as early as the 1960s Denmark has been experiencing a process of defamilization which indicates preferences for emancipation solutions and the support of institutions that allow partners to reconcile their family and work responsibilities. Access to these institutions is universal, although not entirely free of charge.

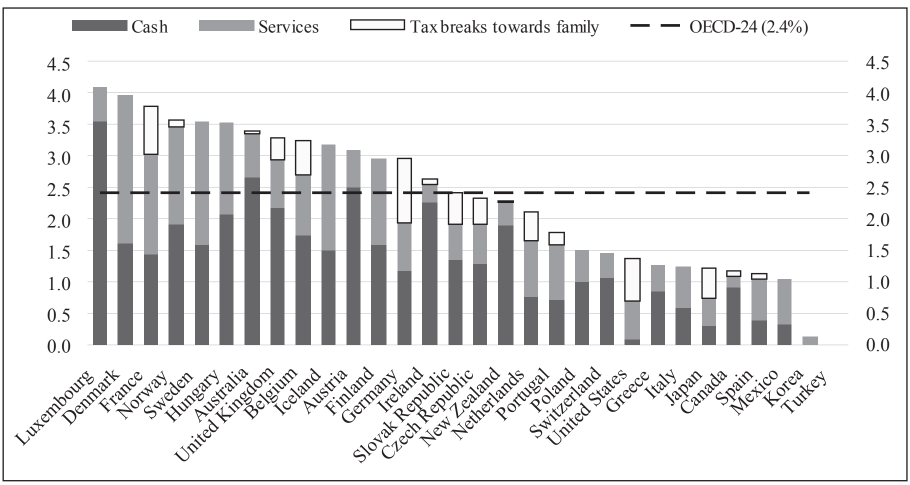
Also in Germany has there been a changed approach to family policy. The traditional female homemaker family has become a thing of the past (Hinrichs in this volume). German policy now gives focus to solutions that are conducive to reconciling work and family responsibilities, although less so in the direction of developing cheap care-taking and upbringing services than in the direction of broader redistribution of incomes, monetary transfers and pro-family legal solutions, to fully acceptable work leaves in the case of maternity and efforts to foster the return of women to the labour market.

In 1997 the Tony Blair government included in its platform the aim of investing in work and in the young generation, and this of course concerned family policy, in which there appeared universal services for families with children and modern tax credits for working families having children. This new policy was directed toward vocational activization, and also made avail of hitherto existing instruments of family policy in order to reorient them toward favouring those working families with larger numbers of children, with younger children, and those with lower and middling earnings (cf. Gregg in this volume).

Among the new member countries the Czech Republic has conducted a coherent and relatively generous family policy. The importance of family matters today remains quite large there. Its basic instrument is parental leave, which is paid all the way until the child attains 4 years of age. The Czechs also enjoy a well developed preschool infrastructure – just over 86 percent of 4 year-olds attend preschool. However, as Martin Potůček i Miroslava Mašková, the authors of our country report on the Czech Republic write in the section concerning demographic and family issues, gender equality in reconciling work and family responsibilities is not among the strong suits of Czech social policy. Despite the greater material equality and low level of the child poverty rate, partnership relations in Czech families remain rather traditional.

Once the Baltic countries freed themselves from the Soviet Union, they began to build their institutions from scratch. For Estonia the model for legislative solutions in the public sphere is undoubtedly the Swedish model (Aidukaite 2004). In family policy the main idea is the partnership model for reconciling family matters with individual aspirations and work. This finds reflection in labour law and social services. However, the priority of economic development, the high costs of retirement pension reforms, and the necessary expenditures for health care in the situation of Estonians' relatively low health status have pushed aside expenditures for the family and children. This is why the child poverty rate in Estonia is higher than average and families with a greater number of children show the lowest level among the countries we analyze.

Figure 4.2: Spending on family support in the OECD countries



Notes:
* Public support accounted here only concerns public support that is exclusively for families (e.g., child payments and allowances, parental leave benefits and childcare support). Spending recorded in other social policy areas as health and housing support also assists families, but not exclusively, and is not included here.
** OECD-24 excludes Greece, Hungary, Luxembourg, Poland, Switzerland and Turkey where tax spending data are not available.

Source: OECD 2004-2005 Social Expenditure Database (www.oecd.org/els/social/expenditure).

In Poland in recent years, especially since 2004, family policy has undergone a change in a direction designed to encourage procreation, but in the shorter term it addresses the cycle of family life. Universal and generous grants have been introduced for bearing children, ones that have not entailed changing or even reducing other benefits. For instance, the period for paying parental leave has not been shortened. Both its name and meaning were thus changed, becoming a supplement (to parents' earnings) for child care. It has thus become strongly dependent on income level per family member (means testing). The expenditures for social services for children in preschool age allocated by territorial self-government are very low, and the charges imposed on parents are very high. In result it is mostly wealthier parents who send their children to preschool (Balcerzak-Paradowska 2007).

Because of the varying policy approach to family and children matters, expenditures on family benefits are indeed quite diverse (se table 4.11). In Denmark and France they are 3 to 3.5 times higher than in Poland. Among the new member countries not even in the Czech Republic do they attain the average level in the OECD countries. Hungary is the country most strenuously striving to catch up in this area.

4.3.5. Old age security

Old age security systems are the largest institutions in modern welfare states. The seven countries of our study have different pension systems, ones that belonging to various categories represented in the EU. All show strong path dependency (table 4.12).

Table 4.12: Types of old-age security systems in the EU-27

General state pension system (first tier)		Supplementary pension schemes (second and third tiers)	
Pension level	Basis of entitlement/ pension assessment	Voluntary	Obligatory (s: state; o: occupational; i: individual)
Individually assessed	Insurance/ earnings (DB)	1/ Austria, Belgium, Cyprus, Czech Republic, Finland, Germany, Greece, Lithuania, Luxembourg, Malta, Portugal, Romania, Slovenia, Spain	2/ Bulgaria (i) Estonia (i) France (o) Hungary (i) Slovakia (i)
	Insurance/ contributions (NDC)	3/ Italy	4/ Latvia (i) Poland (i) Sweden (i)
Flat-rate	Insurance (paying contributions)	5/ Ireland	6/ UK (s, o or i)
	Residence	7/	8/ Denmark (o) Netherlands (o)

Source: own table

Also the results of the pension systems of the Member States differ clearly. In the framework of the Open Method of Coordination of pension systems, started in 2001, two main objectives have been agreed: *adequacy*:

the capacity of pension systems to meet their social aims (mainly to prevent poverty and guarantee proper income replacement), and *sustainability*: to ensure the financing of pension systems in the long run. Thus, "adequate and sustainable pensions" has become the slogan for EU policy in this area. Table 4.9 shows some indicators in both dimensions among the seven countries we analyze.

Table 4.13: Old age security systems in the countries analyzed

Indicator	CZ	DK	EE	FR	DE	PL	UK	EU-25
Adequacy								
At-risk-of-poverty rate of people aged 65+ (ceiling at 60% of the median)								
Total	5	18	20	16	15	7	27	19
Men	2	17	10	15	12	5	24	16
Women	7	18	26	18	18	9	29	21
At-risk-of-poverty rate of people aged 18-64 (ceiling at 60% of the median)	9	11	17	12	12	20	15	14
Relative median equivalized income of people 65+ compared to those aged 0-64	83	70	73	90	92	109	72	85
Sustainability								
Employment rate of 55-64, %	43	60	52	37	42	26	56	41
Average exit age from the labour force, 2005	60.6	60.9	61.7	58.8	61.3	59.5	62.6	60.9 (EU 27)
Gross public pension expenditure as a share of GDP	8.5	9.5	6.7	12.8	11.4	13.9	6.6	10.6

Source: European Commission 2006, European Commission 2007, Eurostat 2008

Generally, old age security systems in the Member States do guarantee adequate income in retirement in both dimensions: older people are protected from poverty to a similar extent as those below retirement age, and the income of both groups does not differ much. There are also differences, however. For example, the at-risk-of-poverty rate of people aged 65 or more is more than five times lower in the Czech Republic than in the UK. Only in the Czech Republic and Poland are older people less likely to suffer poverty than those aged 18-64. In Germany and Estonia the rates are relatively close. In France, Denmark, and especially in the UK older people are more often threatened by poverty. On the other hand, France, together with Germany and Poland, belongs to those countries in which the relative median equivalized income of older people is closest to that of younger people.

Old age security systems differ also in terms of sustainability. Among other factors, whereas most people aged 55 to 64 are employed in Denmark, the UK and Estonia, the employment rate for older workers was only 26 percent in Poland and 37 percent in France in 2004. Public pension expenditures in terms of GDP in the UK and Estonia belong to the lowest in the EU, whereas it is clearly above the EU average in Poland, France and Germany.

The differing situation in old age security systems in the member states explain to a large extent the differences in the objectives and solutions among the pension reforms undertaken in those countries. However, these differences notwithstanding, some common tendencies in pension system development may be identified. Three are most worth mentioning: first – decreasing the generosity of future benefits in public systems while sometimes improving adequacy; second – new public-private mix ("pillarization", funding, development of private systems); third – raising the retirement age (Żukowski 2006)

Decreasing future benefits in public systems

Even if this is rarely formulated directly, one common tendency of most pension reforms of the mature, extended public pension systems has been the decrease of future pensions in terms of their replacement rates (Social Protection Committee 2006). This has been done in order to limit the pension system expenditure in the face of ageing populations. It should be mentioned that the replacement rate and purchasing power of pensions are two different categories. For example, in Poland replacement rates are high, and the real level (purchasing power) low.

In Germany, the net standard replacement rate will be lower as a result of pension reforms. The "fixed relative position" principle – 70 percent net replacement after 45 years with average earnings established in 1992 – was replaced with the primacy of a "fixed contribution rate" (Hinrichs in this volume). The expected decline of the target replacement ratio meant a clear departure from the dogma of status maintenance (after a complete full-time career) to be attained by public pensions alone.

In France, a longer contribution period has been introduced.

In Poland the pension reform which started in 1999 will lead to a much lower replacement rate from the new pension system.

Improving adequacy

Whereas in most cases pension reforms have de-creased future pension replacement rates, in some minor cases of countries with lower pensions, the development has gone partly in the opposite direction.

In the UK recent measures described in this volume were targeted at improving the adequacy of pensions. This is explained by the fact that "the nature of the UK's 'pensions crisis' is quite different from that in many European countries – the problem is not one of spiraling costs, but that past reforms which have brought down the costs (indexing the Basic State Pension to prices and scaling back on the generosity of the state second pension) have led to growing gaps in provision, exposed further by the likely decline in employer pensions" (Gregg in this volume).

In Estonia, which used to have a low replacement rate of pensions, they have been increased, improving the income position of the elderly.

New public-private mix

The second common feature of most pension reform has been the development of private, funded tiers or pillars, thus a new public-private mix. Most new member states have gone the way of partly "privatizing" their pension systems through introducing obligatory, universal privately managed pension funds.

In Poland in 1999 and Estonia in 2002 the reforms changed not only parameters, but the entire structure and logic of the systems. This can be mainly related to the specific circumstances of transition, as this concerned the extraordinary conditions of a transformation of almost all economic, social, and political institutions.

Unlike many other countries in the region, the Czech Republic, one of the pioneers of additional voluntary pension insurance (established already in 1994), resisted the plans to introduce the obligatory pension funds. However, there are still discussions about introducing obligatory pension funds.

In Germany, in order to compensate the above-mentioned replacement rate decrease of public pensions, "Riester pensions" have been introduced as a part of the 2001 pension reform – voluntary certified savings plans, subsidized by the state. "Such an extension to retirement income policy has irrevocably put the German pension system on a multi-pillar track again after it had been tantamount to public pension policy and a one-pillar approach since 1957" (Hinrichs in this volume).

The UK, which traditionally had a "multipillar" pension system, incentives for self-protecting savings have been further raised.

In Denmark, "in the 1990s a 'silent' transformation from a 'people's pension' system to a multipillar system took place. Increasingly, labour market pensions have been negotiated in collective agreements between social partners: fully funded, contributory, semi-mandatory, become the backbone of the pension system" (Goul Andersen in this volume).

Raising the retirement age

Raising the retirement age has become the third common tendency in pension reforms. In Germany various possibilities for early retirement were closed in the subsequent pension reforms, and in 2007 it was decided to raise the normal retirement age from 65 to 67 between 2012 and 2029. In the Czech Republic the retirement age was raised in two steps: in 1995 and

2003, when the retirement age was further raised to 63 for men and women without children. These age limits are to be reached in 2016 (for men) and 2019 (for women). In Poland's new pension system, early retirement will not be possible. In Denmark in 2006, early retirement age was postponed, and it was decided to raise the retirement age to 67 by 2027. The future retirement age is to be fully indexed to life expectancy at 60.

The UK has decided to equalize the retirement age for men and women (it will be 65 for both from 2020). The state pension age for men and women will then be gradually increased from 65 in 2020 to 68 by 2050. The statement from the British report may well concern all the countries: "In raising the state pension age, the government wants to 'signal the need for a behavioural change': if we are living longer, we may need to work for longer" (Gregg in this volume).

4.3.6. Poverty, social exclusion and inclusion policy

Poverty is a multifaceted phenomenon, and adequately measuring it is replete with great difficulties to overcome. This is why in quantitative studies the monetary (income) measure of poverty is the one relied upon. In recent EU studies the monetary measurement has been enriched by analysis of the situation connected with work and health. The short of it is that in analyses and appraisals of the poverty situation and social exclusion in the EU a broad set of indicators in applied, one that is known as the Laeken indicators system[12]. The main indicator of poverty in European statistical research is based on a relative concept of poverty[13], i.e., the acceptance of incomes (and not consumption), along with the acceptance of 60 percent (not 50 percent) of median incomes, for establishing the poverty line. Analysis of poverty in all the EU's member countries on the basis of this concept does not reveal many significant differences in the living standards in European countries (Noll and Weick 2007), but this is nonetheless an important methodological step forward on the road to obtaining accurate comparative data.

The differences between the EU countries in regards to their degree of income-measured poverty are closely related to their level of GDP *per capita*, to the situation on the labour market, and to the scope of redistribution of incomes via taxation and social services focused on assisting the poorest. In clarifying the determinants of poverty within the framework of the concept of relative poverty we are dealing with a situation in which the factor of the level of GDP yields to disposable income inequalities that result not only

[12] Data for presenting the Laeken indicators have been obtained in result of carrying out joint research into living conditions: EU-SILC.

[13] Already in 1975 the European Council accepted the concept of relative poverty, defining poor people as those who have so few resources that they cannot lead a life on the minimum level as it is accepted by the societies of the European Community they live in ("*the poor shall be taken to mean persons, families and groups of persons whose resources [material, cultural and social] are so limited as to exclude them from the minimum acceptable way of life in the member State in which they live*") (Council Decision 1975 i 1985 taken from Pantazis and others 2006, s. 30).

from differences in gross earnings, but more from differences in the scope of GDP redistribution and income distributions within society. For this reason the indicator "relative at risk-of-poverty" gives the Czechs the position of the country with the lowest level of poverty, although the Czech poverty line in absolute terms measured in PPS is two times lower than that of Denmark (see table 4.8). Moreover, if the level of poverty were calculated in regard to the European poverty line (i.e., the average income of EU countries) and not to the national line, the differences between the indices would be changed. That is, the Czechs' position would be worse (Potůček). For the great scope of the Czech Republic's redistribution of incomes, as identified by a comparison of the indices on poverty before transfers and after, is decisive for attaining a low indicator for poverty. Poland and Great Britain belong to the countries with the smallest scope of redistribution via social transfers. This is why the indicator for poverty is high. Estonia also exhibits a small scope of redistribution, and hence a high poverty rate.

Another clear difference between the countries being compared concerns the population groups having the greatest vulnerability to poverty. In the new member states the level of poverty for children and young people is higher than that for the elderly. In Poland the difference between the level of poverty for children and the elderly is as high as 22 percent. In the Czech Republic it is also quite high – 13 percent. Nowhere among the older EU countries we analyze is the difference in the poverty rate worse for children. In the new member countries the greater difficulties on the labour market and the focus of redistribution in incomes almost exclusively on behalf of the elderly (pre-retirement services, retirement pensions) have thus contributed to a relative worsening of living conditions for young families and children.

Many EU countries in recent years have fundamentally changed their approach to poverty and social exclusion. The focus on social integration, in accord with the EU strategy of inclusion, has started to change the construction of many benefits (primarily those for the unemployed and families) in the aim of helping people out of difficult living situations and social pathologies and encouraging them to take up work and further their education. In some cases the right to benefits have been made dependent on acceptance by the persons applying for assistance of conditions connected with undertaking measures designed to activate them. This focus is starkly visible in Great Britain's social policy (Gregg in this volume) and recently in Germany, too, where a certain paradigm shift in social philosophy is underway (Hinrichs in this volume).

The activating approach to policy vis-à-vis poverty and social exclusion draws attention to avoiding unemployment, often also referred to as the poverty trap and the inactivity trap. The point is to have social policy systematically address the motives stemming from the simultaneous interaction of social benefits and potential incomes from work – and from taxes. The research the EU has carried out on this topic (European Commission 2007) has called attention to the problem of potential net earnings in the circumstances not only of alternative possibilities for gaining income from benefits, but also the of the costs associated with taking up work by families with children that require care.

Table 4.14: Poverty, social exclusion and social inclusion policy indicators

Indicators	CZ	DK	EE	FR	DE	PL	UK	EU 25 average
Relative at-risk-of-poverty rate*, % , 2006 - poverty line at 60%	10	12	18	13	13	19	19	16
At-risk-of-poverty-rate - before social transfer - after social transfer	22 10	28 12	25 18	25 13	26 13	29 19	30 19	26 16
Poverty threshold for household 2+2 in PPP	816	1677	502	1526	1731	503	1883	·
Poverty gap**	18	16	24	17	20	30	21	22
Child versus older persons poverty rates – percentage points, 2006	+13	- 8	+1	-2	-1	+22	-5	0
People living in jobless households - children - adults 18-59, 2006	8.2 7.3	5.7 7.7	8.2 6.0	9.5 10.9	10.5 10.6	11.2 13.5	16.2 10.7	9.7 9.9 (EU 27)
Working poor: - statutory minimum wage (MW) PPS, 2007 - % of employees receiving MW, 2005 - MW as a % of average gross earnings in industry and services, 2005	465 2.0 39	- - -	362 4.8 33	1 150 16.8 -	- - -	389 2.9 34	1 292 1.8 37	x · ·
Spending on social social exclusion issues*** as % of GDP, 2005	0.5	1.0	0.1	0.5	0.2	0.4	0.2	0.3 (EU 27)

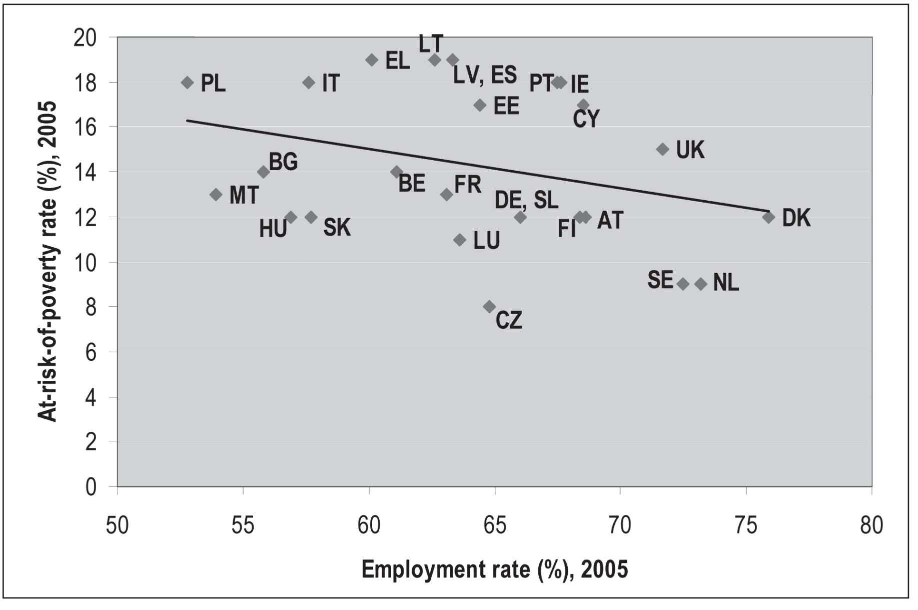
Notes: * The share of persons with an equivalized disposable income below the risk-of-poverty threshold, which is set at 60 % of the national median equivalized disposable income (after social transfers). ** Income gap between poverty threshold and individual income. *** Social spending on social exclusion issues not elsewhere by function classified following ESSPROS methodology; addressed to people at risk of social exclusion (mostly social assistance receivers).

Source: Eurostat 2007 and 2008, Eurostat and European Commission 2008, European Commission 2008

In addressing the problem of the inactivity trap, many EU countries have focused harder on minimum wages. As part of its "making work pay" program, Great Britain has introduced a minimum wage and set it at a decent level (see the table), all the while maintaining social benefits for the employed, something which the tax credit system permits (cf. Gregg in this volume). However, implementing a minimum wage as part of the policy to counteract poverty and social exclusion must be carefully weighed in order for it not to elicit undesired effects. Paul Gregg in his report on the UK points out the unfavorable breakdown in the rise of pay for mid-level groups. And in Poland, too, are we hearing much about the increased labour costs in small and mid-sized companies.

Independent of the significant differences in the scale of poverty and the problems associated with social exclusion, the shared trend in the social policy of EU member countries is the increased focus on work as a basic factor in securing against material depravation and social disintegration. This objective has particular meaning in the new member countries, where because of the systemic changes, restructurization of the economy, and the rising level of labour productivity – all of which is taking place in the context of increased global competition – the phenomenon of jobless growth has appeared. On the figure below we show the dependency between the employment rate and poverty. And indeed, it can come as no surprise that in countries with a low rate of employment, the threat of poverty is greater.

Figure 4.3: Employment rate and poverty risk for the EU-25 countries



Source: figures based on Eurostat database

The second shared policy trend in the EU countries is that of closer study of family policy, both in the context of poverty effecting children and the need to improve the personal developmental conditions of the young as an investment in the future. The latest report of the European Commission on this topic (2008) will likely increase member countries' interest in this problem, which seems particularly important in the new member countries. Poland is the country most neglecting this area. Thus it behooves us to expect a change of policy to the country's conservative family policy.

4.4. EU and national social policies

4.4.1. Government positions and public perception of EU social policy and the European Social Model

Generally, there is rather limited knowledge and debate about the EU and its social policy. Most of this book's chapters document that the EU is generally absent from national debates on social policy. Even in France, "national debates on EU issues are practically absent from large forums".

The European Social Model is seen in Germany as reconciling economic efficiency and competitiveness with social justice and solidarity – "a third way-oriented approach". For the Czech Republic it is stated that the ESM and the Czech social model are fully compatible in terms of history, culture, institutional frameworks, attitudes of the population, and political legitimacy.

There is support for the social dimension of the EU in some member states, for instance, France and Germany. People in the countries with high social standards have shown some anxieties about further development of their social standards due to deepening of the internal market and enlarging of the EU. Fear of lowering social standards or "*racing to the bottom*" were expressed very often by the media. The ESM is sometimes seen as providing the possibility to avoid a lowering of social standards. Otherwise one-sided economic integration may follow a significant retrenchment of social protection.

In Germany, liberalization is often seen as a possible threat to social standards. However, in France some believe that harmonization led by the "liberal Europe" will worsen France's social system.

In most member states, there is resistance to the extension of EU competencies in the area of social policy.

In the UK, there are "strong concerns about expansion of EU competencies into areas of national sovereignty" (Gregg in this volume).

In Germany, despite support for the social dimension of EU, there have been "worries about a 'creeping' expansion of EU competencies which, without legal foundation, restrict the scope of national sovereignty" (Hinrichs in this volume).

"According to Eurobarometer surveys, the Danish population is keen to maintain national decision-making on issues of welfare policy" (Goul Andersen in this volume).

"Based on government statements, Estonia is likely to stay in the group of countries that prefer to keep social and tax policies in the national competence as far as possible" (Aidukaite in this volume).

Also in Poland, the majority is clearly against extension of EU competencies in the social policy area.

Reluctance towards EU social policy is often related to the general scepticism about the EU, which may be found both among old (UK or Denmark) and new (Czech Republic) member states, whereas support for European integration is much stronger among other old (Germany) and new (Poland) member states. The chapter on Denmark, however, challenges the prevailing view, documenting that Euroscepticism has strongly declined there. Also, the Danish position on EU social policy has changed over the last 15 years, from "foot dragging to pace setting" (Kvist 2007). "Denmark has engaged positively in European cooperation" (Goul Andersen in this volume).

A bit surprisingly, one opinion survey has shown that people would be more open than their governments to a harmonization of social policy systems within the EU. Eurobarometer from 2006 showed that the majority of EU citizens (62 percent) would be in favour of the harmonization of social welfare systems within the EU. This support seems to be negatively correlated with satisfaction with national social policy (see chapter 4.1.3). Thus, no less than 86 percent of people in Poland would favour an EU-wide social policy, 77 percent in Estonia and 72 percent in the Czech Republic, 60 percent in France, 55 percent in Denmark, 52 percent in Germany and 49 percent in the UK (The Future of Europe 2006: 43).

4.4.2. The influence of the EU on national social policies

EU social policy consists of some limited legal regulations, EU funds, especially the European Social Fund, and many "soft" methods, including the Open Method of Coordination. There is also the indirect influence of economic integration on national social policies (see chapter III). Those four channels of EU influence on member states' social policies are described below.

First, EU law directly influences the systems of member states. Because of its limited scope, however, it concerns labour law rather than social policy in the usual national meaning (mainly social protection).

In Denmark, "in the case of gender equality, EU-policies and the active use of the European Court of Justice by Danish actors have lead to direct positive integration" (Goul Andersen in this volume).

There are however important shortcomings with implementation. In a study on the implementation of EU directives in the EU-15, including those based on agreements hammered out by social partners (e.g., on working time, pregnant employees, the young, part-time work, and parental leave), Falkner et al. (2005) have shown that there are major implementation failures and, to date, the European Commission has not been able to adequately perform its control function. While all countries are occasional non-compliers, some quite frequently privilege their domestic political concerns over performance of their EU-related duties. Others neglect their EU obligations as a matter of course.

Second, EU funds have had a positive influence on increasing social cohesion throughout the EU, and have thus had a direct and positive impact on living standards. The European Social Fund, the main "material" instrument of EU social policy, has recently become an instrument of European Employment Strategy to achieve such objectives as increasing employment, investing in human capital, and assuring equal opportunities. People in all member states may benefit from it. This is especially important in the new member states, who benefit from EU convergence policy. Chapter II documents the role of EU funds in decreasing regional disparities in employment (Estonia), investment in human capital (Poland), employability, human capital, and equal opportunities (Czech Republic).

Third, there is rather limited evidence of influence of the EU's "soft" instruments on national social policy reforms.

In Denmark, "EU concerns have almost never entered Danish debates about welfare policies", and "since 1994, concern for adaptation to the European Union has not played any significant role in Danish policy debates on welfare and taxes whatsoever" (Goul Andersen in this volume).

In Germany, the Lisbon Strategy had probably some influence on Agenda 2010 ("Hartz laws").

The attitude of the member states towards the Open Method of Coordination may be described as formal participation. For example, "Poland has joined in the realization of European social strategies only in a formal sense" (Golinowska in this volume). The member states officially support the OMC, also because of its "soft" nature that enables the preservation of national autonomy in the social policy area. For example, "the increasing use of softer modes of regulation such as the Open Method of Coordination (OMC) is in line with the wish to preserve the Danish model of regulation through collective agreements". So far, there seems to be little evidence of real influence of the OMC on national social policies.

Some influence of the EU, including the OMC, has been documented in our book in the form of raising public awareness of social problems and concepts and a more strategic approach to and coordination of various areas in the new member states.

In the Czech Republic, the EU has helped in pushing social issues higher up the political agenda. "Mutual learning, cognitive Europeanization or enculturation … has been changing the cognitive framework of social policy making. This process will have a long lasting (albeit difficult to identify) impact on welfare state transformation in the Czech Republic" (Potůček in this volume).

In Poland, “such concepts as social cohesion, social exclusion or social economy have assumed significance together with the joint work on common EU social strategies by means of open coordination”. “Poland’s integration with the EU has introduced new features to the debate on social policy” (Golinowska in this volume), including employment growth as a socio-economic goal of equal importance to economic growth, human capital as an essential element of social policy, emphasis laid on preventive action in view of social risks and the emergence of social problems, programs of reconciling work with family life, longer active employment and on the healthy ageing process. Estonia ratified the European Social Charter in 2000, “through which Estonian policy-makers accepted European social values in the field of social policy”. “Without a doubt, European integration holds Estonian social policy to a more universal and solidarity path”. More specifically, “the EES discourse on the importance of giving precedence to active rather than passive labour market policies, has resulted in higher expenditures on labour market policies. Such expenditure grew by 54.8 percent in 2005 compared to 2004” (Aidukaite in this volume). Moreover, the positive influence of the OMC on improving policy coordination between employment policy and pension policy, as well as between social inclusion policy and pension policy in Estonia is mentioned.

For some countries, utilizing the EU in national political debates on reforms has been reported. In Germany in 2005, “the opposition strategically used the Lisbon Strategy to press for structural changes in social and economic policy. At the same time, the Lisbon Strategy and the related peer pressure to pursue (in fact, unpopular) structural reforms were a welcome external support for the government’s position” (Hinrichs in this volume). Also in Denmark, in the context of tax reform, the author states that “the European concern may have been put forward mainly for tactical reasons, as a sort of blame avoidance” (Goul Andersen in this volume). Summing up, he states “occasionally, national actors have been able to exploit higher EU standards as a vehicle for their own interest” (Goul Andersen in this volume).

In Estonia, “trade unions and NGOs (e.g., pensioners’ and disabled persons’ organizations) have used the ‘European argument’ in their requests for higher social protection” (Aidukaite in this volume).

Fourth, a stronger influence is exerted by European integration in the economic area. “A closer inspection shows that the overall influence of the EU on social policy development in Germany has been quite significant. In that regard, the Stability and Growth Pact (SGP) figures most prominently” (Hinrichs in this volume). The Services Directive has raised debates in the Czech Republic and Germany. On the other hand, the UK, being outside the Eurozone, is not experiencing that influence.

Migration following EU accession contributed to a decrease of unemployment in the new member states (Poland, Estonia) and led to (at least partial) domestic labour shortages.

4.5. Diversity and convergence
Is convergence also due to European integration?

The comparative analyses carried out have shown marked differences between the countries we have studied. They primarily run along four lines: 1) between the old EU and the new, postcommunist member countries, having as they do, as a very different institutional background; 2) between richer and poorer Europe; 3) between more and less diverse Europe; and 4) between the Europe that is reforming its welfare states at a swift rate and the Europe that is carrying out reform slowly and preserving its traditional social model.

Comparison: Factors distinguishing the analyzed countries from the perspective of the welfare state

Distinguishing criteria	Using distinguishing criteria in the grouping of analyzed countries	Representatives
Institutional background	Market countries and centrally planned economies, presently transforming their system into market economies	EU 15 *versus* the EU 10 (new member states)
Level of economic development	Richer countries boasting GDP per capita near the average for the EU-27 (i.e., no more a dozen percentages points from that average). Poorer countries more than 30 percentage points from the EU-27 average .	EU 15 + the Czech Republic (and Slovenia) *versus* the remaining new member states
Inequality	Countries with greater and lesser income inequalities; above and below of a level of 5.0 (S80/S20 quintile share ratio)	Poland, UK, Estonia versus Czech Republic, Denmark, France and Germany
Dynamic of welfare state reform	Countries reforming themselves swiftly and countries reforming their welfare state slowly, maintaining the basic features of their social model.	UK, Estonia, Germany, partly Poland *versus* Czech Republic and France

While reforming their welfares states, the countries remain in accord with their traditional values and the basic institutions of their social policy. Even in countries exhibiting comparable social outlays, differences have not vanished between the traditional regimes of social protection (Bouget 2004: 133). The theory of path dependence explains the limited convergence of social policy systems in Europe (Pierson 2001). Crucial differences between national welfare models have remained. This has been documented in our volume for every country and has also been shown in this chapter. For example, in Denmark, "the institutional differences vis-à-vis the Continental European welfare states – after 35 years of EU membership – have been maintained" (Goul Andersen in this volume). "The UK model is perhaps closer to that of Canada, Australia and New Zealand than most European countries" (Gregg in this volume).

Despite the existing differences, our analysis has shown that all the EU countries are experiencing a process of convergence in the context of adopting similar thrusts for their social policy. But there are various factors behind convergence. In keeping with the proposal of Lindbeck (2008) we might distinguish between exogenous and endogenous factors. It seems that exogenous factors (e.g., ageing or the process of internationalization) today have the decisive impact, although in appraising social policies from the inside – through the prism of national studies – we may perceive the value of other variables. In the comparison below we present an attempt at distinguishing the various factors behind convergence, indicating at the same time the range of their influence. But it is not possible to define the relative weight of individual factors. To do so would require another type of analysis, one that would need quantification of variables and the construction of a formalized model for their influence.

Comparison: Distinguishing factors of convergence between national models of the welfare state

Factors of convergence	Areas of social policies convergence	Actions, examples, assessments
State responsibility for the range of basic public goods and combating and reducing the main social issues, despite past systemic differences (the influence of rivalry between systems?)	Social expenditures in relative terms	Between 1980 and 1998 the coefficient of variation of per capita social expenditures between EU member states decreased by almost one third (Bouget 2006: 112). Convergence of social protection expenditure has been stated for the EU-15 (Adelantado, Calderon 2007)
Influence from model countries; Sweden, Denmark or/and UK	Monetary transfers – taxes, retirement reform, work-related activation of passive people and of those with low employability	Germany has been moving towards a hybrid of the British and Scandinavian model. The UK has been influenced by the Scandinavian countries (especially Denmark and Sweden). The UK influenced other countries in its activation policy. The pension reform in Poland has been influenced by the Swedish reform, but it also exerted some influence on pension reform in other countries, including Estonia.

Shared demographic challenges	Family policy, health care, and LTC, migration policy	Family policy conjoins procreation objectives with state support for families with children, albeit by various methods and combinations of instruments, e.g.: monetary transfers, pro-family tax credits, and social services. The priority in health policy concerns healthy ageing. Migration policy has become a subject of social policy in the new member states.
Factors of convergence	Areas of social policies convergence	Actions, examples, assessments
Response to global competition	Taxes, social expenditures, social insurance, pay, employment	The pursuit of rationalizing social expenditures and lowering taxes, reducing the outside costs of labour, development of elastic forms of employment.
The Lisbon Strategy – full employment and innovation	Employment policy, education, and scientific research	Jointly defined goals of high employment, despite their differing tempo, have the same direction. Programs designed to activate groups with low employability, growth in the meaning of quality education, broader participation in student exchange programs, along with those for scholars and researchers. Danish flexicurity concept and mechanism has become the EU method to retain a high level of employment and social security.
The Social Agenda and the OMC	Employment policy, social protection policy, health care and LTC policy,	Programs for combating poverty and social exclusion with a broader range of methods for activating (including) people. Maintaining decent and secured financing for future retirement pensions. Assuring health care and long-term care for the elderly.
The influence of equalizing postulates and EU regulations	Human rights legislation, Labour market law, family law	Introducing at all levels an employment policy and the social value of gender equality (mainstreaming), integration of national minorities and ethnic groups.

These factors behind convergence, along with examples of their impact, give an awareness that there are many of them, that their role is long-term, and that “adjusting” EU policy strengthens convergence. This thesis is confirmed by other studies. “Convergence, i.e. decreasing diversity among states in spending, financing and regulation patterns, may have been the most important pattern of welfare state change in the last three decades – a pattern overlooked in past and current research” (Rothang et al. 2006: 250).

Analysis of a single issue conducted from the perspective of a single country may lead to completely differing conclusions – for instance, that there is no process of convergence, or that its tempo is still quite minimal. Even in the case of shared problems those policies can be divergent, and give differing results. “Common problems do not necessarily imply a convergence in policy-making” (Bonoli et al. *1*996). It has also been shown that various welfare models have partly different problems (Hemerijck 2002).

The conclusions that arise from our analysis, one carried out during the first decade of the 21st century, clearly indicate the presence of a process of convergence between national models of the welfare state in a single direction, though one whose shape may not in fact be unambiguously defined. Nonetheless, we may with a high degree of certainty state that they have evinced solutions of significant rationality in response to global competition and the accompanying challenges of the future. The process of convergence occurring under the influence of EU social policy in turn fosters the maintenance of basic social values in accord with ambitious economic goals. Without that, some countries would be apt – inundated, as they are, with a host of enormous challenges – to lose sight of social policy. This most particularly concerns the European Union’s new member states.

However, the continuing tempo for the process of convergence between national models for social policy is hard to forecast. It seems likely that it will be swift, perhaps much swifter than it has been of late. On the one hand, in this age of globalization there will be more shared problems, and so solidarity vis-à-vis the challenges of globalization will increase. On the other, European integration and shared journeys up the learning curve within the framework of the OMC will continue to foster superior choices, ones that will meet with less resistance on the part of many countries.

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Chapter V
New challenges for the future and the response of the European Union in the context of the European Social Model

The main challenges of the future have long been debated. The responses which that debate generates provide and will continue to provide the bases for new policies and rounds of reforms. There are, of course, many such challenges, but they can be grasped within four general categories: globalization, the information revolution and new technologies, threats connected with climate change, and the ageing of populations[1]. The subject of this chapter is to present these challenges from the point of view of their impact on social life and in the context of the European Social Model concept. The core question concerns whether in the discussions and activities of individual European countries, but first of all at the EU level, initiatives are being taken that reflect awareness of the existence of these challenges and entail appropriate responses to them. We have framed the question this way because we treat the ESM as an open idea that has the capacity to respond to problems of broad impact and long-term perspective, shouldering not only European, but global responsibility, as well.

It is hard to make an analytical decision on what should be indicated as the primary challenge, which is to say – the most important in the long-term perspective. At present we are alarmed above all with climate change and its dangers, and so perhaps this chapter should start from there. But instead we will start with the phenomenon of globalization, which constitutes the context for all the remaining challenges. However, it need be stressed that all are tightly intertwined. Globalization is strongly stimulated by the new technologies that enable the proliferation of factors conducive to production and all that stems from it. The ecological threats we face are conditioned by the run-away development of production on a world-scale and by mass consumption that rests upon extractive sources of energy. Ageing populations,

[1] Maria Rodrigues, a member of the team of advisors to the European Commission that is working on a new version of the Lisbon Strategy, lists five challenges: globalization and new competitive pressures; transition to a knowledge-intensive economy; ageing trends; new family models; and the very process of European integration in its new stage (Rodrigues 2006: 55), skipping the problem of environmental protection and climate change, and introducing the problem of integration in the expanded EU. Patrick Diamond, in turn, in his foreword to the pamphlet *A Social Model for Europe* lists: globalization, demography, innovation, and energy (The Policy Network 2006).

in turn, are conditioned by people's behavioral patterns, the increase of their developmental potential, and by changes in value systems and lifestyles that respond to today's changing world.

In this chapter we therefore present and analyze four basic challenges for the future. In so doing we evaluate the policies being proposed and implemented, paying special consideration to the relevant strategies of the European Union. Here the question arises as to what extent these are activities around which there already exists agreement (and hence if they constitute an element of the European Social Model), and to what extent they are being implemented in member countries. It is our hope that this chapter will contribute to forming answers to both questions.

The subject matter of the European Social Model that emerges from the analyses presented in this chapter differ from those that result from the range of activities underway within the framework of European social policy as pursued at the national level (this is described in chapters two and four). Here the concept of the European Social Model arises from the type and scope of intervention made and the urgent matters that must be addressed for the future. We therefore have new goals and new programs, along with new accents in the activities already underway. This approach may contribute to a redefinition of the European Social Model in line with a more ecological (green) profile than a social one.

5.1. Globalization

Globalization is the process of the internationalization of an ever wider scope of social life. What ensues from this is an intensification of issues and relations on a world-wide scale. Globalization embraces international interactions between people, organizations, companies, and governments. As a result we observe an increase of commonality, as sociologists define it, at the level of the entire globe (Cohen and Kennedy 2007: 49). Globalization is not solely an ability to grasp the world and reach for its extensive territories, for globalization so defined can be pointed to in the late Middle Ages, when great geographical and astronomical discoveries were made and travels around the world took place. Participation in globalization then concerned but a few: rulers, travelers, scholars. Thus, the process of grasping global matters on a world scale has taken centuries.

Today global issues are omnipresent, and the possibility of joining in is virtually immediate and universal. A tremendously important stimulus of the process of globalization is that of modern information and communications technologies, along with the development of international transport, as they enable international interaction to be just as quick as with a next-door neighbour.

Globalization is also a process of universalizing culture and the emergence of universal civilization based on propagating knowledge, information, and ideas – something that has also been hastened by modern technology, compatible, interlocking infrastructures, and uniform standards for producing consumer goods.

The intensification of international relations occurs particularly strongly in economics and politics. In the economy it results from the flow of capital through already completely open borders and the free flow of goods and services. Admittedly, there are certain encumbrances, but they are more and more negligible. In this area the adoption of the principle of free trade and its enforcement by the World Trade Organization have played an enormous role. Moreover, the flow of workers beyond the borders of their own countries has attained a greater dynamism. Indeed, migrations are a process that is still a matter of compulsion (dislocations stemming from poor living conditions), but worker mobility is more and more often an expression of their innovation and the natural process of adapting labour resources to the increasingly international labour market.

Globalization is to a certain degree determined – or constrained – by political forces[2]. Globalization depends on whether the strongest players on the international field conceive it to be in their interest. In that sense there is not one single path of globalization. Just as there are several "varieties of capitalism" – so are there several conceivable varieties of globalization (Andresen 2007). In the future we will experience another "model" or path of globalization than the one we have traveled over the past years. The new path will likely be more regulative than in the 1980s and 90s due to energy shortages and the global financial crisis.

Globalization engenders a host of positive effects, but it also creates a large number of anxieties. On the one hand it broadens access to new goods and technologies, universalizes the basic standards of material welfare, and both democratizes and modernizes human life. On the other, it increases competition, and thereby marginalizes the weaker and slower. It excludes not only individual economic players from the benefit of international transfers of factors of production and its output, but also poorer countries, along with whole cultures and regions that are at a comparative disadvantage. Such standardization places in peril the treasure of cultural pluralism and traditional values.

However, it is especially in the economic sphere that globalization stirs up controversy. Some scholars (e.g., Korpi 2003) have pointed out that economic interdependence (strengthened by international trade and cross-border capital movements) has a visible impact on the development of labour market and employment policy. Moreover, in economically advanced countries globalization has interacted with technological changes to increase unemployment. In the case of giving greater priority to stable macroeconomic policy (i.e., stability pacts

[2] In some instances when the strongest political players have so preferred, globalization has even moved backwards – as measured by trade/openness, by direct foreign investments, or by capital flows. Even today there are political forces in the US, for instance, which tend to opt for protectionism (Andersen 2007).

aimed at low levels of inflation and government debt) the impact of globalization (and Europeanization) on unemployment may be more evident.

In the popular mind globalization is perceived as the socially dangerous expansion of international corporations in developing countries. This was how it was evocatively described in the book by the Canadian journalist Naomi Klein *No Logo* (2000). Anxieties over globalization have increased doubts concerning the capabilities, and even the intentions of international financial and commercial organizations to control this expansion with regard to basic social criteria.

On the other hand, it is believed in some quarters that the threats connected with globalization have been mythologized. This is because they are mistakenly applied to blame free competition on the international level for various unwanted effects and processes, but especially that of monopolies and the inadequate policy of governments. The Swede Johan Norberg (2003) wrote a book somewhat less famous than Naomi Klein's *No Logo*, but his was an equally evocative work: *In Defense of Global Capitalism.* This well-argued defense of the free market without restrictions portrays the material advantages of free choice. At the same time, the author repeats the words spoken by France's socialist Prime Minister Lionel Jospin, that he accepts free market capitalism, but does not accept the market society (Norberg 2003).

But globalization has raised fears in some countries of their vulnerability when financial crisis strikes in otherwise faraway places. In recent decades such fears have surfaced in connection with the global spread of various instances of financial turmoil, as they have over the emergence of a global financial crisis in 2008[3]. The crises of the recent past (that of 1983 and 1987, and the crisis in East Asia in 1997-1998 that soon spread to Russia and Latin America) revealed that weaker economies slide into recession in their wake and experience negative social consequences. First to fall are savings (including profits on retirement funds), credits for development become unavailable, and trust in the financial system and in banks drops. Next to fall are production and employment (hence, rising joblessness). A recession then ensues. In the aim of overcoming the crisis' negative economic effects the state intervenes at the cost of taxpayers. Experts then begin to weigh the need and possibility of conducting another macroeconomic policy than the one hitherto held up as most appropriate. Financial crises have additional effects in the realm of social policy. For they are cited by national politicians as reason to revise the scope of redistribution meant to serve social goals and to change allocation decisions concerning public outlays so as to be able to support those areas of the economy threatened with post-crisis recession. Social policy therefore may become ever more confined to social assistance for those persons most in peril of poverty and social exclusion.

[3] Analysis of recent crises and of the possibility of further ones have been appearing more and more often in the economic world, perhaps most prominently in the articles of the Nobel laureate Paul Krugman (http://princeton.edu/~pkrugman). In the fall of 2008 a new financial crisis erupted in the US, one whose scale we cannot foresee as of today.

Well before the most recent crisis, anxieties over the negative effects of international competition had evoked an anti-globalist grassroots movement which turned against international concerns, the World Trade Organization (WTO), and against international financial organizations, as well as American dominance in solving global problems. This is because they are blamed for the disparities of development and other misfortunes of the contemporary world. The protests of alter-globalists, together with other movements that focus on the negative effects of globalization (e.g., Greens, human rights activists, religious organizations, trade unions, and feminist groups) have contributed to numerous, in-depth studies into the workings of the flow of international financial investments, the roles played by transnational concerns, and the effects on the workers and regions in which they operate. For these examinations and analyses an appropriate methodology was worked out in order to avoid selective arguments and demagoguery (OECD 2005).

Research has shown that when competition isn't threatened with monopoly and protectionism, the effects of globalization in the final analysis are in fact positive. International companies generally offer higher standards of work and pay to employees, and that is conducive to employee-friendly behaviours on the part of national companies. For the internationals create the opportunity to improve qualifications, and they also bring new investments to regions[4]. At the same time, companies themselves develop better. After all, winning and maintaining producers on the world market requires having numerous advantages: innovation, lower costs, higher quality, more effective marketing, and the considerable speed of adapting to constantly changing conditions. Moreover, globalization has long been internalized by local companies, which to a greater or lesser degree feel it breathing down their backs.

At the end of 2003 EOS Gallup Europe carried out a study of public opinion among citizens of the EU-15 concerning their attitude toward globalization. The findings are quite startling: in "Old Europe" there is near universal support for globalization (though Greeks, Spaniards, and Austrians have a certain reserve), along with the conviction that globalization provides an opportunity for rapid economic development and the diffusion of new technology. However, at the same time respondents negatively viewed the results of globalization on the national labour market and the natural environment, along with the rising differentiation between the North and the South. This is why they gave basic meaning to regulatory solutions at the supranational level, as solutions

[4] The media often air reports on large companies in which highly exploitative and/or unethical behaviours occurred, and this no doubt worsens their image and fosters the generalization that such behaviours are simply the norm. However, deeper analysis into the process of foreign investment reveals that advantages outweigh the negatives and that labour effectiveness increases. As researchers into this area conclude, the most often-met improper behaviours occur at the juncture of relations with local authorities. The biggest problem is sometimes that of the unreliability of local politicians, and not foreign investors.

may be found there that can work to eliminate the negative consequences of globalization (Eurobarometer 2004).

Globalization's challenges in the political sphere have two dimensions, both of which are still insufficiently internalized. One dimension concerns the response of national governments that do not always sufficiently take the global context into consideration in their programs. For what does globalization's challenge mean for national governments? On the one hand it concerns introducing the concept of the global good at the level of national decision-making. On the other, it concerns the support of national subjects in the process of joining the international game. This entails devising a legal framework that will be friendly to them as they enter international competition as regards improving state and regional governance and investing in human capital.

The second challenge of globalization concerns the response on the part of organizations acting at the global level. Of course, there is no world government, but there are many organizational possibilities for making decisions that embrace the entire globe. However, this matter elicits quite a lot of sceptical voices. Lord Ralf Dahrendorf, for example, sees immense problems in pursuing a democratic manner of problem solving at the global level[5]. This aspect of the problem is highlighted by Joseph Stiglitz in his influential book *Globalization and its discontents* (2002). Stiglitz here points out the urgent necessity to reform international organizations in the aim of making them capable of controlling the processes of globalization in line with achieving social progress. Another point of view is that Europe should be the initiator of regulatory measures at the global level in such areas as trade and commerce, finances, and environmental protection (Ahearne, Pisani-Ferry, Sapir, Veron 2006/2007). This is all the more realistic, as the US's involvement here is smaller. This would of course require internal reforms to make the EU's voice better heard, i.a., by securing a strong representation of Europeans in international organizations[6].

In accepting the recommendations of international organizations it is highly important that there be awareness at the national level of the weight of global issues that can be solved only through joint endeavour, and to convince national actors to accept such endeavours by showing the way forward to their effective realization. Without that they will not only fail to bring about the desired outcome, but will inculcate hostility toward given organizations. Jeffrey Sachs in his book *Common Wealth* (2008), a reflection on the realization of the UN's Millennial Development Goals, sees the necessity of making global ideas, demands, and decisions always relate to societies, and irrespective of the difficulties of that process. Sachs does not address his concerns for a global point of view and solving global matters to some central power, be that a hegemonic

[5] On the basis on numerous interviews with Dahrendorf in the Polish press – see: Anioł 2002: 272-273.

[6] This most concerns the Bretton Woods Institutions that also require reform in order to meet half-way the need of greater representation on countries and regions of the world - including Europe.

US or the exclusive club of the world's richest states (G8). For he holds that what is of exigency is the creation of a cooperative network of all governments, international organizations, and institutions. His appeal for global cooperation is addressed to corporations, so that within the framework of social responsibility business be sensitized to ecological and social matters. It is addressed to civic organizations in the aim that they better stimulate and guide regional and local undertakings that relate to global issues. To universities and educational institutions, that they develop research targeted at protecting the planet and create an awareness of global responsibility for individual, local, and regional activities. To all governments and federations of governments, that the good of the planet and humankind be a Rubicon that cannot be crossed. But for such cooperation to bear fruit the means are necessary, including numerous funds that would be focused on solving problems of global reach and consequences. Sachs infuses his readers with optimism on the basis of the achievements of the UN and its programs to date, although he admits that it has attained only about half of its stated goals. He sees the hope of greater effectiveness in new forms of action, ones he convincingly calls for.

The European Union's response to globalization

The EU's interest in the matters of globalization and related issues concentrate on economic questions (Sapir 2005). For it is economic questions regarding the flow of goods, services, and capital that are at the core of the majority of reports on globalization (Barney 2004).

The participation of the EU and the EU-27 as a whole in world trade and foreign investment is altogether diverse. The countries of the EU participate to a greater degree in trade inside the EU (table 5.1 on the next page). Only a few EU countries conducts large scale trade with countries and regions outside Europe, namely, Germany, France, Italy, Great Britain, and the Netherlands.

Table 5.1: Share of exports and imports in goods outside and to the EU-27 countries

Indicators	CZ	DK	EE	FR	DE	PL	UK	EU 27
Share of exports outside EU - 27 in %, 2006	0.9	1.9	0.2	11.7	27.8	1.6	11.4	100
Share of exports to the EU - 27 in total exports in %, 2007	85.2	70.2	70.2	65.1	64.8	78.9	58.2	68.1
Share in external imports, 2006	1.1	1.4	0.2	9.8	19.4	2.0	15.0	100
Share of imports from EU-27 in total imports in %, 2007	80.3	73.4	78.5	69.3	65.3	73.3	54.8	64.3

Source: Eurostat 2008, http://epp.eurostat.eu/portal/page

In the area of foreign investment we clearly observe the divide between the older EU countries and the new member states (table 5.2). The value of invested foreign capital in some of the new member states is at a level approaching their GDP, for instance, Estonia and Bulgaria. In the Czech Republic and Hungary it exceeds 50 percent of GDP.

In light of such a diverse situation, the EU's member countries have differing interests. The new member states are interested in attracting foreign investment and are acting to foster the inflow of foreign capital, especially by maintaining low labour costs and by tax breaks. The older and larger EU countries, in turn, pay more attention to measures designed to remove trade barriers and safeguard employee protections in result of widespread offshoring.

Table 5.2: Foreign direct investment (FDI) flow and stock as % of GDP

Indicators	CZ	DK	EE	FR	DE	PL	UK	EU 25	Euro area
FDI flows 2006									
Inward	9.4	2.6	9.8	3.0	1.5	4.1	5.9	1.3	1.1
Outward	0.0	3.0	6.3	5.4	2.7	1.2	3.4	1.8	3.7
FDI stocks 2005									
Inward	52.9	46.9	97.2	31.1	25.0	31.0	39.3	16.1	29.8
Outward	3.1	51.5	15.1	44.2	30.3	2.2	58.1	21.9	33.9

Source: Eurostat 2008

In 2005 the Economic Policy Committee (EPC) prepared a document entitled *Responding to the Challenges of Globalisation*. It indicated economic policy guidelines that serve not only to foster global challenges, but also to extract as many advantages for Europe as possible. That document refers to the goals of the new Lisbon Strategy (see chapter three) and to the numerous recommendations of the OECD in the area of adapting trade and industry to meet global challenges (OECD 2005). Besides re-emphasizing such issues as stable frameworks for macroeconomic policy, expanding employment, and reform of the labour market in line with combining increased flexibility with fairness and upgrading employee qualifications, the EPC document raises the need for faster and fuller economic integration – that is, completing the single market – and for creating (i.a., via supranational regulation) a better climate for entrepreneurship and innovativeness in Europe (EPC 2005).

One of the EU's vital activities vis-à-vis globalization was the establishment of a special fund for mitigating the effects of capital outflow and offshoring. At the end of 2005 the European Globalisation Adjustment Fund was established in the aim of (a) supporting employees who lose their jobs as a result of the effects of global competition, and reallocating companies in order to adapt this group of people to the new situation and (b) to prepare them for new jobs. With funding of about 500 million Euro annually, the Fund began its activity in 2007.

The emergence of this fund at once met with the criticism of experts. Above all they criticized the ill-defined addressee of support: *there is hardly to note any difference in the fate of workers displaced by trade and workers displaced by other factors* (Wasmer and von Weizsaecker 2007). They also pointed out the imprecise criteria for allocating funds, something that allows for the creation of an area of discretional decision-making and thereby fosters lobby groups more than it assists employees at risk of job-loss because of intensified global competition. Decidedly higher support for mobile workers was proposed than for those who are stationary (op. cit.).

Another type of criticism concerned the delays in providing funds, which still at the end of 2007 had not been disbursed to approvable applicants. Clearly that kind of delay exposes the EU to charges (Tsoukalis 2006) of making facades, of shaping initiatives that are more symbolic than real in their support for restructuring. At the same time, however, any and all shortcuts, or imposing on others ill-conceived and/or unacceptable solutions, may risk creating conflicts and decision-making paralysis – an outcome that would even further extend the road from conception to implementation.

The European Union, in jointly endeavouring to solve the developmental problems of one continent (albeit, not yet in its entirety), is entering the stage of global concerns better prepared institutionally in comparison with other regions of the world. However, hitherto experience of the democratic manner of joint decision-making in the EU shows that that road is neither simple nor fast. Faced with a host of urgent global issues, the EU seems too bureaucratic and slow.

5.2. New technology

The late 20th century was marked by a new civilizational revolution, the revolution in information technologies. Begun in the 70s with the discovery of the processor, the microcomputer, fiber-optic cable, and electronic communications, it quickly found an ever more basic role in production processes and daily life. Indeed, its impact on society may be greater than that of the Industrial Revolution (Castells 2007). Even though technologies related to processing information and to communications are the fundamental aspect of the technological revolutions of the present age, revolutionary changes also characterize the new technologies in biology (biotechnologies) and genetic engineering. Despite the ethical barriers concerning intervention in this sphere, the process of revolutionary changes is unlikely to be stopped.

The influence of new technologies on daily life is the subject of numerous analyses and spectacular visions, but one has the impression that the plurality, diversity, and rapid mutability of the present's main features makes any comprehensive description difficult, and in fact inclines toward fostering one-sided perspectives. In a word, this hinders synthesis. Thus, from the palette of areas where new technologies exert their impact on society we have chosen only several aspects.

A key feature of the present world is the marked dynamism of changes as a result of the positive attitude toward new technologies. The technical achievements that have facilitated so very much of daily life in result of the application of the new information technology arouse strong admiration and are quite quickly internalized. In comparison to well-known cases from history of highly sceptical, even hostile behaviours towards inventions and new technical devices (e.g., the Luddites in early 19th-century Britain), the present enthusiasm seems outright uncritical. An important example of this is seen in the fact that there are many innovative gadgets and solutions whose effects are not sufficiently well identified. In a period of much more limited access to energy, and due to limitations resulting from the need to protect our endangered environment, the need arises to filter some of them out. This is a new and expensive challenge, one we write about in the next point (3) of this chapter.

A fundamental change in the functioning of economic players has accompanied the information revolution. The structure of ownership is changing – and what's more, the meaning of ownership is shrinking in favour of the right to access (Ryfkin 2003). Enterprises function in an interdependent network of producers, subcontractors, service-providers, as well as in a network of potential customers (Castells 2007). Relations between companies have also developed a more network (in a sense, cooperative) character than the previous hierarchic-exclusive companies. For a company to be successful it must respond altogether swiftly in the process of introducing new products. This is of fundamental significance because the life-cycle of products has undergone unprecedented shortening. More and more new products, or their subsequent versions, are entering the market – and this requires a relentless adaptation of production processes. In such conditions consumption, driven by sophisticated marketing strategies, has become a fundamental motor and incentive for development. To consume ever more without regard to frugality, without encumbering laws on ownership, and without goods that tie one down or stabilize the market – this is the main thrust of contemporary capitalism.

The information revolution is powerfully reflected in the changes to the character of work, work relations, and the accompanying changes in the social structure. Work is shrinking in industry, as organized according to the model dubbed "Fordism". In the ascendant is work in the information-communications services. Such work is much more individual, and ever more often organized around tasks. It requires greater elasticity as well as high and constantly upgraded qualifications. It has created a base for a new professional group to come into existence, one of managers and specialists of various kinds known as professionals.

Visions for a completely new social structure have emerged. For instance, Thomas Friedman's work highlights the division into fungible and non-fungible professions. Jobs that can easily be taken abroad, tasks that can easily be digitized or automated – this is the fungible sphere. The nonfungible sphere includes tasks that are somehow exceptional[7]. What they require is knowledge, talent, and curiosity about the world. Access to this sphere seems open, for thanks to the information revolution, the world has become flat.

The Swedes Aleksander Bard and Jan Soederqvist (2000) portray another vision of the social structure, a vision that is much less alluring. The division of society is dichotomous. On the one hand we have the "netocracy", i.e., people using the net, creating information, and maintaining themselves thanks to information that organizes life on a global level. On the other is the "consumptariat", a societal underclass whose main feature and task is mass consumption. This is a vision of society in the information age, which has followed capitalism. These two authors attempt to mobilize readers to take action to avoid being relegated to the consumptariat. However, their vision of the higher class – the netocracy – is unappetizing for those with humanist worldviews.

In the new network economy, services that are not directly tied to the information revolution are also rapidly developing, but rather together with the development of the world market, with the increase in mobility and changing lifestyles. This includes transport services, distribution, and trade on a considerable scale, along with a variety described as "personal". Restaurants, hotels, rejuvenation clubs, counseling of sundry types on personal life, dress fashion, eating, behavioral relations with one's surrounding and so on have become prominent in cities – right alongside business, financial, commercial, and transport services. In many of them work does not demand high qualifications, but rather certain predispositions or readiness for direct contact with consumers. Work in personal services is poorly paid, does not offer full social protection or a clear career ladder, and does not require continuous training. It is often performed as periodic, seasonal work, and on a part-time basis. It is mainly immigrants, young people trying to earn extra money, and women who are employed in this capacity (Dicken 2003). "McJobs", as this kind of employment is sometimes called, has contributed to a polarizing of the labour market and the forming of a new criterion for social inequalities.

Another *signum temporis* is the development of social services of general interest. These are services provided directly to the person oriented toward

[7] Friedman's sphere of nonfungible jobs includes the following groups of specific professionals: masters of cooperation and organization, masters of synthesis, masters of explanation, masters of pressuring, masters of adaptation, greens, masters of localities, and extracting a personal accent (Friedman 2006)

developing and supporting and/or restoring human skills and the ability to lead an active life. These are services associated with the notion of human capital and social security: child-rearing, social and health care, services for the disabled and other people vulnerable to risk (EC 2006). Present here, too, are new technologies, ones particularly expansive in the health sector. Despite the considerable public scale of their distribution, their high costs make access to them rather restricted. For example, new medical technologies are appraised from the point of view of their medical effectiveness in relation to costs (health technology assessment), something which in many countries constitutes the criterion for allowing them to be applied within the health care system.

The changes in the character of work connected with the information revolution go hand in hand with changes triggered by the globally operating market. The production of many goods is moving to or already is located in regions of the world where a cheap but efficient workforce is available, although regulations concerning worker security and the smooth running of the company in local surroundings are minimal. Because of this, numerous previously prosperous businesses and regions in highly industrialized countries have started to decline, thereby creating a new kind of unemployment.

The German sociologist Ulrich Beck (2002) drew attention to the public costs of the information revolution and globally operating markets, calling contemporary society a "risk society". Amongst these risks are both problems of adapting to the rate of change and dubious effectiveness (inverse consequences) with reference to the quality of human life. Poland's Zygmunt Bauman examined another aspect of the worsening quality of living conditions in the post-industrial period, describing the phenomenon of "liquid life" in "liquid modernity", in which stability (understood as the basis of joy from achievements) is disappearing, as is seeking clear shape for relations with other people. Fundamental meaning here is in surrendering to consumption (consumerism), in which the "use by" date is nearer than further – and one is forever having to focus on freshness and newness. "Expired" things go into creating waste and garbage, whose disposal and limited absorption by the environment pose serious global threats to humankind (Bauman 2007).

From the perspective of individual people, the social costs of the changes underway are reflected in the "contraction" of time. Changes are taking place so quickly that people lose control of their own time. This speed is also distorting relations in line with the saying "no long term" (Sennet 2006). The organization of work is changing dramatically, especially in regard to time. Another element of the problem of the time in the context of the information revolution and network capitalism is addressed by the Norwegian anthropologist Eriksen (2003). Pressing matters at hand are starting to dominate all others, in what Thomas Eriksen labels the "tyranny of the moment". He writes that information society, with its focus on life's quickening pace, is unwittingly heading towards a circumstance where – with incredible speed – everything may just stop in place. This above all concerns technical conveniences which – in saving time – in fact take it away. And this speed concerns everything. Moreover the cult of modernity that here arises permits no respect for maturity and destroys the sense of history along with reflection about the future. Its influence is destructive for making political decisions.

Some researchers more calmly approach the threats that stem from the high speed of change. On the basis of gradualist theories of development they claim that after this period of revolution will pass to a stabilization that will bring the new technology's applications into line with human potentials, socio-cultural acceptability, and our planet's ecological capacities.

Response of the EU to the new technological challenge

What is the European Union's response to the challenges resulting from the information revolution? Simplifying things somewhat, we may answer that question by pointing to two thrusts.

On the one hand, the EU's developmental programs tout innovation. The knowledge-based economy and application of productive innovations are supposed to provide European countries with a fitting and respectable place in global economic competition.

Innovation strategy covers activities on behalf of increasing the effectiveness of scientific research and implementing a process of applying the results of such research in the practical activities of industries and public institutions. The area of R&D shows problems of low outlays and the problem ineffective management at colleges and scientific institutions. In comparing the older EU countries with the US on the basis of indices of innovativeness that measure both input and output, what we note how much the countries of the EU must improve. One of the indices that measures R&D outlays in the EU-27 shows the distance between the new member countries to the older EU countries. Expenditures on R&D do not even amount to 1 percent. Only in the Czech Republic and Slovenia do they exceed 1 percent. The highest expenditures on R&D are in Sweden, with nearly 4 percent, and in Finland, with 3.5 percent (Eurostat 2008). These countries have the highest rankings of innovativeness.

In analyzing the data in the table below, we need note that the EU's innovation strategy (European Commission 2005) has (for now) a highly declarative character: "there is a large gap between the rhetoric of a political system that preaches the knowledge society [on the one hand] and the reality of budgetary and other priorities [on the other] (Aho 2006). In reality, the outlays for R&D in relation to GDP in many EU countries in the entire ten-year period of 1995-2005 rose not at all. In some, it even fell. Moreover, the mobility of highly qualified human resources in science and technology is relatively high only in the UK, Denmark, and Finland.

Table 5.3: Main indicators described R&D resources

Indicators	CZ	DK	EE	FR	DE	PL	UK	EU
Gross domestic spending on R&D* 1995	0.95	1.82	0.58 (1998)	2.29	2.19	0.63	1.95	1.80 (1998)
2005	1.42	2.44	0.94	2.13	2.44	0.57	1.73	1.84 (EU 27)
Job-to-job mobility for employed HRST**, share in total employment in HRST in %, 2005	3.8	10.2	5.2	.	5.2	4.7	9.2	6.1 (EU 20)
Tertiary graduates in science and technology per 1000 of population aged 20-29, 2005	8.2	14.7	12.1	22.5	9.7	11.1	18.4	12.9 (EU 27)

Note: *R& D means research and experimental development, ** HRST – Human resources in science and technology, aged 25-64
Source: Eurostat 2007 and 2008

In 2006 a report on innovation strategy was prepared by an independent group of experts under the supervision of the former prime minister of Finland Asko Aho. The authors of that report called upon the EU to take up fitting initiatives at a supranational level in the aim of achieving critical mass for activities that would make the EU an area of high innovativeness. They drew attention to the fact that the necessary growth in R&D outlays is not sufficient in itself. Rather, what is needed is a paradigm shift in the area of managing science and research. The main factor of innovativeness is the formation of an innovation-friendly market that would create a demand for new technologies in today's strategic economic sectors, and above all in the fields of health, pharmaceuticals, transport and logistics, environment, and digital content industry. The next factor that fosters innovativeness pertains to the growth of the mobility of people, capital, and organizational structures. In this last instance, mobility in organization, what is necessary are fundamental institutional changes that will allow horizontal and network solutions, which in hierarchically constructed R&D institutions elicit strong resistance in many European countries. The real support of European platforms, clusters, and networks could contribute to the required changes in national structures. Returning to the problem of outlays in the R&D sector, the authors of the Aho report point to the sources of additional financing, i.e., state aid, EU structural funds, and the Single Fund Structure for venture capital. This is predicated upon making the attainment of an index of 3 percent of GDP the starting point for further growth. In so doing, the allocation of those structures should take into consideration the primary cites and methods for innovativeness: centers of excellences, excellent scientists, industrial innovations, a science-industry nexus, and pervasive technologies. Bringing the proposed strategy into life requires a European pact, namely: A Pact for Research and Innovation, the shaping of a system for effective management on several levels and the systematic monitoring of achievements by independent experts[8].

The Aho report prompted a certain mobilization at the level of the European Commission in 2006. But above all it raised awareness of the need for urgent change to the management paradigm in the R&D sector. The tempo of the anticipated changes, however, is insufficient to date.

The second answer of the EU to technological challenge (and global challenges) concerns education. The European Union has placed its stakes on the universal education of Europeans all the way through higher education.

Adapting education to the expanded knowledge of the information revolution and developing its applicability on the diversified and globally operating labour market – this is a fundamental challenge for national educational systems. At the same time the effort to modernize education is universal, and is promoted at the various levels of international organizations, primarily as part of the UN's specialized agency UNESCO, and by the OECD[9].

In the European Union the issue of a common educational policy at first was perceived as an element of European employment strategy (Amsterdam 1997, the Lisbon Strategy 2000) and of developing the common labour market, in the aim of boosting a mobile labour force. At the same time initiatives for the development of higher education emerged through the coordination of education systems and expansion of educational choice for students from the European economic area. These initiatives were negotiating into the Bologna Process[10].

This Process constitutes the grass-roots initiative of European countries (in fact, 46 countries), inspired by various UNESCO documents (e.g., in the matter of mutually recognizing qualifications), rather than by EU organs, although they are essential for support. The Bologna Process includes the harmonization of educational systems in order to create compatible programs,

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[8] Under Aho's leadership an evaluation was conducted of the 6th Framework Program of the EU from the perspective of the goals of innovation strategy. That evaluation indicated many of the Programs instances of ineffectiveness (Panel Report 2008).

[9] Since 2000 the OECD has monitored the educational achievements of young people (15 year-olds) within the PISA framework (Programme for International Student Assessment), htpp://www.ecd.org. The latest findings indicate a visible improvement in achievements in European countries (OECD 2006).

[10] The Bologna Process began with two declarations by ministers of education: Sorbonne (1998) and Bologna (1999), the aim of which was the initiation of harmonization efforts at the level of higher education in order to introduce 1) the mutual recognition of qualifications in accord with the Lisbon convention (1997) and 2) the creation of a European Higher Education Area.

the free exchange of teachers and students, the exchange of academic experience in the area of raising qualifications, and mutual recognition of qualifications in accordance with the Lisbon Convention (1997). In 2004 the majority of European countries and European educational organizations ratified this convention. It is necessary to note that the process of harmonizing higher education and mutually recognizing qualifications was begun much earlier than in Europe in several regions of world (UNESCO 2007). At the same time, however, the EU quite early (from 1995) began research in the aim of supporting modern educational methods in preparation for harmonization of the educational process and achievement of a high standard of teaching[11].

A similar initiative to the Bologna Process concerns vocational education. This was called the Copenhagen Process on account of the declaration signed in Copenhagen in 2002 by ministers of education (otherwise known as the Bruges-Copenhagen Process). This initiative is not limited to a specific level of education, as it embraces vocational education at the secondary and higher levels, along with subsequent training and upgrading. Its purpose is to create tools for recognizing vocational competencies to be honoured with the Europass document[12].

The educational challenge concerns not only young people, but also adults. The information revolution is characterized by the great dynamism of changes and supplementing of qualifications, not to mention changes of profession, something which not once will happen in one's life, making it rather more the norm than an exception. Moreover, in the response to demographics an increased interest in educational systems has emerged. That new interest also concerns training programs and efforts to motivate otherwise passive persons (e.g., women and disabled persons) and the older population (otherwise willing to go into early retirement). This strategy is called the Lifelong Learning Programme (LLP), and it contains both the element of training as well as the mobilization of passive persons. LLP is being implemented in EU countries with varied intensity. The leaders in this are the Scandinavian countries, particularly Sweden and Denmark, and next Great Britain. Modern forms of lifelong learning in the new member states are underdeveloped (old arrangements were destroyed), and the dynamic of adult participation in supplemented education and training is very weak (see data in table 5.4). Lifelong learning – this is a really big challenge for the new member states. The type and level of education among the population group aged 40+ is worse and less useful than among younger groups and than among the populations of the old member states.

[11] In this aim 55 research projects were carried out with the Framework Program (IV, V, VI) that were targeted at innovative and effective education: http://www.pbj.co.uk/npl/index.

[12] Europass embraces a standard presentation of a CV and a description of acquired knowledge and skills in the form of a supplement to one's diploma, along with information about mobility and fluency in foreign languages
http://ec.europa.eu/education/programmes/europass/index

Table 5.4: Lifelong learning % of workers between 15-64 having participated* in some form of education and training

Items	CZ	DK	EE	FR	DE	PL	UK	EU 27
Total, 2006	5.6	29.2	6.5	7.5	7.5	4.7	26.6	9.6
Men	5.2	24.6	4.2	7.2	7.8	4.3	22.0	8.8
Women	5.9	33.8	8.6	7.8	7.3	5.1	31.2	10.4
Increase/ decrease 2001-2006	-	+10.8	+1.1	+4.8	+2.3	+0.4	+5.7	+2.5

Note: * during the last 4 weeks
Sources: Eurostat 2007/2008

LLP's stimulation in the EU basically concerns encouraging the school system to broaden education orientated to practical skills (application of knowledge) and to developing postgraduate education, this being for adults. For this reason the Comenius, Erasmus, and Leonardo programs were devised. They focus on the development of partnership via facilitating mobility in the broad area of adapting educational and training needs to the European labour market.

The problem in developing lifelong learning in many EU member countries is above all in organizing it outside the school system. In some of them adults education is supported by employers, but this area in fact requires much focus, as it has developed spontaneously and without protecting quality standards[13].

However, in light of the challenge of globalization and environmental protection, the EU has taken an important initiative concerning the development of a proactive citizenry (European Commission 2007). In the first approach relevant educational practice was examined in 33 European countries. Awareness of the many public problems that have a global dimension, even though they are local, leads participants of these programs to support activity beyond the educational period. This conclusion obviously has very great practical significance.

5.3. The environment

For a long time the problem of environmental protection was perceived as an excessively publicized problem of developed countries, in which societies having achieved material prosperity began to pay attention to improving their quality of life. This was to include having a clean and healthy natural

[13] Among the exceptional programs in this area is the Grudtvig program, which focuses on the development of partnership between organizations of adult education, exchange of experience, and mutual assistance. This program has rendered many positive effects in creating a network of partnered organizations and educating people in so-called sensitive groups, i.e., immigrants, the elderly, and the handicapped. (European Commission 2007).

environment. Meanwhile, the world faced a common challenge – climate change – the consequences of which concern both prosperous countries, developing countries, and the very poorest (LDCs – Least Developed Countries). This last case is even more affected than the richer countries, because of their disadvantageous – in the context of climatic changes – geographical situation.

Climate change is expressed in the rise of the Earth's average temperature beyond a safe level. Scientific communities believe that an increase of 2 degrees Celsius from the level ascertained for the dawn of the Industrial Revolution is the maximum acceptable increase, that is, one that would not yet cause dramatic consequences (UN Nations Foundation and Xi Scientific Expert Group 2007 Sigma). Today, however, the increase has already reached 3 degrees C, and so it has begun to influence the melting of glaciers, a rise in sea levels, the appearance of extreme weather phenomena, and various other disadvantageous phenomena for life on Earth[14]. The cause of global warming is tied to human industrial activity, which has filled the atmosphere with greenhouse gasses, most perilously carbon dioxide. It derives mainly from burning fuels used for production and consumption. The intensive exploitation of coal and petroleum over the past 200 years, something which has brought about an unprecedented improvement in living conditions, has also (particularly over the last decades) caused the exorbitant emission of gases into the atmosphere that cannot be absorbed. In reports on climate changes we may read that the Earth can absorb only about 5 bn metric tons of CO2 per year, whereas at present some 27 bn tons are being emitted (UN CDP 2007).

The consequences of the high and indeed still increasing emission of gasses seem dire. The dangers include the restriction of agricultural cultivation (the production of food) and of access to drinking water. The equilibrium of the ecosystem may be upset and cataclysmic weather patterns can ensue. The *per capita* fall in consumption and prosperity is assessed at even 20 percent (Stern 2006).

The warnings of scientists were long received with scepticism. However, evidence of the dangerous consequences of climatic changes for the planet started to accumulate dramatically. The year 2007, in which many expert reports were published and more energetic activities were undertaken, seems to be a turning point. This is worth stressing, since international efforts to date had not brought results. The determinations of the Kyoto Protocol (1997) met with acceptance only slowly, and in 2007 the emission of greenhouse gases was still rising, something which increased the dangers even more. Thus, a new round of efforts was made to mobilize global action that culminated in the December 2007 climatic conference in Bali, which seemed to break the inertia,

[14] Described in numerous scientific reports and by international organizations. World Meteorological Organization (WMO) and United Nations Environment Program (UNEP).

and even the resistance against acknowledging the dramatic consequences that climatic change threatens.

It is possible to talk about two game plans in the face of threats resulting from climatic changes (Opschoor 2008). The first, called adaptation, relies on the immediate reduction emission of greenhouse gas emissions in developed countries, and stopping their growth in developing countries. The second strategy concerns eliminating damage (mitigation), and would mean accepting new paths for development; curbing economic growth, reduction of energy consumption based on current sources, and reduction in material prosperity on behalf of improving the quality of life and the quality of the environment. Such a strategy, initially carried out together with the adaptation strategy, in time would not require limitations on production emissions. However, less materialist consumption, less wasteful and more ecological – this is a mission that clashes with the current mode of stimulating development. Nothing strange then, that there is enormous resistance to understanding the threats and taking action against them. For such countries like China, India, Indonesia and many others, ones that are finally on the fast track of economic growth, the very idea of stopping the increase in greenhouse gas emissions incites opposition. The issue of climatic challenge for them is thorny, and appeals for quality in the growth of the economy, rather than for quantitative increase, cause irritation.

Hope rests with the positive effects of seeking new technological answers in the area of energy sources and their use. The rise in fuel prices over the last years, although not triggered by awareness of the need to limit their extraction, but rather by perturbations relating to political conflicts, is an unexpectedly positive development that has been fostering interest in investments in alternative energy sources and has also contributed to wiser use of current sources.

Response of the EU to climate change

The European Union has joined in the global campaign to limit the emission of gases (decarbonization). In 2004 a decision was made(180/2004/EC) on the systematic reduction of greenhouse gasses in the atmosphere by all EU member countries. In the period 2008-2012 the emission of gasses is to be reduced by on average by 8 percent in comparison with the level for 1990. At the same time, each country a target index was established (see table) as per the Kyoto Protocol. Examination of the statistics on gas emissions (Eurostat 2007) allows us to state that the European countries have been determined in their efforts to reduce emissions. Already by 2005 emissions had been reduced by 2 percent, thanks to the actions of the biggest emitters: Germany and Great Britain. The poorest showings are in southern Europe: Portugal, Spain, Italy, and Greece – and in Slovenia, too.

Table 5.5: Greenhouse Gas Emissions

Indicators	CZ	DK	EE	FR	DE	PL	UK	EU 27
Per capita in tons of CO_2 equivalent 2005	14.2	11.8	15.3	8.8	12.1	10.5	10.9	10.5
Emissions* 2005	74.2	92.2	48.0	98.1	81.3	68.0	84.3	92.1
Target*	92.0	79.0	92.0	100.0	79.0	94.0	87.5	92.0 (EU 15)

Note: * according to Kyoto Protocol for 2008-2012; Kyoto base year index = 100
Source: Eurostat 2007

The reduction of greenhouse gasses into the atmosphere is strongly connected with the amount and type of energy consumed The program document announcing the beginning of a three-year plan for 2007-2009 in the fight against climate change is called the Energy Action Plan for Europe. It is "designed to set the EU — and its citizens — on the right course to combine the fight against climate change with greater security of energy supply and continued economic growth" (European Commission 2007).

Targets and Actions of 'Energy Action Plan 2007-2009'

– Save 20% of energy consumption compared with projections for 2020 by improving energy efficiency;
– Increase to 20% by 2020 the share of renewable energies in overall energy consumption, thus almost tripling the current level;
– Increase tenfold - to at least 10% - the share of biofuels in overall petrol and diesel consumption by 2020, provided that sustainable, 'second-generation' biofuels from non-food crops become commercially available;
– Develop and promote low- or even zero-emitting technologies, including carbon capture and storage i.e. preventing CO2 entering the atmosphere by capturing it and storing it underground in depleted gas fields or old salt mines - so that these can make a major contribution to reducing emissions by 2020;
– Better integrate EU energy markets, i.e. moving towards more competitive, Europe-wide electricity and gas markets;
– Better integrate EU energy policy with other policies, not just with environment policy, but also with policies such as research, agriculture and trade;
– Increase international cooperation: if the EU can take a common approach on energy, and articulate it with a common voice, it can lead global debate.

The energy challenge is very costly. For investment is necessary in renewable energy sources, in energy-saving technology, and public transport together with its infrastructure. At the same time there exists the need to search for savings regarding the energy used today by its main consumers: transport, industry, and homes. In recent years the main consumer of energy is transport. Especially in the new member countries the use of energy by transport is very dynamic. Only in Germany does transport not absorb more energy than a decade ago. But the level of energy used is the highest in Germany of all the European countries.

Table 5.6: Energy dependency and energy consumption from renewable sources

Indictors	CZ	DK	EE	FR	DE	PL	UK	EU 27
Energy dependency*	27.4	-51.6	25.8	51.6	61.6	18.0	13.9	52.3
Share of gross in-land consumption from renewables	4.1	16.2	11.2	6.0	4.8	4.8	1.7	6.7
Increase/decrease of energy final consumption (1995-2005):	+	+	+	+	-	-	+	+
- transport	++	+	+	+	0	++	+	++
- industry	-	-	-	0	-	--	-	0
- others	0	0	0	+	+	-	+	+

Note: *share of imported energy
Source: Eurostat 2007

The European Union has accepted an energy package via the soft instrument: the Open Method of Coordination (OMC). Do these undertakings fit in the system of values and within the institution of the European Social Model? Are the threats to the environment and the need to change the current developmental model (mitigation strategy) sufficiently understood and accepted? Intuitively it would seem that European countries respect and care about the natural environment more than the US does, though perhaps not yet to the degree that Japan does. The challenge and the rescue for Europe's consumption is in the transformation of the social dimension of development from the status quo to a more ecological model.

5.4. Population decline and ageing

Ageing is a universal process in the contemporary world. It was triggered by a decline in both fertility and mortality, the latter leading to an extension of the average life-span. The world is now entering a third demographic phase in which only the older population is increasing in size.

Table 5.7: Life expectancy at birth in the countries analyzed

Indi-cators	CZ	DK	EE	FR	DE	PL	UK	EU (25)	NMS (10)
LE Male-Female 2005	72.6-79.0	75.2-79.9	66.0-76.9	76.7-83.8	75.7-81.4	70.2-79.2	76.2-80.7	75.6-81.8	70.4-78.7
2050	79.7-84.1	80.9-83.7	74.9-83.1	82.7-89.1	82.0-86.8	79.1-84.4	82.9-86.6	81.8-86.9	78.7-84.1

Source: European Commission 2007

At the beginning of 1950s the average life expectancy (LE) worldwide amounted to 47 years, whereas today (in the early 21st century) it amounts to as many as 65 years. Moreover, it is expected that in by 2045-2050 it will reach 75 years. In the countries of the European Union this level of LE was achieved already in the 90s. In 50 years the average European citizen will live to be 80 years old.

During that same time the fertility rate dropped from 5 children per woman to 2.6, and in 40 years it will further drop, as demographic forecasts indicate, to 2, which will stop the world's population growth (UN 2007). In Europe this process has already occurred, and over the next four decades the population figures for the countries of the European Union will be falling. This will place the share of the European population in totals for the world at only 5 percent, although recently it constituted 15 percent (UN 2007).

Table 5.8: First year of population decline

Europop 2004*		Europop 2008*
	> 2050	Denmark, France
France	2042	
Great Britain	2040	
	2021	Czech Republic
Germany	2014	
Czech Republic Estonia, Poland (all EU 10)	>2008	Estonia, Poland

Note: * baseline variant of population forecast from 2004 and 2008
Source: Eurostat 2008

In the EU's new members the lack of population growth has already appeared. This is caused by both the dramatically lowered total fertility rate and the outflux of people as a part of migration processes. These countries still belong to the sending countries, except for the Czech Republic, where the phenomenon of immigration is become important.

The demographic prognoses elaborated by Eurostat suggest, that an improvement of the fertility rate will be limited, and that in the older EU countries we analyze (where it is relatively high, though still below the replacement level) it will barely manage to hold its position.

One-quarter of the EU's population is over 65 years old. In 40 years, according to the baseline scenario of Eurostat's demographic forecast, the statistical presence of this group will double.

Another indicator depicting the ageing process of Europe's population – average age – also shows Europeans to be ageing. In the mid-90s the average age was about 38 years. By 2015 it will be well past 40, and in 2050 it will be more than 50.

Table 5.9: Total fertility rate and dependency ratios for the countries analyzed 2008 – 2050 (%)

Indicators	CZ	DK	EE	FR	DE	PL	UK	EU 27 average
Total fertility rate								
2008	1.23	1.85	1.55	1.90	1.34	1.27	1.84	1.54
2050								
Europop 2004	1.50	1.80	1.60	1.85	1.45	1.60	1.75	1.60
Europop 2008	1.49	1.85	1.64	1.94	1.49	1.44	1.84	1.65
Young age dependency ratio*								
2008	20.1	28.0	21.3	28.1	20.7	21.8	26,4	23,3
2050 according to:								
Europop 2004	22.2	26.0	24.9	27.7	21.1	22.6	25.0	23.6
Europop 2008	22.3	27.5	24.9	29.7	21.5	20.4	27.4	24.6
Old age dependency ratio**								
2008	20.6	23.6	25.2	25.3	30.3	18.9	24.3	25.4
2050 according to:								
Europop 2004	54.8	40.0	43.1	47.9	55.8	51.0	45.3	52.8
Europop 2008	54.8	41.3	47.2	44.7	56.4	55.7	38.0	50.4

Note: * population aged 0-14 as a percentage of population aged 15-64, ** population aged 65 and more as a percentage of population aged 15-64
Source: Eurostat 2008

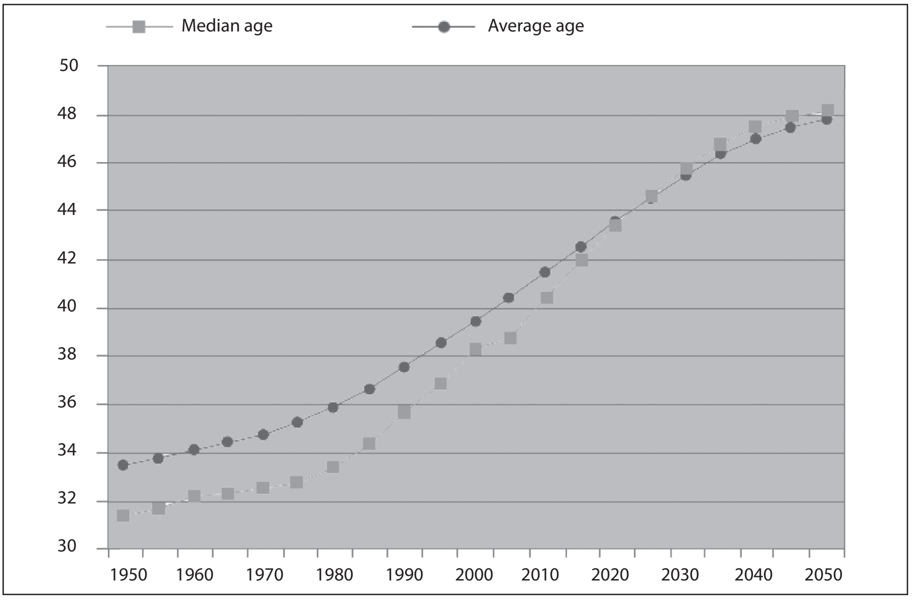
Amongst European countries a difference is visible between the group of older and wealthier members of the EU and the group of new and less wealthy countries. The demographic processes are at present much faster in the new member countries, which may make meeting the demographic challenge a significantly greater problem for them.

Demographic analyses and forecasts indicate that the ageing process is inevitable. So what does this mean for humanity's future, and for the future of an older and older Europe? Numerous studies have been initiated into the phenomenon of ageing not only in the medical context, but also in the social and economic context. In the first period, research focused on the life of the older population[15]. Subsequent analyses examined the effects of the ageing process on the social security and health care systems[16]. At present the effects are being analyzed for the economy, the labour market, income divides, and consumption.

[15] For example, one of the first framework projects of the EU (precisely, the Vth) on this topic was AMANDA (*Advanced Multidisciplinary Analysis of New Data on Ageing*) yielded a rich body of data on the population of the elderly within the SHARE research (*Survey of Health, Ageing and Retirement in Europe*), which studied the living conditions of 22,000 people over 50 from 11 countries of the EU-15 (Börsch-Supan et al. 2005).

[16] This was focused on by two large research projects carried out within the VI Framework Project of the EU: AIM (*Adequacy of Old-Age Income Maintenance in the EU*) and AHEAD (*Aging, Health Expenditures and Determinants*), finalized in 2007-2008.

Figure 5.1: Change in the median and average age in the EU-25 1950-2050



Source: Eurostat 2004 onwards: 2004 Demographic Projections (Baseline scenario)

5.4.1. Strategies and policies to face the challenges of demographic changes

Political debate and the initiatives slowly being taken in reaction to information about the phenomenon of ageing and its inevitability concentrate on a few fundamental problems: its coincidence with the consequences of globalization, the information revolution, and the threats to the natural environment. What is our situation in the future to be like? Human resources are shrinking in the age of traditional professional activity (15/64), whereas in the context of the information revolution and heightened competition at the global level what is needed are younger and more mobile labour resources.

What strategies are therefore under consideration? Both at the level of global international organizations (UN 2004), as well as the EU level (EC 2007) the following policies are currently being considered:

Migration as a response to ageing?

Although the phenomenon of ageing has attained a global character, migration can correct the upset balance of the population in regards to age only periodically and regionally. This means that incentives to immigrate on the part of target countries is a short-term policy that does not uphold solidarity, when viewed from an international perspective. Target countries with high standards of living and high standards of democracy, can easily fill their labour market gaps by carrying out an open or selective immigration policy. Over time however, the costs of such a policy prove too high to be effective. Problems with integrating the influx population appear (often more in the second than in the first generation of immigrants). States then attempt to prevent and/or offset these problems via numerous and costly programs designed to promote societal integration. A high scale of immigration can also provoke political problems related to attitudes of intolerance towards foreigners that are known to turn outright xenophobic. Moreover, the hope of creating a younger demographic structure via the influx of foreigners who have starkly different cultural concepts of social life and the family, turns out to be fanciful. This is because foreigners adopt models for forming families from their local population.

Besides that, the high scale of emigration from source countries disrupts their demographic structures by reducing the skill level essential for their development, along with their innovativeness and their potential in the energy of a young workforce.

The classic theory of migration assumes that the balance in workforce inflow and outflow corrects itself, albeit with a certain delay, in furtherance to the flow of capital. However, the adjustment of the flow of population to the flow of capital is not automatic, for it is also limited by emergency programs in state policy. Moreover, it is stimulated by the internal dynamism of the very process of migration. Indeed, it creates a network of contacts, migration services, and transport-communications infrastructure.

The history of migration processes in Europe is replete with tumultuous and diversified periods of population flows. European countries have been (and remain) a source of human resources for both Americas, Australia, and New Zealand, but also a destination for populations from the eastern part of the continent and from former colonial countries.

The more the standard of living rises in European countries, the more they become the destination for populations from different parts of the continent and the world. Some of these countries, until recently belonging to the traditional group of forwarding countries, e.g., Italy, Ireland, and Portugal, today are found among the target countries. This gives rise to the (illusory) belief that migration processes will always provide a workforce for the rich countries, so long as they attend to their own prosperity.

Simulations on the influence of migration on improving the demographic structure of developed countries show that no immigration policy can safeguard their demographic needs in the long term.

Nonetheless, even in the near-term perspective migration processes are worthy of analysis and stimulation tailored to the needs of the global and domestic labour market. The European Union is pursuing a policy of effectively integrating immigrants as the crucial factor in attracting a foreign workforce (European Commission 2000, 2004). Analyses judging the politics of integration in EU countries using the tool known as the Migrant Integration Policy Index[17] portray

[17] This index evaluates 6 elements: access to the labour market, the possibility of joining a family, the possibility of long-term stay, participation in elections, the possibility of cultivating national culture, and the implementation of anti-discrimination regulations (Niessen et al. 2007).

highly diverse results. Out of 28 analyzed countries only 9 are conducting a policy supporting the integration of foreigners. They include only Northern and Western European countries: Scandinavian (excluding Denmark), the Netherlands, Great Britain, Belgium, Portugal, and Spain (Niessen et al. 2007: 3).

The European Union upholds a policy of selective acceptance of immigrants, ones having high qualifications and belonging to sought after professions. This policy endeavours to avoid the costly red tape traditionally surrounding immigration. One way to reduce administrative costs would involve introducing immigration quotas and the so-called Blue Card Scheme. Another element would be that of favouring foreign students and college graduates in gaining access to work permits that could be made avail of in the any practical moment in the life of the potential migrant (European Commission 2006).

Contemporary migration processes often have the character of periodic earning endeavours, during which migrants have no intention of settling in the destination country. They are rather an expression of workforce mobility in the era of globalization. In the EU we are witnessing more and more of this kind of the migration. The flows from the EU's poorer new member countries to the richer and older members of the EU, e.g., from Poland or the Baltic countries to Great Britain and Ireland, Sweden and Germany[18], may be treated as an example of this. However, the problem is that in the shorter term we are dealing with an asymmetry of advantages. The target countries see this in the category of the costs for their welfare state and in discouraging the considerable scale of the consumption in their countries in result of the outflow of immigrants' earnings (remittances) to their families back home. Countries experiencing outflow, in turn, suffer from brain drain, deficits in qualified labour, and from a shrinking youth population. This all has negative consequences on those countries' labour markets, and thereby impedes their development. It is thus nothing strange that we hear more and more voices about the need for joint policies and cooperation between the countries sending and receiving migrants (e.g., Engerer, Schrooten 2008).

5.4.2. Active family policy, gender equality, and partnership within the family

It is obvious that the political response to the tendency of declining population and ageing is to call for procreative family policies. The problem, however, is that the way such policies are envisioned is altogether diverse, both culturally and ideologically. Some countries at all costs defend the traditional family against changing conditions and tendencies, assuming that they are the force disintegrating and destroying the family. In other countries a rather pragmatic approach is applied, one assuming that proactive measures

[18] As regards work in Germany, which has not yet fully implemented the principle of the free flow of labour from the new EU countries, of essence are the specific regulations that additionally select the influx of labour to the domestic labour market.

in the policy sphere cannot halt tendencies resulting from changes in the contemporary world. Then family policy focuses on areas which relieve exceptionally adverse trends and support the family in its new conditions and forms. Another possibility is the attempt to welcome social transformations as an expression of freedom and modernity. This means a distancing from intervention intended to correct transformations in the family and influence its procreative decisions.

Discussion and accord in this field are difficult in that the family is not only an institution for procreation. It constitutes one of the most important institutions of human life, one whose smooth functioning provides fundamental values that allow every person to be fulfilled. This institution is not only different in culturally diverse places of world, but also changes in time. If the large, multigenerational family was characteristic for the economic structure in which farming dominated, and the small family with one bread-winner for the structure dominated by industry, the shape of the family in the service and information economy remains an open question. One could say the type of contemporary economy with the predominance of services promotes the partner model for families, with professionally active women and men. Indeed, it is easy to demonstrate that today's post-industrial economy facilitates the development of the partnership model of the family. The more flexible the organization of working time and the more services that are also essential for the functioning of families – this no doubt facilitates partnership. At the same time, however, the service economy and flexible labour market arrangements are erasing the time and place essential for family life, something which requires stability and certain rituals. Thus the matter of time and space becomes a daily issue for the family. For it simply cannot be had along with carrying out all else: greater productivity and intensity of work, greater profitability of enterprises, higher turnover in commerce, higher earnings, and higher income equivalence.

Patricia Morgan (1995), who analyzed and characterized various kinds of reactions on the part of national family policies, believes that policy that seeks to defend the traditional family in fact does the most harm, because it creates false motivations and does not help the real family with its real problems and aspirations. Perhaps this explains why in countries with a traditional family policy, that is, in Italy and in Spain, the readiness to marry and to have children is the lowest in contemporary Europe?

It would result from the above that what is needed is a rather pragmatic family policy, one adapted both to new economic conditions and new demographic challenges, but one also able to foster expected and culturally diverse values. Such a policy is needed in all the countries of Europe, all the more so as the current arsenal of means designed to reconcile professional and family life is insufficient and sometimes unreliable: child benefits, post-maternity leaves, or parents' half-time employment with entitlements to social insurance. Much greater attention in the postulates of new family policy is devoted to solutions from the realm of public services (European Commission 2004).

Another element of EU policy, one which is currently orienting family policy, concerns equal treatment for women and men. The conviction of the need to implement the principle of the equality of the sexes was born not only on the basis of the fight for equal rights, with the strong participation of the globally cooperating feminist movement[19]. It is also a matter of meeting halfway the developmental necessity connected with the presence of women on the labour market. In regards to the tendency of shrinking workforce resources, the professional employment of women mitigates the generational imbalance in financing social security.

The approach of the EU to upholding the principle of the gender equality covers three phases and at the same time three dimensions of action: equal treatment, the policy of creating conditions for equal treatment (positive action), and gender mainstreaming (Rees 1998). The concept of gender mainstreaming belongs to the basic, flagship policies of the European Union. It concerns permeating every dimension of social life with the principle of gender equality. Its essential element regards the problems of parenthood, the structure of the family, the organization of working time, family life, and personal independence. This policy is pursued via legal methods based on the original portions of article 2 and 3 of the Community Treaty (EC Treaty 1957) and many other derivative and detailed regulations in the field of employment, pay, education, the family, health, and social security. The EU has also earmarked economic funding to carry out this principle. For the finances of structural funds also serve to support endeavours on behalf of the equality of the sexes. In 2007 the European Institute for Gender Equality[20], with its seat in Vilnius, was created with the task of supporting gender equality policies through information campaigns, scientific research and promotional activity, publications, conferences, and media debates.

The principle of equal treatments of the sexes has not yet met with proper institutionalization and support in all countries of the EU[21]. The findings of Eurobarometer (European Commission Eurobarometer 2007) show that, despite the belief that discrimination exists in membership countries (40 percent of those questioned had such an opinion), particularly on the labour market, political efforts intended to bring about specific legal changes is altogether diverse (European Commission 2007). On this basis it is possible to say that European regulations in this very politically sensitive matter do not yet have the

[19] The main postulates addressed to policy makers were articulated at the World Congress of Women in Pekin in 1995 (Hafner-Burton, Pollack 2000).

[20] With a budget of 52.5 mln Euro for the period 2007-2013: http://ec.europa.eu/employment social /equ opp/gms

[21] For example, the Polish bill on the equal status of women and men was not accepted in Parliament either in 1999 (rejected in the first reading) or later in 2003. Today it is not even on the agenda.

appropriate impact. In a publication appraising implementation of the concept of gender mainstreaming it has been compared rather to threading a needle (Pollack, Hafner-Burton 2000) than to a grand parade. Perhaps societies that are at another stage of economic development and remain somewhat distinct culturally are resistant to modern gender equality regulations?

5.4.3. Health care and LTC

The future of health care is strongly conditioned by two challenges: demographic and technological. The demographic challenge is mainly connected with the ageing of the population, although the promotion of procreation will likely contribute to greater attention being devoted to reproductive health. The technological challenge, on account of the higher costs of new medical technologies, will probably cause greater weight to be given to appraising these technologies from the point of view of costs and their real impact on health (health technology assessment).

Ageing that leads to a rise in the number of people living longer (see the indicator *old dependency* in table 5.9) causes a basic epidemiological change. Amongst causes of mortality and the incidence of sickness, chronic illness will be dominant, and the end of the life will come at more and more advanced age. This will generate fundamental changes in health care systems, which will focus more on prevention and rehabilitation under the banner of "healthy life expectancy and healthy ageing". Moreover, institutional solutions will become widespread within the new sector of social security, that of long-term care addressed to dependent and semi-dependent persons now living longer.

The shift to the new model of health care is not and will not be an easy process – nor a sufficiently fast one. It will require a change to the currently powerful paradigm present in health care that concentrates its means and attention on curing illness in a way that is more and more medically effective and modern (in application of modern technologies), at the expense of activity on behalf of promoting health and prevention. The change to the current paradigm should mean achieving a balance between curative medicine and public health; maintaining health and preventing illnesses that can be avoided or cured in their early phases. In consequence what should follow is a certain reallocating of means from curative medicine toward health-maintenance efforts (environmental, behavioral), raising awareness of healthy lifestyles, and upholding the principle of prevention as a priority in health protection policy.

The new technologies in medicine constitute one of the basic factors changing the health care system. This influence is far-reaching. On the one hand, scientific medical research that brings about progress in curing illnesses, causes a rise in the system's costs. This in turn raises questions on providing the availability of new technologies for everyone. With reference to some aspects of medical research ethical questions arise that concern the scope of acceptable biological interference, particularly in the case of genetic engineering.

Both the ageing of the population, as well as new technologies, constitute decisive factors (along with rising incomes) influencing the costs of the health care system. Research into the scale and the role of each of these factors in those costs has not yet yielded precise answers. However, in the case of the demographic factor there has been some success (Zweifel et al. 1999). As death-related costs are the highest a person incurs in life, the shift in mortality to later years of longer lives may perhaps even reduce them by stabilizing the influence of other variables. After all, the increased health expenses of the elderly are not caused so much by age *per se*, but by the probability of death in old age.

Table 5.10: Increase of public spending on health care as % of GDP

Indicators	CZ	DK	EE	FR	DE	PL	UK	EU 25
2004	6.4	6.9	5.4	7.7	6.0	4.1	6.7	6.4
2030	+1.4	+0.8	+0.8	+1.2	+0.9	+1.0	+0.7	+1.3
2050	+2.0	+1.0	+1.1	+1.8	+1.2	+1.4	+1.6	+1.6

Sources: European Commission DG ECFIN 2006

The increase in expenditure on health care will, however, be inevitable (Golinowska, Kocot, Sowa 2007). Forecasts for expenses of the European Commission are admittedly quite reserved (the results are shown in the above table), but they leave no doubts. In all likelihood the new technologies, which in formal analyses are hard to precisely estimate, will have a fundamental role in this.

Over the last period of longer lives, new costs have emerged, namely, costs of rehabilitation and daily care, which are treated as costs not of the medical sector, but of long-term care (LTC). Generally, however, as a result of ageing the costs of medical and social care will be higher.

Spending on LTC is highly sensitive to the institutional arrangement of care for older people (home-based versus institutional care, or formal versus informal care) and to trends in the disability rates of elderly citizens. European Commission projections indicate that compared with a “pure ageing” scenario, LTC spending would be between 40-60 percent lower if the disability status of older people improves broadly in line with projected life expectancies (Economic Policy Committee and European Commission 2006).

The ageing trend between new and old member states will undergo significant change in the future. More elderly persons will live in Central and Eastern Europe than in Western Europe (see table below). At the same time, projections of spending on LTC suggest that the cost of care for the elderly people in new member states would be very small: relatively 3-times smaller than in the old member states (respectively: 0,5 and 1,5 percent of GDP – DG ECFIN calculation based on reference scenario). These projections are rather unrealistic, if only because they assume limited changes in the institutional arrangements of care in the new member states.

Table 5.11: Increase of population aged 80+ and projections of public spending on LTC as % of GDP

Indicators	CZ	DK	EE	FR	DE	PL	UK	EU
Population aged 80+								EU 27
2008	3.4	4.1	3.6	5.0	4.7	3.0	4.5	4.4
2035	7.9	7.7	6.8	8.5	8.9	7.7	6.7	7.9
2060	13.4	10.0	10.7	10.8	13.2	13.1	9.0	12.1
Spending on LTC								EU 25
2004	0.3	1.1	.	.	1.0	0.1	1.0	0.9
2030	0.5	1.8			1.4	0.1	1.3	1.1
2050	0.7	2.2			2.0	0.2	1.8	0.6

Source: Economic Policy and European Commission 2006, Eurostat 2008

The EU's reaction to the new challenges in the area of health care and LTC includes two simultaneous directions: support for the development of new medical technologies and at the same time promoting the development of public health in a way to foster healthily growing old.

EU support for new medical technologies is selective and cautious. For on the one hand we have distinct preferences for applying nanotechnology in medicine (NanoMedicine – European Commission 2005). On the other are programs backing research into the consequences of applying those new technologies. This includes consequences of an ethical character. With the EU's support, examination of the ethical consequences of the above research and new medical technologies is underway (http://ec.europa.eu./european group ethics.activities/index). Programs have begun at the Community level that back research and activities devoted to appraising the new medical technologies from the point of view of health technology assessment – HTA). In 2006 a network of national institutions conducting such analyses was created – EUnetHTA (www.eunethta.net).

The EU's support for public health is a fact. It has been laid out in many documents. From the point of view of the new challenges of special note is the document "Europe for Health", unveiled in 2002. Recently a new "Health Strategy" document was elaborated for the period 2008-2013. Its core is that of good health in an ageing Europe. The concept behind the push to achieve good health is that of creating the proper conditions and integrating member countries' many health policies (European Commission 2007).

5.4.4. Income for older people

The greatest anxiety in the context of ageing is associated with securing income for older persons. The share of the population in the EU-27 countries requiring social security will increase in the next 20-25 years by about 10 percentage points; from 17 to 27 percent and 2-fold in 2050. (Eurostat 2008). With unchanged policies in this area the burden of maintaining decent income security for seniors will steeply rise. So it is no surprise that one of the social strategies being carried out by the EU in observance of the Open Method of Coordination has been directed at sustaining adequate and financially secure pensions.

More effective and surer financing of pensions is a matter under discussion for over 20 years, and is one of the main reasons for undertaking reforms in many countries of the world, EU countries among them. The main thrusts of the actions taken rest on:

- a later retirement age (not only nominally, but above all effectively),
- determining pensions on the basis by the individual's contributions (the defined contribution system) in order to reinforce the link between the right to a benefit and its amount on the one hand, and participation on the labour market on the other,
- implementing obligatory fully-funded segments and individual accounts systems,
- securing minimum benefits for the period of old age through the system of the universal, public pensions in response to the potentially increased risk of poverty among the elderly.

The scope of the reforms undertaken in EU countries is indeed diverse, and it is also much greater and more radical in the new member countries than in the older ones. One result of this is the dramatic lowering of pension payments and their future levels. The biggest differences between future and present indices appear in Poland (see the table 5.12), which undertook the most radical pension reforms via introducing a considerable scope for the funded pillar in financing pensions. In the future the average pensions in Poland, Estonia, and also in Latvia will be significantly lower than at present. Admittedly this will curb the pressure of the pension system on public finances, but it will probably also increase the pressure of other branches of social security (mainly social assistance) in order to counteract the appearance of poverty among older persons.

Maintaining the current level of pension benefits for a greater range of the older population will require an increase of public expenses allocated for pensions, in spite of the gradually rising retirement age. In the EU this will amount to an increase of approximately 2 percent of GDP, though in some countries it will be much higher – e.g., in Denmark and the Czech Republic. How to reconcile this increase with the need to support families, with increased investment in human capital (in consequence, with greater intergenerational solidarity), and with the bigger outlays on behalf of integrating Europe's multicultural communities? The social strategies being drafted by the EU do not yet boast complete answers to these questions. To live healthy and work longer – that's the basic slogan. But that requires investment, and the rewards do not come fast.

Table 5.12: Projections on pension: expenditures as % of GDP and theoretical replacement rate

Public expenditures on pension	EU 25	CZ	DK	EE	FR	DE	PL	UK
2005	10.6	8.5	9.5	6.7	12.8	11.4	13.9	6.6
2030	11.9	9.6	12.8	4.8	14.3	12.3	9.2	7.9
2050	12.8	14.1	12.8	4.2	14.8	13.1	8.0	8.6
Replacement rate (net)								
2005	-	79	71.3	41.1	79.7	63.0	77.7	82.0
2030	-	70	77.0	41.6	66.4	65.0	63.8	84.0
2050	-	70	76.1	43.1	62.6	67.0	43.9	85.0

Note: theoretical replacement rate was calculated for a worker retiring after 40 years with average earnings
Source: Eurostat 2008 and Social Protection Committee (SPC) 2006

The EU's social policy is realized via the Open Method of Coordination, which rests on an important premise that is not always openly articulated. For main challenge for the future is rather more integration (social inclusion) than fighting material poverty, which of course does not mean that concern for material well-being has been dropped from the list of Europe's priorities. But that concern has taken on new meaning. In view of the challenges connected with the natural environment and limiting the traditional sources of energy, the most urgent need is to change the contemporary lifestyle, in which the drive to have and consume more and more has been dominant. For that drive has led to behaviours that are profligate and injurious to both human health and the natural environment.

5.5. Conclusion and recommendations

The debate on the achievements and shortcomings of the new version of the Lisbon Strategy (see chapter III) prompts reflection on its social dimension. Studies emerged in the middle of the present decade both of an expert (Policy Network 2006) and political character (Party of European Socialists – Rasmussen, Delors 2006). They undertook an assessment of current EU social policy and called for amendment and/or intensification of the efforts underway. Many recommendations result from an awareness of the need to take into consideration the challenges of the future and the need of adapting the social dimension to the EU's economic developmental concepts, However, the current debate is not free of elements defending traditional EMS values. In spite of differing accents in the discussion on the EU's social future and on ranking the proposed measures, several demands are shared. They may be itemized thus:

(1) Protection of the natural environment and thwarting climate change constitute one of the more urgent social, political, and economic tasks. Environmental

protection should be a key criterion of assessment for every single action plan, regardless of urgent efforts focused on limiting the emission of greenhouse gasses into the atmosphere. Environmental protection should occupy a leading place in civic endeavours and for corporate social responsibility.

(2) Investment in high quality education for everyone throughout life. With respect to current EU programs focusing on education on the higher level and vocational schools orientated to the needs of the contemporary labour market, greater attention must be given to early education and to outside-school systems, as well as to the education of groups experiencing difficulty in standard education, and who are thereby at risk of unemployment social exclusion.

(3) Maintaining a policy of high employment with protection of decent working conditions.

(4) Supporting the developmental aspiration of lagging, poorer regions in order to create investment bases for their activation and to foster their closer social cohesion.

(5) Changing the approach to migration policy in the direction of treating it as an expression of mobility; not brain drain and selection of professions, but brain circulation and free flow of the workforce with balanced proportions for costs and the benefits between sending and receiving countries. Moreover, an increase in investment on behalf of integrating immigrants is needed.

(6) A new arrangement of the system coordinated in the EU of social security adapted for greater labour force mobility and a more flexible labour market ("flexicurity").

(7) Supporting the family and help in raising children (social services for general interest) under changing conditions regarding the way families are formed, the high professional activity of women, and the high job mobility of parents.

(8) Promotion of healthy lifestyles for all, including the ageing, with simultaneous control of the effects and costs of both health care and new medical technologies.

(9) Maintaining pension security for older persons at an adequate level, at the same time as introducing policies of delayed retirement as a result of the socially-accepted and effective activation of older people.

(10) Introducing active and positive policies to assist people at risk of poverty and social exclusion by their activation and inclusion into local projects for the labour market.

(11) Giving greater priority (in both the political and economic meaning) to public matters over the longer perspective, and improving governance in the public sector, both at the state and local level.

Summing up, the recommendations outlined here should lead to changing the direction of development toward a more ecological and sustainable socio-economic one that is friendly to the family in its new forms and with its new challenges. Such elements are already present in many EU countries, as well as in domestic strategies and policies being implemented. However, it seems that they function more as general slogans and fitting goals, but still fail to be made into concrete action plans equipped with resources and instruments for their realization. From this point of view Anthony Giddens (2006) is critical of the Lisbon Strategy. In his opinion we face a serious change in thinking about the ESM and its implementation. It is supposed to be not merely the "human face" of a new, highly competitive knowledge-based economy, not only a compatible system, but above all else a social system that creatively internalizes that economy, fostering its goals as instruments of achieving social justice and the good life. This new ESM would be a crucial factor for sustainable development, and would make people pleased to be living in Europe.

Europe therefore needs a new, not only an active, but a positive social policy, one that would be able to manage new social problems, and above all invest in people: into their creativity; into getting to know and understand the world; into their ability to deal with new risks, and first and foremost in the capacity to convert risks into challenges that permit the development of new opportunities. This new EMS according to Giddens assumes certain limitations, ones necessary due to ecological concerns and because of energy shortages. These limitations entail a change of lifestyle in favour of a more modest, more active, healthier and more rational lifestyle in the aim of eliminating waste and the pathologies of prosperity.

Such a direction in thinking does not yet meet with universal understanding. Debate on this topic is difficult, peculiarly in the EU's new member countries, which have not experienced prosperity and are irritable about accepting demands to curb it. More educational and promotional work is needed here; more room for peaceful and more reflective discussion. In the meantime, those countries are building their new democratic political institutions and they are devoting most of their social energy to that. It is our hope that with this book we will manage to provoke serious discussion on the future of our development – and that we will succeed in pointing out both the threats as well as the opportunities in acting jointly to meet the common challenges of the future.

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List of abbreviations

AAH	L´allocation aux adultes handicaps, France
AHEAD	Aging, Health Expenditures and Determinants
AIM	Adequacy of Old-Age Income Maintenance in the EU
ALG	Arbeitslosengeld (Unemployment allowances), Germany
ALMP	Active Labour Market Policy
AMANDA	Advanced Multidisciplinary Analysis of New Data on Ageing
AMBI	Labour Market Contribution, Denmark
APA	Additional Person's Allowance, United Kingdom
API	Allocation de parent isolé (Lone mother benefit), France
ATP	Contributory Supplementary Pension, Denmark
AW	Average Worker
BAA	Bundesanstalt fuer Arbeit (Federal Labour Agency), Germany
BAEL	Badanie Aktywnosci Ekonomicznej Ludności (Labour Force Survey), Poland
BSP	Basic State Pension, United Kingdom
CASE	Centrum Analiz Społeczno–Ekonomicznych – Fundacja Naukowa (Centre for Social and Economic Research), Poland
CEE	Central and Eastern Europe
CERC	Conseil de l´emploi, des revenues et de la cohesion sociale (Council for Employment, Income and Social Cohesion), France
CES	Conseil Economique et Social, France
CDES	Les Commissions départementales de l´éducation spéciale, France
CDU/CSU	Christlich-Demokratische Union / Christlich-Soziale Union (Christian Democratic Union/ Christian-Social Union of Bavaria), Germany
CEDEFOP	European Centre for the Development of Vocational Training
CGP	Le Commissariat general du Plan, France
CJCE	La Cour de justice des Communautés européenes, France
CMU	Couverture maladie universelle (universal health coverage), France
CNSA	Caisse Nationale de Solidarité Autonomie (institution for financing diverse forms of help for the disabled), France
COR	Pension Orientation Council, France
COTOREP	La Commission Technique d`Orientation et de Reclassement Professionel, France
Council	Council of the European Union
CPI	Consumer Price Index

CRDS	Contribution au remboursement de la dette sociale (Contribution for the Reimbursement of Social Debts), France
CREDES	Consultance en Santé Publique (Public Health Consulting), France
CSG	Contribution Sociale Generalisé (direct tax contribution), France
CSR	Corporate Social Responsibility
CZK	Czech crown (Czech Republic's currency) 1 Euro = approximately 28 CZK
DB	Defined benefits pension formula
DC	Defined contributions pension formula
DG ECFIN	Directorate General for Economic and Financial Affairs
DREES	Direction de la recherché, des études, de l`évaluation et des Statistiques, France
EACEA	Education, Audiovisual and Culture Executive Agency
EBRD	European Bank for Reconstruction and Development
EC	European Community
ECDC	European Centre for Disease Central
ECJ	European Court of Justice
EEC	European Economic Community
EES	European Employment Strategy
EESC	European Economic and Social Committee
EHIC	European Health Insurance Card
EMA	Educational Maintenance Allowance, United Kingdom
EQUAL	The EQUAL Community Initiative is part of the European Union's strategy for more and better jobs and their wide accessibility.
ERA	Employment Retention and Advancement Pilot, United Kingdom
EESC	European Economic and Social Committee
EMEA	European Medicines Agency
ESF	European Social Fund
ESM	European Social Model
ESSPROS	European System of integrated Social Protection Statistics
ETF	European Training Foundation
EU	European Union
EU-OSHA	European Agency for Safety and Health at Work
EUMC	European Monitoring Centre on Racism and Xenophobia
EURES	The European Job Mobility Portal
EUROFOUND	European Foundation for the Improvement of Living and Working Conditions
FLA	Federal Labour Agency
FRA	European Union Agency for Fundamental Rights
FRR	Fond de réserve pour les retraites, France
GDP	Gross Domestic Product
GUS	Główny Urząd Statystyczny (Central Statistical Office), Poland

HALDE	Haute Autorité de la Lutte Contre les Descriminations, France
HRST	Human resources in science and technology (an OECD initiative)
HTA	Health Technology Assessment
IGAS	l'Inspection générales des affaires socials, France
IHO	International Health Organisation
IMF	Internationaly Monetary Fund
INVS	Institut National de Veille Sanitaire, France
INSEE	Institut national de la statistique et des études économiques, France
IPiSS	Instytut Pracy i Spraw Socjalnych (Institut for Labour and Social Studies), Poland
KRUS	Kasa Rolniczego Ubezpieczenia Społecznego (Social Insurance Fund of Farmers), Poland
LE	Life expectancy
LTC	Long Term Care
MCA	Married Couple's Allowance, United Kingdom
MIG	Minimum Income Guarantee
MISSOC	Mutual Information System on Social Protection in the Member States of the European Union
MOLSA	Ministry of Labour and Social Affairs, Czech Republic
MSAE	Ministry of Social Affairs of Estonia
MZ	Ministerstwo Zdrowia (Ministry of Health), Poland
NAPSI	National Action Plan on Social Inclusion 2004-2006, Czech Republic
NATO	North Atlantic Treaty Organization
NAWRU	Non-Accelerating-Wage-Rate of Unemployment, Denmark
ND	New Deal, United Kingdom
NFZ	Narodowy Fundusz Zdrowia (National Health Fund), Poland
NGO	Non-governmental organization
NHA	National Health Account
NHS	National Health Service, United Kingdom
NI	National Insurance, United Kingdom
NMS	New Member States
NMW	National Minimum Wage
NSIS	Narodowa Strategia Integracji Społecznej (National Social Inclusion Strategy)
OECD	Organization for Economic Cooperation and Development
OMC	Open Method of Coordination
ONPES	Observatoire National de la Pauvreté et de l'Exclusion Sociale (National Observatory on Poverty and Social Exclusion), France
PACS	Pacte civil de solidarité, France
PAJE	Prestation d'accueil du jeune enfant (early childhood benefit), France

PAYG	Pay-as-you-go
Phare	Poland and Hungary: Assistance for Restructuring their Economies
PNAI	Plan national d’action pour l`inclusion (National Action Plan for Inclusion), France
PPP	Purchasing Power Parity
PPS	Purchasing Power Standards
PRL	Polska Rzeczpospolita Ludowa (People’s Republic of Poland)
PSD	Prestation spécifique dépendance
R&D	Research and Development
RMI	Revenu minimum d`insertion (minimum income benefit), France
RNJ	Repères Nutritionnels Journaliers, France
S2P	State Second Pension, United Kingdom
SER	Standard Employment Relationship
SERPS	State Earnings Related Pension Scheme, United Kingdom
SHARE	Survey of Health, Ageing and Retirement in Europe
SHI	Statutory Health Insurance
SPC	Social Protection Committee
SOFRES	Fondation Robert Schuman pool, France
SPD	Social Democratic Party Germany
SPG	Stability and Growth Pact
TCE	The Treaty establishing a Constitution for Europe
TFR	Total Fertility Rate
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Program
UNEDIC	Union nationale interprofessionnelle pour l`emploi dans l’industrie et le commerce, France
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations International Children’s Emergency Fund
USSR	The Union of Soviet Socialist Republics
VAT	Value Added Tax
WB	World Bank
WFI	Work Focused Interview, United Kingdom
WFTC	Working Family Tax Credit, United Kingdom
WTO	World Trade Organization
WRAP	Work Related Activity Payment
ZUS	Zakład Ubezpieczeń Społecznych (Social Insurance Institution), Poland