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New risks call for new types of solidarity

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COMPLEMENTING VERSUS REPLACING SOCIAL PROTECTION

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1. A preliminary note

The issue as to possible new needs for social protection and security does not refer in the first place to the level of the individual worker or citizen who might express a demand towards that. What is at stake is what has always been at stake in social history: the functionality of the social protection system for social cohesion and the smooth functioning of socio-economic life. The benefit schemes of our social protection systems have not been introduced and did not further develop out of sympathy for the categories of beneficiaries involved, but out of socio-economic and political necessity. Typical for the European countries has been that in looking for a functional organisation of society, collective and even statutory initiatives have often been used to match equity and solidarity to efficiency.

2. The state of affairs

The conference brochure rightly summarises the actual state of affairs by pointing to:

- the demographic and socio-demographic changes (longer life span, fluidity of life phases, evolving role patterns of men and women, changing patterns of household composition, burden of baby-boom-cohorts);

- shifts in categories of social security beneficiaries (after a slow maturation of the pension schemes income protection in old age was no longer the prime social risk, though this might turn out to be less obvious for the baby-boomers; yet, employability after 55 becomes a major risk unless not only 'geographical' but also 'skill' mobility can be generalised towards a flexible workforce;
- new forms of dualisation and social exclusion (concentrated among hardly trained youngsters, lone parents and ethnic minorities) leading to forms of explicit social dislocation (crime, homelessness, child abuse...).

It then goes on to pointing to four basic challenges:

- to reconcile the avoidance of benefit and poverty traps with targeted selectivity and upholding the work ethic;
- to reconcile the avoidance of growing income inequality (between generations and within old age) with the sustainability of pension schemes;
- to reconcile an individualisation of social protection rights with the willingness to finance for this (at the expense of forms of family solidarity);
- to reconcile the insecurity that goes with flexibility with the need to security that goes with citizens being bolstered to take initiative.

3. The last decades interpreted

Recent policy phases can best be interpreted by referring to the policy chain that underpins social protection. This holds that we educate and train people to secure that they can be adequately inserted into the (paid) labour market. This yields the opportunity to gain a primary income and in turn enables to guarantee social participation. Social security then basically operates as a by-pass mechanism in those cases where insertion in the labour force is no longer possible or desirable. In such cases the schemes aim at mending the chain by guaranteeing the availability of (replacement) income in order to safeguard social participation.

Two additional actions are possible, however. On the one hand reintegrative actions may focus on a reinsertion in the labour market, restoring the logical chain; on the other preventive labour demand initiatives can be taken in order to prevent exclusion from and to facilitate reintegration into the labour market.

This chain helps in understanding recent policy phases. After the full maturation of the Welfare State in the sixties and early seventies one can distinguish three policy periods. A first one that started in the late seventies, early eighties when the effects of the oil crisis and the economic recession of the mid seventies fully materialised in growing numbers of beneficiaries and heavy budgetary pressures. This resulted in multifaceted budgetary policies with increased contribution rates, cuts in benefit levels and tightened eligibility conditions. Social assistance, occupational benefits and tax expenditure schemes were again discussed upon as alternatives for the traditional statutory social insurance schemes.

After some period of cutting, however, the awareness grew that no longer reducing the benefit levels, but that redressing the growing number of beneficiaries had to be the target. This would lead to a second policy phase that was geared at tightening the influx of new beneficiaries and at speeding up their outflow. Intensive retraining and reintegration schemes as devices of labour supply policies characterise this second phase.

Yet, at this moment most EU member states are in a third phase. It has become clear in fact that the scope of labour supply policy remains restrained within a context of limited labour demand. So the focus is being shifted towards labour demand initiatives, especially for the young and long-term unemployed. Meanwhile the basic social contract that implicitly defines the overall amount of labour demand, the way this is distributed, that primary and secondary income distribution are derived from it and that the value mixes of efficiency and equity, of work ethic and solidarity are called upon to underpin it, is being put on the agenda. At the same time the core societal agreement upon which social cohesion and stability rests is under scrutiny.

4. A double challenge

Basically the challenge that lies ahead for the coming period is a double one. On the one hand the functionality of the social protection system that was sketched so far in a static way by the policy chain will have to be dynamized, i.e. especially the second, reïntegrative movement will have to be made quasi permanent and not just activated in reaction to labour loss but rather in anticipation of it.

On the other hand a new fit has to be found between the macro and the micro level with respect to the institutionalisation of socio-economic and social protection practice and to the discourse that has to underpin all this. Examples are:

- that the work ethic that is ventured as the overriding value at the macro level is coupled to an inviting drive upwards at the micro level of individual psychological motivation;
- that individualisation of benefit rights is coupled to individual autonomy and facilities (and incentives) to pool resources in a household setting;
- that the macro sustainability of pension schemes is coupled to the adequacy of back-service measures (by the way: not pay-as-you-go (C-quote) or funding (I-quote) will represent problems but the relative burden both will put on the economy);
- the macro need for flexibility will have to be responded at the micro level by income security measures that will continue to be a prerequisite for social participation. Here the traditional objectives of

the social protection system (minimum and earnings related protection) will have to be safeguarded. In addition, however, these will have to be complemented by the distribution of opportunities to increase, safeguard and renew human capital (social drawing rights - Supiot Report).

It is essential that these bolstering opportunities should not be conceived as alternatives, but as complements to the traditional devices for minimum and earnings related protection. Yet, the hope is that in effect (and ex post) human capital investments will yield a smaller reliance on the traditional functions of the social protection system.

5. A European identity?

Globalisation, technological developments and the information society, ageing of the population, the new gender balance and the demand for a flexible and mobile labour force represent important challenges to social protection. In line with the European tradition such challenges can only be addressed adequately and solidly if they can be channelled through a policy making process that can provide policy solutions that are co-inspired by equity, solidarity and social cohesion. This supposes the recognition of spokes(wo)men for these values. Yet, new social movements, NGO's and grass roots initiatives, although voicing relevant needs, are difficult to be tuned with the traditional social policy agents, i.e. the social partners. They have difficulty in finding access to and an appropriate role in the core policy arenas. So, adapting social protection and making it functional to its new socio-economic environment might depend more on an adequate adaptation of the social policy decision making structure than on an adaptation of social protection itself. Adapting the former structure might well be a prerequisite to the modernisation of social protection.

The atlantic tradition with its focus on a direct responsibility of the state for a minimum protection of its citizens, and with a more outspoken tradition of social inequality, will have fewer difficulties to cope with all this than the scandinavian and continental traditions. Of the latter two, the scandinavian one with its focus on labour demand and labour supply policies will be better equipped to do so than the continental countries in which the social contract plays a crucial mediating role and which were more used to focus on curative benefit provision. For them (and for their Bismarckian fellow countries from Southern Europe) a new stable social contract might not be possible as long as the new policy making structure has not crystallised. One may guess, therefore, that continental countries like Belgium, France, Germany and Austria will have most difficulties to accommodate and will exert most pressure to rethink the policy making procedures at both their national and the European level.

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RE-CALIBRATING THE EUROPEAN SOCIAL MODEL

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Introduction

The conciliation of economic growth and social justice has been one of the most significant aspirations of the 'long' 20th Century, now come to a close. In Europe, the creation of the welfare state (and, more specifically, of social insurance) has turned this aspiration into an institutional reality – a largely successful reality . Yet, today the welfare state is the object of heated controversy. The 'conciliatory' capacity of social policy has been put in serious question, especially in the light of the so-called 'globalisation' process. More and more frequently, efficiency and equality, growth and redistribution, competitiveness and solidarity are referred to as polar opposites that can only thrive at each other's expenses. There is therefore a risk that the new millennium opens under the shadow of a resurrected 'big trade-off,'[i] offering only two possible coherent value-combinations and thus virtually only one viable institutional scenario, if functional priorities ('the pie first') are to be respected.

Plausible as it may sound, this trade off logic is certainly not inescapable. But how can we find a way out of it? The task is one of identifying new value combinations and institutional arrangements that are both *mixed* (in respect of their normative aspirations) and *virtuous*, i.e. capable of producing simultaneous advances on all the affected fronts.

In this paper, I will develop some considerations around this thorny challenge, with reference to social and especially pension insurance.

Redesigning Social Insurance

As is well known, the institutional core of the European welfare state is constituted by the principle of social insurance. This comprises a rights-based guarantee of public support in cash and/or in kind against a pre-defined catalogue of standard risks, including old age, invalidity, the death of a supporting spouse, sickness and unemployment.[ii] This rights-based guarantee rests in its turn on the compulsory inclusion of large sectors of the population (in some cases the whole population) in public schemes. These are mainly financed from contributions levied on the gainfully employed (with the partial exception of health care and family allowances in some countries). To a large extent, the crisis of the welfare state is the crisis of social insurance (especially pension insurance). Are there 'virtuous' ways to redesign this core institution? And, even more fundamentally, should the institution as such be preserved?

A full answer to this latter question would obviously require an extended discussion of the advantages of public/compulsory over private/voluntary insurance in terms of risk pooling, adverse selection, moral hazard, interdependent risks, interpersonal redistribution etc. From the point of view of *positive theory*, the justification of public involvement and compulsory membership lies basically in the technical inability of markets to overcome the information problems inherently connected with insuring 'social' risks.[iii] From the point of view of *normative theory*, the justification lies in the greater capacity of public social insurance to satisfy the fundamental principles of distributive justice (at least in their Rawlsian version), by safeguarding the position of the worst off in society.[iv] 'Public and compulsory social insurance' is however only a general regulatory principle, which allows in practice a wide range of institutional solutions. Thus, the Italian pension insurance, overwhelmingly centred on state-run, pay-go schemes, with very generous formulae, and the UK pension system, centred on modest 'national insurance' pensions, supplemented by occupational or even personally funded benefits, illustrate the full range of forms which the principle of compulsory insurance can take in practice.

Defending the desirability of this principle - even in its minimal definition – is no trivial matter. The idea of 'dismantling' large-scale compulsory insurance is crops up frequently in political debates around the OECD, opening up the risky scenario of universal systems degenerating into purely voluntaristic and/or localised (and therefore fragmented) systems of social solidarity. But finding 'virtuous' ways of redesigning this core institution – i.e., what kind of compulsory social insurance can be sustained? - raises two sets of issues. The first concerns the basket of risks to be included within the scope of insurance; while the second concerns benefit and funding formulae. I will discuss each of these in turn.

What Risks?

As far as the basket of risks is concerned, the standard catalogue drawn up almost a century ago and which has survived largely due to institutional inertia now fits poorly with the prevailing socio-economic context. A revision of this catalogue is thus urgent, as regards both the range and the definition of covered risks. Is it still appropriate, for example, to keep in the basket the general risk of 'surviving'? Survivor's benefits represented almost 2% of GDP in the EU on average in the mid-1990s. To the extent that this risk still generates real needs, are there not more effective ways of responding to them? Such needs could more effectively be dealt with via an adequate supply of services (health care, education, training and housing) and/or of targeted transfers (e.g. scholarships or work grants, or benefits for single parents), and more generally through a policy of incentives for the formation of two earner households. Why not leave to the private insurance market the tasks of satisfying the greater demand for security desired by some people in this field? Similar questions could be raised regarding other risks as well. Is it still appropriate to maintain in operation large-scale public schemes for work injury and invalidity (as distinct from basic disability insurance)? Why not transfer the responsibility for compensation directly to the employers (as recently experimented with in the Netherlands, for example)?

But the biggest challenge in the area of risk-redefinition is old age. At the beginning of the 20th century, surviving beyond the age of 65 was indeed a risk for the bulk of the population. In Germany, France, Italy or England an average male at the age of 20 could only expect to reach the age of 62; if he lived beyond his 40th birthday, he could still only hope to reach the age of 68. Thus remaining alive beyond the official age of retirement was indeed a 'risk' in the strict sense of the concept and the risk definition (old age equals life beyond 65) 'matched' the existing state of affairs. Once formalized into pension rules, however, this notion of old age became a social norm *per se*, a taken-for-granted principle for the organization of the life cycle, regardless of socio-demographic change. Given longer life-spans, this norm became the subject – rather than the object - of contextual redefinition, offering a fertile ground for the social construction of 'retirement' as a distinct phase in people's existence and as a novel collective practice.[v]

The notion of old age is thus in need of institutional redefinition. To some extent, this process is already under way. In recent years many countries have indeed raised the legal age of retirement – especially for women and civil servants, who could traditionally retire earlier. In a few cases, the principle of flexible retirement has also been formally introduced, establishing a range of possible ages for exiting from work (e.g. in Belgium, Italy and Sweden). But so far this shift in policy has not proved very effective in actually re-orienting the choices of both workers and employers regarding labour market exit. As recently shown by the European Commission and the OECD, little improvement has taken place in the activity rates of older workers, and early retirement is still being used as a mistaken solution to the unemployment problem. The retirement issue must be integrated with the employment question and the introduction of those 'employability' promotion policies that have recently become part and parcel of the European discourse on "modernizing" social protection systems. Yet changing retirement patterns is an objective that must be forcibly put on the reform agenda in all mature welfare states. In some countries there are already signs of a reversal of labour shedding strategies using early-retirement, prolonged unemployment, sickness, and disability as easy exit-options. As labour shedding substantially increases the financial burden imposed on the systems of social security, policy actors, most notably in the Netherlands, have come to recognize that a robust welfare state requires a high level of employment rather than a low level of open unemployment . Such a diagnosis has not yet taken firm roots, however, in countries such as Italy and Germany, which have massively resorted to labour shedding in the last couple of decades.

'Dependency', i.e. the loss of physical self-sufficiency, typically connected with the chronic-degenerative pathologies of (very) old age, is a separate issue. There is in fact a range of options available to deal with this most important and growing risk.[vi] The issue is debated in many countries, and Germany updated in 1995 this aspect of its social insurance system (*Pflegeversicherung*). But innovation is slow to come about in other countries. Besides long term care, the updating of social insurance should definitely also address the issues of gender equality and gender equity, neutralizing the indirect penalties suffered by women and all 'carers' in general under traditional insurance regulations. The promotion of more equality and equity across genders is a very important and broad objective which cuts across all sectors of social policy. Social insurance schemes are in urgent need of being 'mainstreamed' in this respect in all countries.[vii]

What benefits?

The issue of benefit and funding formulae raises two main questions: a qualitative question (how to compute benefits and how to finance them) and a quantitative question (how much protection?). As for the first question, the emerging trends in most social insurance systems across Europe are for a rationalization of the inter-personal redistribution implicitly incorporated in benefit and financing formulas and a strengthening of the 'contributory principle'. The elimination of transfers that can be identified as *inequitable* (because they are grossly not proportional to contributions), *outdated* (because they are out of step with the structure and distribution of needs) or *perverse* (because they generate significant work disincentives) appears desirable both for normative and practical reasons. Such a policy also has the advantage of being potentially self-legitimating in political terms, providing an effective solution to the blame-avoidance problems facing 'modernizing' elites.[viii]

In general terms, a closer link between contributions and benefits can be regarded with favour as well - but only up to a point. If nested within the wider logic of compulsory universal coverage, the contributory principle serves two important purposes. The first one is that it safeguards against the possible degeneration of social insurance via the 'inequitable' and 'outdated' transfers mentioned above. Those who think that this is only a minor risk should look at Italian and Greek developments in recent decades for evidence to the contrary (but France and Belgium could also offer telling examples of this syndrome)[ix]. The second purpose served by the contributory principle is that it strengthens the overall legitimacy of the welfare state, giving to each contributor the feeling that they have a real stake in the system.[x] Even if people are aware that contributory social insurance does not follow strict proportionality rules, they are willing to support a system that 'roughly' balances out burdens and rewards, in compliance with deep seated norms of 'strong reciprocity'.[xi]

But the contributory principle also has its drawbacks. An objection which is often raised is that in an increasingly flexible and heterogeneous labour market a close link between contributions and benefits will prevent many workers from accumulating adequate benefits - and especially adequate pensions - because of frequent spells out of work. A second drawback has to do with employment incentives. To the extent that contributions tend to be levied essentially on work earnings, they tend to create problems of employment-creation , especially at the lower end of the earnings spectrum. It is true that these two drawbacks can be partly neutralized by selective reforms of institutional regulations. Incorporating 'equitable' and 'updated' norms in the crediting of contributions for involuntary or socially valued interruptions of work (e.g. training or caring periods) or relieving employers from paying social insurance contributions for low wage workers are both feasible and desirable. But there are limits to such strategy of a political and financial nature, not to mention institutional inertia. The optimal strategy could be one of combining the 'contributory' with the 'fiscal' logic and establishing two layers of benefits. A first layer of pay-go universal benefits could be tax financed, ensuring an interpersonal redistribution based on criteria of 'equity of opportunity';[xii] and a second layer of benefits could be linked to income-related contributions. As argued by Scharpf[xiii], such a strategy would also maximize the immunity of the welfare state against the challenges of international tax competition.

The actual role that can be played by funding as opposed to pay-go – a thorny issue, hotly debated in many countries and internationally - is highly contingent on the institutional legacy of a particular country. In principle, a combination of the two mechanisms seems a desirable objective: they are in fact subject to different risks and returns.[xiv] Pay-go systems are good at protecting against inflation and investment risks and in allowing vertical redistribution, but they are also vulnerable to population ageing and rising unemployment. Funding generates fewer distortions in the labour market and may contribute to developing financial markets, in situations in which real interest rates are higher that the rate of growth of employment and real wages. Funded systems can also provide workers with higher returns on contributions. On the other hand, they are vulnerable to inflation and investment risks and are also costly to administer. Regardless of their respective merits and disadvantages, the real problem is that for a given country at a given point in time the options between these two systems are heavily constrained by past choices.[xv] Only a few countries have been able to overcome the 'double payment' problem involved in the transition from mature pay-go systems to funded or mixed ones. However crucial for the overall architecture of the welfare state, pension financing is one area in which desirable policy objectives must inexorably yield to the very limited possibilities offered by the institutional status quo.

But what of the 'how much' question? At the abstract level of this paper, there is little that can be said on this issue. Two general considerations can however be advanced. The first is that in an age of permanent austerity all 'how much' questions will have to be answered with an 'unpleasant arithmetic'. Thus, 'pluses' (a new benefit, service, or investment) must be balanced against 'minuses' within a highly constrained budgetary context and the opportunity costs of the status quo must be constantly made explicit and carefully assessed. A few fortunate countries may be able to escape this logic and savour the pleasantness of surplus politics once again, but most will not. An attentive re-calibration of the "social effort" of European states is also necessary in order to meet the "employability" and "skills upgrading" challenges of the knowledge-based economy. If this is true (and this is the second general consideration) then the one sector of traditional social protection whence financial resources can be redeployed is pension insurance - especially the generous pension benefits offered by many "Bismarckian" systems. In high-income societies where the elderly tend *on average* to wield considerable economic resources (both mobile and immobile) there is no compelling justification for concentrating public protection on this social group. In the wake of the rapid social and economic transformations of our societies, income insecurity is increasingly spreading across the earlier phases of the life cycle. This is especially true for women, as a consequence of their continued vertical and horizontal segregation in the labour market. The vulnerability to poverty has visibly shifted from the elderly to other social groups (the young, lone parents, workless households, ethnic minorities etc.) and within some of these groups, there are also worrying symptoms of social dislocation (crime, teenage pregnancies, homelessness, substance abuse, educational exclusion etc.). In this new context, a re-calibration of social insurance from 'old age protection' to 'societal integration' and "human capital upgrading" seems in order: to a large extent, pension reform remains the key for solving the allocative and distributive dilemmas of the welfare state, especially in Continental Europe.

Conclusion

Recasting the European welfare state is bound to remain a delicate process, one that generates a "new politics" highly conditioned by "entrenched interests and sticky institutions". As the experiences of the 1990s have shown, there are in fact powerful vested interests devoted to defending pension heavy welfare states and their traditional redistributive outcomes. But policy innovation has indeed taken place – in some instances quite incisively. This shows that political agency remains important in triggering institutional change. National politicians often portray themselves these days as "sandwhiched" between structural necessities , on the one hand, and institutional and social constraints, on the other hand. But in reality there is still room for exercising political leadership in order to craft change. Institutional and social blockages in the process of reform can be avoided by the creation of new coalitions behind the reform agenda, most notably through concertation and negotiation. Even though resting on an "unpleasant arithmetic", the new politics of welfare need not reduce itself to a zero sum game . And the European Union can play an important role to this effect. : the setting of general reform guidelines, benchmarking, mainstreaming, "soft" coordination mechanisms, evaluation and reporting are all very useful practices. The Commission has recently launched a new initiative in the field of social protection, called "concerted strategy for modernizing social protection systems". The initiative is very promising and we can only hope that it can provide national policy makers with new spurs and new resources to intensify their reform efforts.

[i] A.M. Okun, *Equality and Efficiency: the Big Trade Off* (Oxford: Blackwell 1975).

[ii] For a comprehensive historical survey, see P. Flora and A.J. Heidenheimer, eds., *The Development of Welfare States in Europe and North America* (New Brunswick: Transaction 1981).
[iii] N. Barr, *The Economics of the Welfare State* (Oxford: Oxford University Press 1992).
[iv] See e.g. the arguments offered by N. Daniels, *Just Health Care* (Cambridge: Cambridge University Press 1985) and by P. Van Parijs, *Refonder la solidarité* (Paris: Cerf 1996).
[v] M.Kohli, 'The World We Forgot: A Historical Review of the Life-Course', in V.W. Marshall (ed.), *Later Life: The Social Psychology of Ageing* (Beverly Hills: Sage 1986), pp. 45-72.
[vi] For a discussion, see A. Oesterle, *Equity and Long Term Care Policies,* (Florence: EUI Working Papers EUF no. 99/14).
[vii] A. Orloff, *The Significance of Changing Gender Relations and Family Forms for Systems of Social Protection,* paper presented at the European Forum on 'Recasting the European Welfare States (Florence: EUI 1999).
[viii] J. Levy, *Vice into Virtue? Progressive Politics and Welfare Reform in Continental Europe*, paper presented at the European Forum on 'Recasting the European Welfare States' (Florence: EUI 1999) and P. Pierson, *The Comparative Political Economy of Pension Reform*, paper presented at the European Forum on 'Recasting the European Welfare States' (Florence: EUI 1999).
[ix] For illustrations, see M. Ferrera, *Le trappole del welfare* (Bologna: Il Mulino, 1998).
[x] B. Rothstein, *The Universal Welfare State as a Social Dilemma* (New York: Russell Sage Foundation , Working Paper no. 141 1999).
[xi] S. Bowles and H.Gintis, *Recasting Egalitarianism: New Rules for Markets, States and Communities* (London: Verso 1998).
[xii] As proposed by P. Rosanvallon, *La nouvelle question sociale* (Paris: Seuil 1995).
[xiii] F.W. Scharpf, 'The Viability of Advanced Welfare States in the International Economy', in F.W.Sharpf and V.Schmidt, eds., *Work and Welfare in Open Economies* (Oxford: Oxford University Press forthcoming).
[xiv] For a discussion of these issues, see M. Buti, D. Franco and L. Pench, 'Reconciling the Welfare State with Sound Public Finances and High Employment', *European Economy* 4 (1997), pp. 7-42.
[xv] P. Pierson, *op. cit.*