



Social progress in the 21st Century

Social investment, labour market reform and intergenerational inequality

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- ▶ A decade into the new century, Europe is beset by a striking mood of social pessimism. The post-war baby boomer generation harbours real fears about the future; it looks like life will not be as good for their children and grandchildren as it was for them.
- ▶ Such anxiety presents a particularly de-habilitating political problem for social democracy. Historically, the promise of social progress has been a powerful force in all of its projects, and a cornerstone of the movement's political offer.
- ▶ Despair and shades of nostalgia will not return European social democracy to the political frontline. Returning as the parties of social and economic progress requires new ideas and political narratives. It is here that this volume contributes with papers on social investment and the European welfare state; the workplace and labour market; and social protection and intergenerational inequality.

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Preface

Olaf Cramme, René Cuperus & Ernst Stetter

Across Europe social democratic opposition parties are involved in a delicate process of revisionism. United in their attempt to reconnect with the electorate and position themselves as credible alternatives once again, all must confront weighty questions about the governing purpose of the European centre-left in the 21st century.

In the UK, party reorganisation is at the top of Labour's agenda, and central to its ongoing policy review. After the intellectual exhaustion of 13 years in power, 'Blue Labour' has emerged as the latest trend-setter, though it is quite unclear whether this political vision offers any viable answers to the most pressing social and economic questions of our times.

Meanwhile, the German SPD is navigating tricky political waters, up against a fashionable Green party on the one hand, and a disliked Conservative-Liberal government on the other. Similarly, in Holland political fragmentation sees the Socialist Party, the Greens and the Social Liberals all crowding-out the PvdA's room for political manoeuvre. In each case, marking out clear political territory is a tall order and as yet a remote objective.

In Sweden, however, pressures rather emanate from the centre-right, where Håkan Juholt's SAP is fighting against a Moderate Party that claims a right to the superior management of the welfare state in the guise of 'compassionate conservatism'.

Greece, Portugal and Ireland have, of course, their own dynamic, and a centre-left whose programme is dictated by the extreme circumstances of a sovereign debt crisis. While Spain's position is (still) very different, the PSOE is looking into the political abyss, as the prospect that recent losses at municipal elections will be replicated at the national level in 2012 threatens to become reality. Finally, in east-central Europe, the attempts by social democratic parties to reinvent themselves risk being thwarted by the polarising cultural identity politics of the right.

A populist scepticism toward established politics; the aftermath of the near collapse of the financial capitalist system; and a centre-right which seeks to capitalise on the successes of the social democratic legacy while playing the card of 'economic competence'. This is the context in which the European centre-left must achieve enduring and far-reaching renewal.

The *Amsterdam Process* and *Next Left* research programmes are an urgent contribution to this task. Organised, respectively, by Policy Network, the Wiardi Beckman Stichting and the Foundation for Progressive European Studies (FEPS), the papers in this volume are the result of a joint programme of research which culminated in an international conference in London on 30-31 March 2011.

The starting point for this intellectual endeavor, which brought together a working group of political thinkers and experts from across Europe, was that after an era defined by social progress and rising social mobility, the growing perception is that things can only get worse for future generations. This social anxiety has diminished confidence in social democratic parties' ability to improve peoples' lives, and by extension proved debilitating for the centre-left message of progress and positive

social change. How then should we redefine social progress in the era to come, and what are the implications for our social models, societal vision and the direction of welfare reform?

This publication attempts to provide some desperately needed guidance.

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About The Amsterdam Process

The Amsterdam Process is an ambitious process of strategic thinking by an 'avant-garde group' of European individuals and organisations, established to analyse the roots of the long-term structural decline of European social democracy. It was initiated by Policy Network, the international centre-left thinktank based in London, and the Wiardi Beckman Stichting, the thinktank for Dutch social democracy from The Hague, and derives its name from the famous Bethaniën monastery in Amsterdam's red light district, where in 2010 a thorough post-Third Way brainstorm began: repentance and brave forward thinking in one move. It is above all an international collective effort, and it is in this context that the cooperation with FEPS and its Next Left research programme is so important. The first output of this process was a volume of essays on the theme of *'Exploring the cultural challenges to social democracy'*. This second volume, *'Social Progress in the 21st Century'*, deals with the widespread social pessimism across Europe.

Policy Network www.policy-network.net

Wiardi Beckman Stichting www.wbs.nl

About Next Left

FEPS Next Left research programme was launched in 2009 in order to examine the reasons behind the defeat of progressive forces in the European elections. The initial conclusions indicated a profound crisis in European social democracy, which in a natural way inspired further research into political renewal and its course. Since its beginnings, the programme has been conducted at the European level (through numerous expert seminars and conferences), at the national level (through round tables in cooperation with national partner foundations) and at the transatlantic level (through cross-comparative exchanges between progressives across Europe and the wider world). The main themes of Next Left have encompassed: Responding to our changing society; Our values in 21st century; A progressive socio-economic paradigm for Europe; and Mobilising for international solidarity. To date research has been supported by the active involvement of more than 2000 politicians, academics and experts, with the results published widely in the format of articles, papers and the Next Left Book series (volume III is to be released this summer). The programme is honourably chaired by Dr. Alfred Gusenbauer, former chancellor of Austria and enjoys the kind support of Renner Institut, who have partnered with FEPS in this endeavor since its inception. *The papers in this volume will also appear in the latest edition of Queries - FEPS' quarterly scientific magazine.*

FEPS www.feps-europe.eu

Social Progress in the 21st Century

Executive summary

A decade into the new century, Europe is beset by a striking mood of social pessimism. The post-war baby boomer generation harbours real fears about the future; it looks like life will not be as good for their children and grandchildren as it was for them. This despondency indicates a growing awareness among citizens of Europe of transformations at both the national and global level: 49% of EU citizens believe they will be worse off in 20 years time, with majorities perceiving the rise of emerging economies as direct threats to their living standards.

Such anxiety presents a de-habilitating political problem for social democracy. Historically, the promise of social progress has been a powerful force in all of its projects, and a cornerstone of the movement's political offer, with education, aspiration and social mobility occupying centre-stage. Parties of all colours have been damaged by the public's loss of confidence in their ability to translate promises into action. But because of the centrality of progress to the social democratic mission, this loss of trust – the single most important source of capital in politics – is especially undermining for the centre-left.

This breakdown of trust appears to define the contemporary political landscape. There is fear about new levels of inequality and the concentrations of power in the market economy, but little faith in the capacity of politicians and the state to address this. Instead of its traditional role as an instrument to deliver services in the public interest, 'big government' and its centre-left 'cheerleaders' have successfully been cast as profligate and reckless, captured by vested interest rather than working for the common good. The public have plenty of vessels to which they can attribute blame, but precious little in which to invest their trust.

This status quo is breeding both an antagonistic form of anti-political sentiment, and in some cases a malign streak of populist xenophobia in Europe. The recent Portuguese elections recorded an abstention rate of more than 40%; in Spain and Greece discontent and disillusionment with austerity measures have spilled into ballot spoiling and widespread protests against the ineptitude of the political elite. Meanwhile, far-right parties are moving swiftly to ally their critique of multiculturalism with a potent mix of economic populism and anger at the euro-crisis bailouts.

In spite of all this, it is clear that despair and shades of nostalgia will not return European social democracy to the political frontline. Returning as the parties of social and economic progress of course requires new ideas and political narratives, but it first requires solid building blocks on which to situate a 21st century vision of social progress. It is here that this Amsterdam Process publication contributes, bringing together a collection of papers focusing on three key centre-left policy areas: social investment and the European welfare state; the workplace and labour market; and social protection and intergenerational inequality.

Politics, social cohesion and re-energising citizenship

The volume opens with three introductory chapters which, respectively, set the scene in terms of re-energising citizenship, the concept of progress and social cohesion. A precondition of relieving the social pessimism and anti-political sentiment that today engulfs Europe's institutions is to re-

conceptualise politics as a practice embedded in social interactions. Reinvigorating collectivism requires finding ways to talk about politics but as a by-product of a wider engagement in social networks. (Stoker p10)

While reaching out into society beyond narrow political circles, restoring faith in politics also requires European social democrats to engage more with the academic community in order to craft an intellectually commanding vision of 21st century social progress. The starting point for a new definition of progress should be anchored in the cornerstones of work, care and education. (Gusenbauer p15)

The conceptual framework of social cohesion, also offers a potential route out of the impasse. Social progress requires a re-appraisal of Anglo-American capitalism, and the models that can best ensure economic efficiency and social cohesion go hand in hand. This involves a forward looking vision which finds a new synchrony between economic value and social value. (Diamond p19)

Social investment

Section 1 examines the social investment paradigm as a long-term strategy geared towards achieving social protection and economic progress, and how it can be explained politically to resonate with large groups in our societies.

The social investment perspective emerged during the 1990s on the crest of an ambition to modernise European welfare states and ensure their sustainability. Anchored in the EU's Lisbon Strategy, the emphasis was put on "preparing" individuals for new social risks over the life cycle and the knowledge economy, as opposed to simply "repairing" damage reactively.

Today, there is a real risk that this paradigm will be left orphaned in the post-financial crisis drive towards austerity and budgetary discipline. It is in danger of falling victim both to the belt tightening arguments successfully promoted by Europe's dominant centre-right governments, and to the waves of Euroscepticism and welfare chauvinism that are currently sweeping the continent. (Hemerijck p24)

Yet for social democrats intent on repairing the damage to the political message of social progress and ensuring that Europe is competitive both in terms of economic growth and social value, social investment is of crucial significance. This will require the ability to both implement forward-looking reforms, while convincing European publics of their necessity. In order to be successful social investment strategies must not only be entrenched in sound macroeconomic and budgetary policies, but also embedded in an attractive perspective of social progress. Here, a new EU Social Investment Pact can set a decisive path. (Vandenbroucke p34)

However, this does not discount from the period of "soul searching" that policymakers who wholeheartedly embraced the social investment model have to embark on: poverty and levels of inequality did not decrease after 15 years of social investment. The experience of this period demonstrates that half measures are inadequate; partial implementation will at best deliver partial success. Social investment must be based on a reciprocal notion of fairness and the political willingness to fight the growing inequalities that have come to characterise our societies. (Palier p30)

Finally, at a time when the centre-left is fighting hard to portray solid economic credentials, social investments remain crucial. The new economic agenda of centre-left parties needs to build on the positive developments of the 1990s, but emphasise and reconceptualise the need for social

investment as a precondition for economic competitiveness. (Hassel p39).

Labour market and workplace

Section 2 focuses on divided constituencies in the labour market and new ways of thinking about work. The workplace has long been established as one of the most critical spaces for social democratic politics. It speaks to the tension between labour and capital, politics and markets, but it also raises issues around wellbeing and satisfaction, citizenship and community.

It is clear that the labour market and the workplace have undergone significant changes in recent years. Societies throughout Europe are experiencing increased income inequality and job insecurity, greater job polarisation, and a lack of trust in business and the market to catalyse social progress. One can point to both long-run trends and more recent dynamics when attempting an explanation of this. Shareholder capitalism and contemporary economic globalisation have facilitated a scenario in which the relationship between workers and executives has deteriorated and notions of workplace democracy have been sidelined in favour of economic optimisation and profit maximisation. At the same time, recent centre-left governments are accused of enabling access to the labour market for new entrants through deregulation and non-standard employment strategies which – while creating more jobs and a larger workforce – brought more job insecurity and labour precariousness.

The authors in this section are unequivocal that this is a set of circumstances that require attention if our post-crisis economies are to become strong, dynamic, sustainable and fair for the whole of society. Contributors posit various policy approaches upon which action should progress. Electoral expediency should not obfuscate effective, long-term ‘enabling’ policies that would promote more sustainable entry into the labour market. (Eichorst p48). Given the present circumstances of scarce fiscal resources, social democrats should work towards a smaller but more efficient state to pursue “smart” policy actions in income redistribution and work-life balance. (Manning p43)

The internal structure of the workplace and the nature of relationships therein also require attention: more democracy would make for better job satisfaction, a more productive workforce, and improved business outcomes for all (Jameson p62). Likewise, a return to “good work” in which employees are given greater voice, responsibility and autonomy is a way in which the lack of trust between the public and business and the “hidden depression” in the workplace could be overcome. (Becker and Paulusma p54)

Intergenerational inequality

Section 3 focuses on the policy and political challenges surrounding generational inequalities and how they affect social democratic constituencies. Inter-generational justice is a problem resulting from a number of intersecting social trends in contemporary European societies. Put simply, the ageing of populations, increased female labour market participation, and reductions in fertility rates mean that in the future declining numbers of economically active citizens must finance a growing pension burden. The paradox of this scenario, of course, is that these demographic trends represent historic achievements of the social democratic programme.

Notwithstanding this, the authors in this section are united in their belief that without reform, existing pensions systems predicted on an erstwhile snapshot of the European population will lead to tensions within and between generations. The success of the social democratic programme in creating solidarity between the generations is at risk of coming undone.

Forward-looking reform to ensure that this does not occur must be linked to a renewed effort to implement an EU social investment strategy. This entails “shifting the social policy centre of gravity” towards early childhood, general education and labour market training, and increasing resources for youth-oriented social investment based policies. (Anderson p69). The belief that investing in the future of the young is foundational to the well-being and security of older generations is similarly emphasised in a contribution from Sweden, which highlights the insurance dimension of old-age social security, pointing to the Swedish experience as a model of fair pension reorganisation. (Hedborg p80).

EU member states’ pension systems face a two-fold dilemma in adequacy vs. sustainability, and in the problem posed by the inequality in the distribution of risks (and protection) across social groups and generations. More than anything this requires social democrats to regain confidence in a forward-looking reform agenda. (Natali p73) Finally, the economic indicators employed affect our perspective of issues of generational equity. It is argued that in order to take seriously the problems of intergenerational justice, social democrats must extend their focus beyond GDP per capita. (Lindh p85)

Anti-politics, social progress and re-energising citizenship

Gerry Stoker

Across Europe there is a substantive lack of engagement in politics and trust in politicians. The starting point for the resolution of this malaise is to understand politics as embedded in a set of social interactions. Reinvigorating collectivism requires finding ways to talk about politics but as a by-product of a wider engagement in social networks

For progressives the pervasive evidence of a strong anti-political culture, a lack of trust in government and scepticism about the capacity of the state should be a cause of great concern. The malaise of pessimism that surrounds public debate owes part of its cause to a growing recognition of the scale of the financial, economic, social and environmental challenges we face, but also draws much of its power from an increasing sense there is not much that can be done about them collectively given the current atrophied state of politics and governmental institutions.

Fatalism about politics is a significant threat to the idea that as human beings we can act collectively to improve our lot. In that sense it is a challenge for all political hues, but it is a deadly enemy to those with more progressive ambitions for positive change since it all but removes the prospects of making progress. The crisis in politics is something that can be exploited by other political creeds to a degree - by linking it with a wider attack of the wastefulness of government or a tendency to malign "Big Brother" intervention - but for social democrats the crisis needs to be addressed positively and effectively.

This paper establishes the scale and nature of the crisis facing our politics. The importance of the issue for social democrats is reinforced as disengagement from and distrust of politics appears to be more prevalent among disadvantaged social groups. Next the paper looks at some of the factors driving anti-politics: an analysis that suggests that the problem is both complex and not easy to resolve. In the search for solutions the paper takes a third step and suggests the need to look at citizenship analytically through a relational lens. That is, we need to understand more about how citizens become politically engaged through social processes and networks.

The scale and scope of anti-politics

I will start by looking at what we can learn from attribute data about what individuals think and do. There are differences between countries across Europe, but overall the sense that citizens have lost faith in politics is quite widespread in the advanced industrial democracies. Politicians in nation states and supranational bodies, such as the EU, have a tense relationship with citizens characterised by occasional explosions of righteous anger and bursts of populist revolt built on an embedded and sustained foundation of dismay and disillusionment about how politics works.

The crisis in politics is deeper in some countries than others. Table 1 divides European countries into four groups: Nordic, Northern, Mediterranean and Central (composed largely of the former communist countries). It provides cumulative data from surveys conducted at the beginning of the century from a "representative" country from each of these divisions and compares that with data on political activism in the UK which is included by Norris as part of the Northern group. The picture that emerges is of a Nordic group represented by Denmark that is top in terms of most

forms of activism with others lagging behind. But within the context of difference many of the same messages emerge. Political engagement is not something that most people do all the time. Much of that activity is individually focused rather than through collectively organised interventions. Party activism is, along with direct political campaigning, at relatively low levels. Protest again attracts some engagement but it is very limited.

Most citizens are potential observers and limited doers. And what do they think about what they see? Trust levels as revealed by the same European social survey (2002 onwards) started out and have remained at fairly low levels. Even in the “best” countries – Denmark, Switzerland and the Netherlands - trust levels of citizens in politicians are running at a mean of about five, where a score of 10 would indicate high trust. In other countries such as Poland and Portugal trust levels have hovered around a mean score of below three or at times below two. Across Europe it would be fair to conclude that you are more likely to meet a fellow citizen with a low trust in politicians than one with high trust.

When it comes to differences between social groups, the findings for the UK from a survey conducted in December 2010 are revealing (Table 2). There are significant differences between social grades AB (those in professional and managerial employment) and social grades DE (those in unskilled manual and casual employments); with the former claiming to be better informed, knowledgeable and five times as likely to be actively engaged in a range of political activities as the latter. Other differences, although less stark, emerge when comparing men and women and “white” citizens to those with an ethnic minority (BME) background.

Table 1: Political activism

Country	% Voted in last general election	% Contact-acted official	% Worked in party or action group	% Member of party	% Worked in another organisation	% Signed petition	% Demonstrated lawfully	% Boycott good
Nordic: Denmark	87	19	4	6	22	31	7	25
Northern-Germany	74	12	4	4	20	30	9	24
Mediterranean-Spain	73	12	6	3	16	24	23	11
Central-Poland	61	8	2	1	5	7	1	4
UK	65	17	3	2	9	39	4	23

Source: Developed from data in Norris (2008) from The European Social Survey Cumulative file 2002-2006.

Table 2: Subgroup analysis of political engagement and attitudes (UK)

Political Factor % of	Social Grade AB	Social Grade DE	Men	Women	White	BME
Interest	77	36	63	53	60	41
Knowledge ¹	73	29	63	43	54	39
Activist ²	25	5	12	15	14	5
Voting	72	43	57	59	60	44
Efficacy ³	31	30	31	29	29	38

Source: Developed from data in the Hansard Society Audit of Political Engagement, 2011

1 This is claimed knowledge
 2 Measured by engagement in a range of political acts as detailed in Table 1
 3 A claimed sense that you could influence decisions

Explaining anti-politics

One common explanation of alienation is that citizens are too *powerless*. There are liberal and more collectivist variations of the argument with the former placing greater emphasis on individual empowerment and freeing the individual from unnecessary state interference, and latter concentrating more on greater opportunities for collective engagement in decision-making. Some favour more popular or direct forms of citizen engagement such as petitions or referenda and others prefer forums where citizens are encouraged to become better informed, debate, deliberate and judge what is in the common good. The solution to anti-politics on this analysis is giving people more power.

But does this understanding of anti-politics stack up? Was government more open, engaging and participatory in the 1950s compared to now? Was it better at customer service? That would be a difficult claim to establish as arguably the arrival of 24 hour news media and the internet have put more information in the public domain than ever before, politicians are generally more accessible to their constituents, service responsiveness has probably been advanced and citizens are almost overloaded with opportunities for consultation. Objectively you could argue that citizens should feel more empowered than they do, not least because as a group they are now better educated and therefore with greater resources to support involvement.

Only one in 20 are very interested in getting involved in local decision-making, only one in 10 will definitely volunteer to help out in the community in the next few years

Certainly we have not lost a previous world of large-scale participation and political engagement that somehow needs to be replaced. Is it the case that citizens want more direct power? The Hansard Society's 2011 audit of political engagement in the UK, in the context of demands stemming from Big Society rhetoric, suggests a public deeply underwhelmed by the idea that they should be running community affairs. It reveals that only one in 20 are very interested in getting involved in local decision-making, only one in 10 will definitely volunteer to help out in the community in the next few years, and among that group the focus is on sports and general "do-gooding" to the exclusion of involvement in community groups, trade unions and political parties.

Maybe, then, citizens just want politicians to do their job properly and get on and govern in the general interest? What is it about the *processes of politics* that alienates citizens? There are several possible elements. Some might have a concern about procedural fairness of political decisions and the justice of decisions taken (were all the right stakeholders and bits of evidence brought into play?). Some may have a negative reaction to the rhetoric of conflict that often surrounds politics. Anti-politics may be a result of the expectations about fairness, ethical veracity and support for the common good that are loaded on to politicians by citizens.

The solution would appear to be to restore faith in representative politics by maximising transparency and accountability so that the practice and even the impression of wrong-doing can be stamped out from citizens' impression of representative politics. This reform strategy - whose value is real in the sense that there should be measures to stamp out corruption in any democratic system - may in some ways exacerbate the difficulties of anti-politics by reinforcing the idea that representatives are simply not to be trusted.

A third line of argument about what drives anti-politics is that it reflects the failure of politics to deliver outputs or societal outcomes that citizens value. In short it is the *performance* of politics that is a cause of dissatisfaction. We have shifted the balance in our politics from a partisan to a managerial political world where societal ends are agreed and the core political issue has become how to judge the relative competence of the parties and politicians to achieve the desired ends. Politics then becomes focused on the performance of the government and leaders or what prospective opponents could offer. But this focus on performance in turn supports a rather shallow form of political exchange in which the allocation of credit or blame becomes the focus, and a cycle of hope followed by despair drives public opinion as a new leader rises only to fall as feet of clay are revealed (in the UK Nick Clegg achieved this distinction in record time).

A final line of argument holds that large swathes of citizens lack the *proficiency* to understand about how politics works (and could ever function with their engagement) and as a result hold negative views of politics. This line of argument is rarely heard from politicians for the obvious reason that appearing to insult the voter is not widely viewed as a winning strategy. However the argument is not about the ignorance of the public but more the lack of an environment in which civic understanding and comprehension could reasonably be expected to exist and then develop into political engagement.

A way forward? Looking at politics through a social lens

It would be good if at this stage I could offer a simple way forward. I suspect that the four explanations of anti-politics all have some grip on the issue so we may need to take action on several fronts. But in the end I think there are severe limits to the amount that can be done to find new ways of giving all citizens power or convincing them that all politics is fair and ethical. In addition to what we already know about what citizens think and do - which suggests there would be a mountain to climb to turn around citizens on these points - these responses ask of politics what it cannot deliver. Politics is not about individual empowerment, it is about collective decision-making. The democratic promise is not that you can determine the outcome, merely that you can have your say. Politics is about resolving conflict and forging forms of co-operation. It can be inspirational and ethical but it also works through half-truths, compromise and veils of ambiguity.

Turning to the third explanation, then, new leadership figures may briefly light the candle of public hope that a better politics could emerge but it will be difficult to break out of a cycle that leads to ultimate disappointment. The deeper longer-term solution rests with being prepared to think about how to tackle the issues thrown up by the fourth explanation: the lack of a civic environment to support political engagement.

The starting point here is to think about citizens not as individuals but rather as embedded in a set of social relations. How they make sense of politics and how they decide to get involved depends strongly on the social networks of which they are part. We need to understand these ties and connections and that the properties of these ties and connections are not the assets of agents, but of systems of agents that in turn are connected to wider social processes.

There is growing interest in the role of social networks in helping to explain how citizens understand politics and in turn move on to political engagement (See *Symposium in PS: Politics Science and Politics*, January 2011). There is mounting evidence that networks of family, friendship, community and broader social ties have an independent impact on citizens: their politics, the resources they have access to, and whether and how this engagement is in turn translated into political action. "If

⁴ Anand E. Sokhey and Paul A. Djupe, "Interpersonal Networks and Democratic Politics" *PS*, January 2011, p56

the currency of political participation is information, then its primary mechanism is political talk, and more political discussion leads to more political activity.”⁴

Networks matter but how they matter and how much they matter are less clear. Being connected can create norms of participation and also can provide the basic information required to understand how to make a choice and the procedures for participation. Having access to expertise or knowledgeable people about an issue in addition can firm up views and commitment to act. This connection can come from lobby groups or other institutional sources.

Understanding democracy as a social process is the key to tackling anti-politics. In the past trade unions and other labour movement institutions provided for and led this social dimension to politics. The connections were not overtly political but more broadly social which in turn could provide the stepping stone to engagement or at least the idea that you could engage in politics with some hope of influence. In 1959, Almond and Verba’s study of *Civic Culture* revealed in Britain among working class and lower income groups a real sense that they could influence politics driven, they argued, by the role of labour movement organisations.

There is growing interest in the role of social networks in helping to explain how citizens understand politics and in turn move on to political engagement

More recent evidence indicates that “the key attitude shifts are not in the levels of knowledge or the extent to which politicians are trusted. British citizens were not in some golden age of high knowledge and trust in the 1950s but they did for whatever reasons believe they could influence political decision-making at the local and national level and have a pride in a political system that was seen as responsive and well functioning. That sense of being able to influence decisions has declined dramatically as has the sense that the system functions well”⁵.

The key to creating a more optimistic framing of issues, a renaissance of the belief that collectively we can achieve things, may rest in finding a way to develop and connect to the social networks that drive political understanding and engagement. The internet, public debate and open access to expertise and knowledge, could all play their part in building again a platform for a belief in politics. Progressives need to find ways to talk about politics but as a by-product of a wider engagement in social networks. For mobile phone companies and political parties the key message may be “it’s good to talk”.

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⁵ G.Stoker (2010) ‘The Rise of Political Disenchantment’ in Colin Hay(ed) *New Directions in Political Science*, Basingstoke: Palgrave Macmillan, p55

Making progress a meaningful concept

Alfred Gusenbauer

In order to return as a political force capable of shaping the 21st century, social democracy must craft a new vision of social progress anchored in the cornerstones of work, care and education

If one looks at definitions of progress, most commonly cited is the idea that the *world can become increasingly better*. This characterisation, based on an intuitive and optimistic belief that social reality can improve, should naturally generate positive emotions and attract people to support its claims. This no longer seems to be the case. Rather, it would appear that the majority of people in Europe have lost hope in a better tomorrow. Not only are they unconvinced by the claim that the future will be positive and healthier, but they fear that it will bring a decline in their rights and a deterioration of the circumstances in which they live. Despair erodes trust in the political class and their power to reverse inequitable social and economic trends. Social democracy, as a movement established to bring about progress and empower people economically, socially and democratically, is naturally the first to suffer the results of this mainstreaming mind-set up.

The message that our movement has received at both European and national elections should be understood as a signal that a profound revision of social democracy is required if it is to become a political force capable of shaping the 21st century. It calls for a new vision which, taking direction from the work completed by the FEPS Next Left research programme, should incorporate two features.

First of all, this new vision must be intellectually commanding, such that it can lead to an academic process that can sustain it. It must inspire further efforts aimed at drafting new paradigms, especially insofar as social and economic policies are concerned.¹ In the era of accelerated knowledge – due both to the IT revolution and the growing importance of skills and information – the ability to translate a political vision into a systematised scientific theory is a critical condition of success. It provides resistance and sustainability superior to a short term populist perspective on the one hand, and laissez-faire individualism on the other.

Secondly, even in the ideal scenario described by Kuhn, an empirically testable hypothesis is not sufficient to regain credibility in voters' eyes.² For social democracy the challenge is even greater, as realising progress requires time. Results sustain and legitimise the social democratic vision, yet the impatience to see these outcomes must be reconciled with the long-term perspective of social democracy. Furthermore, the growing complexity of social theories limits the extent to which they can be defended in the pure form of a vision. Thus, social democrats must find a way to reconnect with society beyond complicated and often incomprehensible arguments. It must take an innovative form, breaking with the limitations of introvert party-elites, and observe at an international, European and national level a renewal of a strategic alliance of partners united in the name of progress and capable of reaching out into society. It is a question not only of generating support for social democrats, but preserving democracy as the prevailing political system. It must be convincing in a way that it re-engages people: *progress is impossible without a change – and those who cannot change their minds cannot change anything.*³

In order to establish both of these features, the concept of progress must become the overarching one for social democrats, invested with distinctive, positive content beyond the political marketing

1. Th.Sowell, A conflict of Visions. Ideological Origins of Political Struggles, Basic Books New York 2007, pages 230 - 263
 2. Th. Kuhn, Structure of Scientific Revolutions, University of Chicago Press 1862
 3. Quote by George Bernard Shaw

of how being *progressive is different from being conservative*. This is simplistic and meaningless. Progress must become the trade mark of a political pledge that voters can hold social democratic parties accountable to. I would argue that this pledge must be based on a commitment to realising the principles of equality and quality, and below I analyse this hypothesis in the spheres of work, care and education.

1. Work – emancipating people through quality jobs

In our contemporary world, the approach towards what labour is has been transformed. More than anything else work is perceived as an occupation that a person should seek to hold in order to sustain oneself and one's family financially. The EU employment rate has decreased to 64.2%, with more than 9 million people who remain unemployed after more than a year.⁴ Of almost 2m people in Europe who cannot find employment, a third is younger than 25 years old. Eurobarometer data suggests that one in ten Europeans live in an extreme condition of poverty and about one in three in poverty. In these circumstances it is unsurprising that having a job that pays is a question of economic survival. The fear of redundancy or of being without a job permanently, now more common in the aftermath of the crisis, is exacerbated by the feeling that politicians can do very little to help. The promise that we would create employment is hard to believe. People tend to see their unemployment as an individual issue, rather than a group matter that must be addressed together. This fosters disillusionment in politics, and breeds emotions of resignation, resentment and withdrawal.

Therefore progress must be first and foremost about a new approach to what work is and should bring. Firstly, the link between work and empowerment should be reestablished as a foundation: the right to a good job must be universal, where "good" encompasses the traditional social democratic goal of decent standards in income, social security and training as well as new ideas. For example, it is observed that as people no longer see jobs as goals, but rather as means in their lives, they tend to believe that greater flexibility in terms of working hours is desirable. Of course, one has to be careful making any assumptions, knowing that there are still by far too many examples of the part-time contracts that are imposed on people instead of the full-fledged, totally covered in terms of social security contracts. This is the case especially for women. Nevertheless the issue of balance between free time, flexibility and work must be brought back to the agenda in a new manner, beyond the lost debate of so called flexicurity.

This debate must be closely linked with new thinking on what happiness means today. If a job is a means, not a goal, then people's approach to questions of empowerment and self-fulfillment must have changed accordingly. Without understanding this transformation it is inconceivable that social democracy will be able to give sufficient meaning to the term progress in a way that can address people's true needs, objectives and fears.

There are two further issues connected with modernisation that social democracy must begin to concern itself with: new concepts of the work place and skills, and their associated risks. The IT revolution has brought with it a new style of work. For those working in the so-called services sector, this has meant the digitalisation of their tasks. This, for many people work has become an activity performed via and in the computer. Even communication among colleagues in the same company is today facilitated through an exchange of emails, allowing them to avoid personal contact with one another. This has made human interaction less frequent in the workplace, in turn decreasing socialisation. Today it is quite possible to write a paper or complete a project with someone whom one has never met or spoken to.

4. Eurostat: European Union Labour Force Survey – Annual Results 2010
http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-SF-11-030/EN/KS-SF-11-030-EN.PDF

The reason why social democracy must become more aware of these changes in the workplace is that in its basic, original conception the factory was a place of not only work, but socialisation also. It was an important reference point in building citizenry. If today it is neither the party, nor one's work that provides education about the community, then social democrats must ask where knowledge comes from and how views are shaped. It is a strategic matter that needs an answer.

Further, modernisation meant reduction of some branches of the industry and agriculture, whilst technological changes led to replacing much of manual work by machines. This means there is now a mismatch between skills' demand and supply, as what is required is new, more sophisticated skills. Vocational training is thus no longer a fringe issue in the social mobility debate, but the core issue of enabling people to remain professionally active. Associated with modernisation are a handful of new social risks which must be addressed. The aforementioned mismatch, among other factors, leads to steadily growing discrepancies between jobs.⁵ Realising this fact, it becomes evident that the category of the working class that social democracy continues to operate with is inadequate to today's European labour market. There is therefore a need to develop a new understanding of this transformed society, one that is the base not only of a new vision, but a new school of sociological thought.

2. Care – enabling people through adequate provision

As a concept the welfare state has lost much of its credibility in the midst of the economic crisis. More and more it is perceived as an unnecessary expenditure that neither a single country nor Europe as a whole can possibly afford. This crisis of confidence in the welfare state is enhanced by what has become known as the squeezed middle class; that they carry the burden of state expenditure on a social security net which can no longer meet their needs.⁶

This is a challenge that must be addressed. If there is to be a renewal in the legitimacy of social security systems, there must also be a new understanding of its elements. A moral component of this vision must re-interpret the issues of solidarity (among them also intergenerational one). A new paradigm must respond to the issues of sustainability, efficiency and quality, while resisting compromise on the principles of universalism and the role of state. We must seek to build a new narrative anchored in a conception of the enabling state and shared society, while being strong enough to counterbalance opposing ideas such as the Big Society.

In concrete terms these debates are manifested in the issues of childcare and pensions. Both are two ends of the same debate on the core principles of the welfare state – namely (intergenerational) solidarity, social justice and equality.

Childcare provision is a question of ensuring equal opportunities for all. It is a matter of social inclusion and hence social cohesion, which should be a guarantee of equal chances, blind to the background from which a child originates. Ambitious pre-school programmes to equip children with skills that will allow them to enter the subsequent steps of their education prepared are very important. But no less important are the staff that ensures their implementation. Thus the efforts to train them, broaden their knowledge and enable them to perform their jobs better should be seen as an important investment in the public sector. We must re-orientate this debate and link it with another key aspect – adequate salaries in the public care sector. The state must become an example of the provision of good jobs, ensuring that the criteria 'good' stands for salaries as well. This is one example of the reforms through which the welfare state can regain credibility.

5. See: M.Goos and A.Manning, Lovely and lousy jobs. The rising polarization of the work in Britain, 2003 http://eprints.lse.ac.uk/20002/1/Lousy_and_Lovely_Jobs_the_Rising_Polarization_of_Work_in_Britain.pdf

6.T.Judt, *Ill fares the land*, Penguin 2010

The other debate centres on pensions, which currently focuses on two questions: at what age should people retire; and should there be a synchronisation of the retirement age on the European level? Yet these approaches neglect the key question – what should pensions be about? People fear the deals with the age dimension only. In many cases they wish to keep the age element of their pension at its current level not because they would mind working longer in full or part time employment, but because they are afraid that the modification of pension age will lead to modification of provision, and hence worsen their situation in the future. Those anxieties are enhanced by debate about ageing societies and the non-affordability of the current solutions. Provision of pensions is a basic task of the state – it is a question of social justice and true intergenerational solidarity. Perhaps, however, the understanding of pensions should be explored further in the direction of elderly care in a broader sense – which sector none less should also be revised accordingly to the general principles described above concerning the childcare provision.

3. Education – empowering people through equal opportunities

Progress depends on societal development, and hence on the quality and level of education that individuals receive. Sustainable acceleration of knowledge and skills within a society determines the chances of this society to build wealth and ensure the ability of its members to readapt to the circumstances imposed by processes such as globalisation, and readjust its functioning modes in moments of crisis. Therefore an answer to the question of what education should be about, what its goals are and how it is to be organised, should be at the centre of a response to how we conceptualise progress. Given that the integration processes has brought, amongst others, a common labour market on which the competences are verified, this must be given in a European context. Thus, though education is an area on which EU members have traditional been territorial, the time has come for a truly pan-European debate on education.

Following the points raised in sections 1 and 2 of this article, I would like to focus principally on the question of vocational training and an issue at its fringe, namely, of the recognition of competences and skills. When redefining the term progress, and subsequently the concept of work in relation also to self-fulfillment, one must draw attention to the competences employees and workers receive through their jobs. At this point neither these, nor learned skills (through internships and even volunteering, for example) remain unrecognised. This is also a question of efficiency in providing vocational training and eventual retraining. A social democratic conception of progress must be about building on a hitherto unrecognised existing potential.

Social democrats must seek to formulate a new vision which harbours the potential to mobilise both minds and hearts. It is a question of remaking the movement to become relevant once again, reliable and re-energised in order to be the political force to successfully face the challenges of the 21st century. The key to the success is revision of the term progress, making it meaningful through building on three cornerstones: work, care and education.

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European social models and the challenge of social cohesion

Patrick Diamond

Long-term structural challenges have become more insistent and pressing in wake of the financial crisis. Social progress requires a forward looking vision which finds a new synchrony between economic and social value creation. Casting back to golden age conceptions is deeply conservative and often imaginary

This paper explores the challenge of social progress and social cohesion in Europe through the European social model. It does so at a time when social progress in Europe is perceived to have gone rapidly into reverse. This poses significant dilemmas for the centre-left whose narratives and projects have been predicated on an abiding faith in an optimistic and hopeful future. The pervasive loss of confidence in social progress has stimulated a revival of conservatism in political thought, both on left and right. Modernisation is to be resisted rather than celebrated, protecting human societies from relentless and inexorable commodification.

The weakness of such conservatism is that 'golden age' conceptions are often imaginary, and lack a coherent account of the trends and forces at work in post-industrial societies. The conceptual framework of social cohesion, however, offers one potential route out of the impasse. Social cohesion is a widely used but little understood term used frequently in social policy and political science to describe the bonds or glue that bring people together in societies, particularly in the context of greater cultural diversity. The notion of social cohesion is multi-faceted, covering many different kinds of social phenomena. It is widely associated with theories of structural functionalism and pluralism.

In analysing social cohesion, three interdependent variables are assessed and explored in the literature: (1) material disparities including income and wealth inequalities; (2) citizenship and participation in the democratic sphere; (3) and the quality of relationships and well-being in society. In Europe, social cohesion has traditionally been associated with the prevalence of the European social model.¹

The European social model is believed to distinguish Europe from the United States in offering comprehensive social insurance and a welfare state for all regardless of need. For much of the post-war era, social justice and economic efficiency were seen to march hand in hand in Western Europe. This was the basis of the European social market economy in which the demands of labour and capital were accommodated within a framework of corporatist national regulation and planning, combined with Keynesian demand management and ambitious welfare state regimes. It has contributed to a historical view of Europe's post-war 'golden age' where from 1945 to the late 1970s, high growth and social cohesion prevailed.

The deterioration in European economic performance and the aftermath of the global financial crisis, however, has caused this one time certitude to be increasingly questioned. The issue is not just one of the affordability of existing social models as the result of low growth rates and adverse demographics. It also concerns the fact that existing social models may undermine the potential for economic growth and higher levels of employment in EU member-states. This questioning is made

¹ See Esping-Andersen, G. *The Incomplete Revolution: Adapting Welfare States to Women's New Roles*, Cambridge: Polity Press, 2009.

all the more urgent by the unfolding challenge of globalisation and the economic revolution in Asia.

The impact of globalisation has been to significantly enlarge the economic competition that Western societies face. It enables mobile capital to tap the potential of a rapidly expanding pool of labour, now becoming part of the world's urbanised workforce and increasingly highly skilled. Unsurprisingly globalisation is resisted in many parts of Europe, particularly in those regions and sectors that are most exposed to cost-efficient competition. There is increasing concern about rising inequalities and the marginalisation of the low skilled and disadvantaged, which weakens social cohesion by fomenting resentment towards migrants and minority groups, and increases disillusionment with the democratic process.²

The danger is that the financial crisis will produce spill-over effects that are detrimental to social cohesion and social justice in Europe

It is generally accepted that there is no such thing as 'the European social model'. Member-states differ in their social and political preferences for redistribution, and the weight to be accorded to the relative roles of state action, individual responsibility and voluntary initiative. It is more accurate, given the range of national diversity, to speak of Europe's social models. Nonetheless, there is sufficient commonality in the values that underpin the social models of the EU to label discussion of shared challenges as concerned with the future of the European social model.

The member-states of the EU also share a common economic and political space, and are highly interdependent. That is why, despite the diversity of national situations and political preferences, the EU is still accorded a significant role in the reform process. While national welfare systems develop their own dynamic which in turn generates their own distinctive problems and reform dilemmas, the main challenges for the future are demography, technological change, and globalisation. Recent years have seen a growing convergence of approaches in meeting those challenges, and there is increasing interest in redesigning national systems through common reform principles.

Most commentators have sought to explain the obstacles to reform of the European social model in terms of implementation, relating to lack of political capacity and will. The global financial crisis has made reform of the social model even more urgent, despite the fact that the political focus of national governments has inevitably been diverted towards the immediate task of crisis management and risk mitigation. The effect of the crisis is to make long-term structural challenges even more insistent and pressing.³ For example, it is likely that the process of global economic restructuring will accelerate, with comparative advantage shifting ever further towards Asia and the Far East.

The danger is that the financial crisis will produce spill-over effects that are detrimental to social cohesion and social justice in Europe. This is all too apparent given the rise in the youth unemployment rate, for example, which has reached 44 per cent in Spain and is rising rapidly in the new member-states according to the OECD.⁴ Most of the core difficulties facing the European social model are not confined to any one particular country, but are long-term and structural in their impact.

The argument of neo-liberals has been that European governments are lumbered with corporatist models that make them less flexible and less competitive. This imposes real costs in terms of jobs and growth throughout the EU, and is a compelling explanation of relative European under-performance since the late 1980s. Labour costs and taxes are allegedly far higher in Europe than the United States, and so it is argued, growth and job creation are much lower as a result.

² Gamble, 2008

³ Sapir, A. 'How the European Union should stop the global crisis becoming a European problem', Financial Times, August 23rd 2009.

⁴ OECD 2010

This view coincides with three frequently conflated claims about the impact of globalisation in the literature on European competitiveness:

- In an era of large-scale foreign direct investment and mobile productive capital, ‘punitive’ taxation regimes associated with positive welfare and comprehensive social provision only serve to precipitate capital flight.
- National economic policies are converging around neo-liberal norms in an era of financial deregulation and liberalisation.
- In an era of heightened labour mobility, high-wage, high-skill labour markets are very difficult to protect, triggering a deregulatory race to the bottom in an effort to encourage and retain investment.

These claims have had a significant impact on policymakers in national governments and central banks throughout Europe, but have serious limitations and weaknesses. In particular, they exaggerate the impact and homogenising effects of globalisation, and refuse to acknowledge that many of the world’s most successful economies have relatively high tax to GDP ratios, notably the Nordic countries. Tax rates are one factor among many in determining company location and investment decisions, as long as taxation regimes avoid adverse incentive effects. Successful engagement in global markets, a flexible and competitive economy, and healthy welfare states in Europe are mutually compatible. Globalisation needs to be understood, “less as an inexorable dynamic and more as a tendency to which there are counter-tendencies, or at least to which counter-tendencies may be mobilised.”⁵

Economic efficiency and social cohesion

The impact of the global financial crisis ought to encourage a re-appraisal of Anglo-American capitalism, and the models that can best ensure economic efficiency and social cohesion go hand in hand. This perspective is brilliantly articulated in a recent article by Michael Porter and Mark Kramer in *The Harvard Business Review*, in which they criticise the outdated approach to value creation that has emerged over the past few decades within the Anglo-sphere.⁶ Porter and Kramer’s insights are worth quoting at length, since they offer a compelling critique of those companies that remain caught within the competitive mind-set recommended by the Anglo-American model:

“They continue to view value creation narrowly, optimizing short-term financial performance in a bubble while missing the most important customer needs and ignoring the broader influences that determine their longer-term success. How else could companies overlook the well-being of their customers, the depletion of natural resources vital to their businesses, the viability of key suppliers, or the economic distress of the communities in which they produce and sell? How else could companies think that simply shifting activities to locations with ever lower wages was a sustainable “solution” to competitive challenges? Government and civil society have often exacerbated the problem by attempting to address social weaknesses at the expense of business. The presumed trade-offs between economic efficiency and social progress have been institutionalized in decades of policy choices”

Porter and Kramer argue that the purpose of the corporation must be redefined towards creating ‘shared value’, not just profit maximisation per se. This will drive the next wave of innovation and productivity growth in the global economy, reshaping capitalism and its relationship to society. Learning how to create shared value offers the best means of legitimising business in the aftermath of the global crisis, restoring the health of the capitalist system.

⁵ Hay, C., Watson, M. & Wincott, D. ‘Globalisation, European Integration and the Persistence of European Social Models’, POLIS working paper 3/99, University of Birmingham, 2005.

⁶ Porter, M. & Kramer, M. *The Big Idea: Creating Shared Value*, Harvard Business Review, January-February, 2011.

Porter and Kramer's perspective is important because it acknowledges the basic synchrony between economic value and social value that has been at the root of Europe's post-war welfare states and social models. It recognises that restoring the sustainability of social provision is dependent on developing more dynamic and vibrant forms of capitalism. This cannot be achieved through a deregulatory race to the bottom, only through devising long-term strategies that enable the production of more high-value goods and services throughout the European Union.

This perspective on economic and social value creation in the global economy is acknowledged in recent accounts of social development in Latin America, which stress that social and economic goals ought to be properly balanced.⁷ The impact of divergent development models and structural reforms of social security in Latin America ought to be studied carefully by European policymakers as they contemplate the future viability of their own welfare states and social models.

Golden age conceptions are both deeply conservative and often imaginary

This demonstrates the limitations of casting public policy as a choice between free markets or the centralised state. Throughout the world, the lesson of three decades of reform is that programmes and policies which overemphasise either the state or the market produce long-term costs, both for society and the individual. The centre-left also has to challenge those accounts which perceive the world in terms of relentless declinism - the decline of the state, the decline of ideology, the decline of welfare, even the decline of social democracy itself. Too much current writing assumes as its reference point 'a golden age' in which nation-states had sovereignty, government's had legitimacy, citizens participated actively in public life, men were employed in secure jobs, and people were anchored in traditional communities.⁸

Inevitably, golden age conceptions are both deeply conservative and often imaginary. The task for politics is to articulate ways to maintain an open society which can adapt to the new risks and insecurities created by the global economy, while protecting cherished values and ways of living. The challenge is to open up new possibilities by transcending the state-market divide, showing how states, markets and civil society can best combine to maximise economic growth and human welfare.

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⁷ Mesa-Lago, C. *Models of Development, Social Policy and Reform in Latin America*, United Nations Research Institute for Social Development, November 2002.
⁸ Gamble, A. *Politics and Fate*, Cambridge: Polity Press, 2000.

Social investment

Social investment is in jeopardy

Anton Hemerijck

Priorities for a social investment welfare state

Bruno Palier

The politics of progress and an EU Social Investment Pact

Frank Vandebroucke

Economic competence and the social investment state

Anke Hassel

Social investment is in jeopardy

Anton Hemerijck

Crisis aftershocks are rumbling through the Europe, locking politics in a troubling bind of austerity, Euroscepticism and welfare chauvinism. The social investment imperative offers a visionary path for European welfare states, but there is a real risk that it will be left orphaned by political short-termism

The welfare state has people worried in the aftermath of the deepest economic crisis since the Great Depression. For the member states of the European Union, where collective social protection is most comprehensive, compared to other geopolitical regions around the globe, the social and economic repercussions of the financial crisis will mark a serious stress test for 21st century welfare provision. The global economic crisis has already fundamentally redrawn the boundaries between states and markets. Will the Great Recession, like its Great Depression and Great Inflation predecessors, bring new opportunities to reconfigure and re-legitimise social policy? Or, are European welfare states in danger of becoming a crisis casualty in the cascade of violent economic, social, and political aftershocks, unleashed by the first crisis of 21st century global capitalism?

At this particular juncture it is especially pertinent to take stock of what is left of the notion of “social policy as a productive factor”, with its explicit emphasis on ‘social investment’ and mutual synergies between growth, employment and social inclusion, as it critically informed the EU’s original Lisbon Agenda of 2000 in the decade before the onslaught of the crisis. The years ahead will surely differ markedly from the epoch when the social investment ideas were first launched by Anthony Giddens, Gøsta Esping-Andersen et al., Frank Vandenbroucke, and Jacques Delors, and diffused by OECD and EU publications. Will the determined fiscal response in 2008 and 2009, based on an emergency reconversion to the economic teachings of John Maynard Keynes, be followed by a more general reappraisal of active welfare states? Or, will the social investment paradigm revert to marginality when the calls for deficit and debt reduction grow louder?

To the extent that the crisis will go down in history as the crisis of neoliberal excess, the social investment paradigm may regain intellectual strength, policy coherence and political support, in the years ahead. On the other hand, the long-term consequences of the crisis may just as well leave the social investment edifice orphaned in the new Europe 2020 successor strategy to the Lisbon Agenda. My worry is that after a two decade long loss of faith in public action – the political core of neo-liberalism – welfare renewal within the scriptures of social investment is not at all self-evident.

The social investment imperative

By the end of the 1990s, political disenchantment with neo-liberal policy measures began to generate electoral successes for the centre-left. Newly elected European social democrats like Tony Blair, Gerhard Schröder, Wim Kok, and Poul Nyrup Rasmussen, strongly believed that most European welfare states had to be transformed from passive benefit systems into activating, capacity building, social investment states. This policy platform was inspired intellectually by Anthony Giddens’ 1998 book *The Third Way. The Renewal of Social Democracy*. But it was really the OECD who made the first about-face shift away from the neo-liberal advocacy that had inspired its Jobs Strategy publications of the 1990s, to spearhead the social investment perspective at their 1996 high-level conference, ‘Beyond 2000: The New Social Policy Agenda’.¹

Meanwhile, the EU developed its own version of the social investment paradigm, beginning under the Dutch EU presidency in the first half of 1997,² when the Dutch Ministry of Social Affairs and Employment staged a high-level conference in cooperation with the European Commission, entitled ‘Social Policy as Productive Factor’. The intention of the conference, chaired by Jacques Delors, was to correct the lopsided view that comprehensive social policy provisions, however morally commendable, only engender negative economic effects. The central tenet of the EU’s turn to social investment is that social policy can potentially be a productive factor. Whereas neo-liberal doctrines posited a trade-off between these goals, the social investment paradigm sees improved social equity go hand in hand with more economic efficiency. Social policy provisions are viewed as Pareto-efficient investments, potentially enhancing both social protection and productive potential.

In 2000, the Portuguese presidency of the EU further raised the social and economic policy ambitions of the EU, by putting forward an integrated agenda of economic, employment and social objectives, committing the Union to becoming 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 so-called Lisbon Strategy represented an attempt to re-launch the idea of the positive complementarities between equity and efficiency in the knowledge-based economy by way of “investing in people and developing an active and dynamic welfare state.”³ In addition to the objective of raising employment rates throughout Europe, the Lisbon Agenda placed human capital, research, innovation and development explicitly at the centre of European social and economic policy. This broadened the notion of social policy as a productive factor beyond its traditional emphasis on social protection, to include social promotion by improving quality training and education. The Lisbon Strategy also prefigured a re-focusing of equal opportunity policies with an explicit eye on raising the employment rates of women and elderly workers.

During the Belgian presidency in the second half of 2001, Frank Vandebroucke, then Belgian Minister of Social Insurance and Health Care, eager to build on the Lisbon Agenda’s social ambitions, invited a group headed by Gøsta Esping-Andersen, including myself, to draft a report on a “new welfare architecture for 21st century Europe”, later published with Oxford University Press under the title *Why We Need a New Welfare State*.⁴ For Vandebroucke, a towering intellectual of the active welfare state movement in European social democracy, the ambition to make mature welfare states in ageing post-industrial societies really inclusive, with regard to both income distribution and employment opportunities, called for path-breaking social policy change. The assignment he gave Esping-Andersen and colleagues was to rethink the welfare state for the 21st century, so that “once again, labour markets and families are welfare optimisers and a good guarantee that tomorrow’s adult workers will be as productive and resourceful as possible.”⁵

At the core of *Why We Need a New Welfare State* is the argument that the prevailing inertia in male breadwinner welfare provision fosters increasingly sub-optimal life chances in labour market opportunities, income, educational attainment, and intra- and intergenerational fairness, for large shares of the population. The staying power of the “passive” male breadwinner policy legacy, according to Esping-Andersen et al., frustrates more adequate responses to “new” social risks of the post-industrial economy, ranging from rapid skill depletion, reconciling work and family life, caring for frail relatives, and inadequate social security coverage.⁶ These “new” social risks adversely affect low skill workers, youngsters, working women, immigrants, and families with small children. Most troublesome is the polarisation between work-rich and work-poor families. Top income households are increasingly distancing themselves from the middle as a result of rising returns to skills, exacerbated by marital homogamy, that is to say family formation of spouses with similar educational backgrounds. At the bottom of the pyramid, less educated couples and especially lone-mother families face (child) poverty

1 OECD (1996) Beyond 2000: The New Social Policy Agenda. Paris: OECD; OECD (2006a), OECD Employment Outlook. Boosting Jobs and Income. Paris: OECD; OECD (2006b) Starting Strong. Paris: OECD.; OECD (2007a) Babies and Bosses. Paris: OECD; OECD (2007b) Understanding the Social Outcomes of Learning. Paris: OECD; OECD (2008) Growing Unequal. Paris: OECD; see also Jensen, J. (2009) ‘Lost in translation: the social investment perspective and gender equality’, *Social Politics*, 16(4): 446-483.

2 Hemerijck, A. (1997) *Social Policy as a Productive Factor*. The Hague/Brussels: Ministry of Social Affairs and Employment and European Commission.

3. Council of the European Union (2000) *Lisbon Strategy*. http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/00100-r1.en0.htm (March 20, 2011)

4. Esping-Andersen, G., D. Gallie, A. Hemerijck and J. Myles (2002) *Why We Need a New Welfare State*. Oxford: Oxford University Press.

5 Esping-Andersen et al 2002: 25

and long-term joblessness. And as inequality widens, households' capacities to invest in their children's fortunes will become ever more unequal.

Because the heaviest burden of new social risks falls on the younger cohorts, in terms of policy re-direction, Esping-Andersen et al. explicitly advocated a reallocation of social expenditures away from pensions and social insurance towards family services, active labour market policy, early childhood education and vocational training, so as to ensure productivity improvement and high employment for both men and women in the knowledge based-economy. There is, however, no contradiction between an explicit welfare effort towards privileging the active phases of life and sustainable pensions *per se*. As Vandembroucke correctly states in the introduction to the volume: "we should firmly keep in mind that good pension policies – like good health policies – begin at birth"⁷. It is important to add that Esping-Andersen et al. emphasised – contra the Third Way – that social investment is no substitute for social protection. Adequate minimum income protection is a critical precondition for an effective social investment strategy. In other words "social protection" and "social promotion" should be understood as the indispensable twin pillars of the new social investment welfare edifice.

Perhaps the most fundamental unifying tenet of the social investment edifice bears on its theory of the state. Distancing themselves from neo-liberalism's 'negative' economic theory of the state, social investment advocates view public policy as a key provider for families and labour markets. They do so, in the first place, on the basis of a far less sanguine understanding of efficient markets. Two economic rationales are at work here. The first relates to information asymmetries. Because citizens often lack the requisite information and capabilities to make enlightened choices, many post-industrial life course needs remain unmet because of the market failures of service under-provision at too high a cost. In countering information asymmetries, the economics of social investment hark back to the original economic rationale for modern social policy as social security, offering collective insurance mechanism for redistribution over the life cycle. This is what Nicholas Barr has coined as the 'piggy-bank' function of the welfare state.⁸

The more fundamental reason why the welfare state today must be "active" and provide enabling social services is inherently bound up with the declining effectiveness of the logic of social insurance ever since the 1980s. When the risk of industrial unemployment was still largely cyclical, it made perfect sense to administer collective social insurance funds for consumption smoothing during spells of Keynesian demand deficient unemployment. However, when unemployment becomes structural, caused by radical shifts in labour demand and supply, intensified international competition, skill-biased technological change, the feminisation of the work force, family transformation, and social and economic preferences for more flexible employment relations, traditional unemployment insurance no longer functions as an effective reserve income buffer between jobs in the same industry. Basic minimum income guarantees, therefore, have to be complemented with capacitating public services, customised to particular social needs caused by life course contingencies. Because it is difficult to privately and/or collectively insure new social risks, and as *capacitating* social services are not self-evidently supplied by private markets, it becomes imperative for public policy to step in for effective protection against new social risks.

The explicit re-appraisal of the role of the state as a key social investor is, however, confronted with the overriding public finance limitation, anchored in the Maastricht criteria and the Stability and Growth Pact. As long as the neo-liberal doctrine of balanced budgets and price stability continue to be viewed as sufficient conditions for overall macro-economic stability, the shift towards social investment remains heavily constrained. While all the available evidence suggests that investments in childcare

6 Esping-Andersen et al 2002
7 Esping-Andersen et al, 2002: xvi
8 Barr, N.A. (2001) The welfare state as piggy bank: information, risk, uncertainty, and the role of the state. Oxford: Oxford University Press.

and education will, in the long-run, pay for themselves, existing public finance practices consider any form of social policy spending only as pure consumption. This may be true for the modus operandi of the post-war welfare state, which was indeed income-transfer biased. Today, as the welfare state is in process of becoming more service based, there is a clear need to distinguish social investments from consumption spending. A new regime of public finance that would allow finance ministers to (a) identify real public investments with estimated real return, and (b) examine the joint expenditure trends in markets and governments alike, has become imperative. This would be akin to distinguishing between current and capital accounts in welfare state spending, just as private companies do, as Esping-Andersen argues.⁹

Beyond the troubled narratives of austerity and xenophobia

Will the social investment paradigm, which gained significant credit before the onslaught of the 2007 economic crisis, carry the day, or revert to marginality and be left orphaned in the new epoch of austerity and welfare chauvinism? While support for the welfare state remains high amongst publics everywhere across Europe, and has even increased somewhat in the immediate aftermath of the crisis, the politics and policy of the long-term social and economic repercussions of the financial crisis are not benign. Inevitably, demographic headwind and drained public finance will bring social contracts under duress, especially in countries facing high unemployment and immediate budgetary pressures. The extent that long run societal change, ranging from population ageing, the feminisation of the work force, immigration, and shifts in labour supply and demand, have not been adequately dealt with before the crisis, will surely intensify austerity reform pressures. But otherwise, the pressures of demographic change in the aftermath of the current crisis may also strengthen the importance of poverty relief, social insurance, macroeconomic stabilisation and the need for human capital investment. The quality of spending under constrained public budgets will be crucial.

Will the social investment paradigm, carry the day, or revert to marginality and be left orphaned in the new epoch of austerity and welfare chauvinism?

Over the past three years, the political economy of Europe has gone through two phases of crisis management. In the immediate

aftermath of the Lehman Brother's bankruptcy in the fall of 2008, the first wave of crisis management was critically inspired by the return of Keynesian policy solutions to economic instability in response to a deep liquidity strain and a rapid fall in global demand. Practically all advanced political economies intervened with stimulus measures in support of ailing banks, monetary easing, and temporary social policy expansion, in order to sustain effective demand and save jobs. Between 2008 and 2010, many European countries have put their employees on short-term working or temporary lay-off, alongside further training initiatives, with the aim of increasing the adaptability of workers and thereby the competitiveness of enterprises through skill development, often based on tripartite agreements with the social partners at sector or company level. It is fair to say that many of these preventive measures were consistent with social investment priorities. Some of the most generous welfare states, with large public sectors devoted to human capital formation and family services, clearly outperformed many of the most liberal political economies in the wake of the crisis. In other words, an ambitious, generous and active welfare state, with a strong social investment impetus, proved to be an asset rather than liability after the onslaught of the early 21st century Great Recession.

After December 2009 a more conservative macroeconomic definition of the crisis took root, punctuated by the Greek sovereign debt predicament. After governments had been forced to bail out banks with taxpayers' money, the new crisis diagnosis became one of state failure. In the shadow of a looming fiscal crisis of the state, countries like Greece, Ireland, Portugal and Spain, but also France and Italy, have

⁹ Esping-Andersen, G. (2008) 'Childhood investment and skill formation', *International Tax and Public Finance*, 15(1): 19-44.

since pushed through bold, austerity-oriented social reforms. In Spain, the government has approved to give employers more control over how they deploy workers, while making it cheaper to fire – and therefore easier to hire – permanent employees. In Greece the era of retiring as 50 on full pension has come to pass; people will need to work until 65, with 40 years' full contributions. Also, France and Italy have taken the steps in direction of raising the retirement age from 60 to 62 and 63 year of age. Germany, the UK, and the Netherlands have also stepped up austerity commitments, including cuts in public salaries, freezing public investments, cuts in social subsidies and different measures to control pension expenditures, away from the post-Lehman Keynesian automatic stabilisation, fiscal and monetary stimulus measures.

In the second half of 2010, the blame-it-on-state narrative, subsequently, became the master crisis resolution narrative of the EU. The Annual Growth Survey (AGS), published by the European Commission in February 2011, in this respect, marks the unmitigated return of neo-liberalism, reminiscent of the OECD jobs study of the mid-1990s.¹⁰ The Commission, once again, dispels fiscal profligacy, overregulated labour market, overgenerous welfare states, excessively strong trade unions and rigid wage bargaining institutions as the main barriers to European growth and competitiveness. Trade unions are conjectured as particularistic interest group rent-seekers, which flies in the face of empirical evidence of effective social partnership solutions in helping to rebalance the euro area during the first phase of crisis management. As the AGS calls for 'a rapid reduction in unemployment through labour market reform', as part and parcel of an aggressive fiscal consolidation package, this is bound to depress effective demand. Finally, by insisting that EU actions should 'not require large public investments' the AGS is fundamentally adamant to the imperative of social investment in the wake of the crisis. It should therefore come as no surprise that Jacques Delors came out to dismiss the ASR as the most "reactionary" document that European Commission has put out in at least a decade.

It is indeed perplexing how strong the neoliberal blame-it-on-the state narrative resurfaced at the centre of debate since the Greek sovereign debt predicament of early 2010. Within the span of a single year, EU policy makers seem to have completely forgotten that the financial crash originated in behavioral excesses in financial markets and the excessive faith in financial markets, and not in labour market institutions and excess welfare spending. Reasoning from the original 2009 definition of the crisis, it is not state intervention that caused the crisis, but rather the lack of it in regulating and supervising financial markets. Another lesson that has been swiftly brushed aside is the inadequacy of the macroeconomic regime of EMU and the Stability and Growth Pact by singularly targeting on inflation and, rather ineffectively, on public deficit and debt levels. Policymakers, as a consequence, completely missed out on current account competitiveness divergences in the real economy across the eurozone. In the current predicament, aggressive fiscal consolidation is likely to intensify the risk of debt deflation in the weaker eurozone countries, potentially triggering a double-dip economic recession.

The most important of the many economic lessons of the crisis not learnt, relates to the independent role of politics in the aftermath of the crisis. Even before the 2008 financial meltdown, the EU became the scapegoat of choice for anti immigrant and Eurosceptic complaints. Although populist, anti EU as well as anti immigrant, parties may not muster the strength to take office in most countries, their growing support will put pressure on existing governments to expand nationalist responses to the crisis and limit their commitments to European integration. In the years ahead, it will become particularly difficult for the pro-European mainstream social democratic and Green-Left parties to continue to support much needed pan-European macroeconomic solutions to the crisis, based on social investment alternatives.

¹⁰ European Commission (2011) Annual Growth Survey: advancing the EU's comprehensive response to the crisis. Brussels: COM(2011) 11 final

The aftermath of the financial has brought Europe to a new political crossroads. The overall political sentiment is conservative, bent on defending the status quo, both with respect to the single market, EMU and the Stability and Growth Pact, and also in terms of popular discontent and national welfare chauvinism. In the current context of the new European austerity and welfare chauvinism, it is indeed doubtful whether the social investment paradigm will carry the day.

Progressive politicians wishing to defend and accelerating the social investment imperative will have to find new legitimising narratives. If politicians hope to take on a more activist role of the state in the European economy and social policy, Peter Hall argues, they have to re-establish the terms on which such a role can be said to be legitimate.¹¹ In the recent past, political leaders have demonised 'globalisation' while using the EU to expand competitive markets at the expense of domestic social protection. Electorates see through this hypocrisy, and it has left them jaded about the candour of progressive politicians and the credibility of what governments can do. As a consequence, the challenge of progressive governance in the wake of the first crisis of 21st century capitalism is surely not simply a technocratic one of finding more effective EU macroeconomic policies coupled with Pareto-optimal social investments. The evidence is already overwhelming. The immediate challenge is far more political. Progressive politicians, parties and organised interests, must articulate a vision of social progress capable of restoring their legitimacy in difficult times, and ideally visions that breathe new life into a European Union discredited by its role as custodian of free market competition. It is crucial that the political left-of-centre articulates a narrative of a 'caring Europe' as one the founding principles and objective of European cooperation.

The critical challenge lies in redirecting the broad political support for the welfare state in most EU member countries towards designing a new model of welfare state that is able to equip European citizens and societies to face up to endogenous social change and growing global competition. In terms of policy, we must not lose track of the pre-crisis evolution towards employment-friendly, fair and efficient welfare systems. As the Lisbon Strategy, refocused rather narrowly on growth and jobs in 2005, did expire in 2010, the new 'Europe 2020' strategy already does gives the social dimension greater prominence than in its predecessor, with its ambition to lift 20 million people out of poverty.

The good news is that it is no longer assumed that more jobs will automatically end social exclusion and poverty. But it remains to be seen whether the social dimension of 'Europe 2020' will be able to transcend the institutional asymmetry, anchored over the past two decades, between EU-level liberalisation and domestic welfare provision. As these frictions

are a critical source of political disenchantment, which Mario Monti has aptly coined "single market fatigue" in his report on the future of the Single Market in the aftermath of the crisis. Monti argues that the single market and social policy priorities are in dire need of "appropriate reconciliation."¹² Let us hope so that in due course, with more political imagination, we should be able to turn the current tide of inward-looking pessimism about the sustainability of the welfare state into renewed political efforts at forward-looking 'social pragmatism'. But it is going to be a long haul.

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Progressive politicians must articulate a vision of social progress capable of restoring their legitimacy in difficult times, and ideally visions that breathe new life into a European Union discredited by its role as custodian of free market competition

11 Hall, P. (2009) 'The Significance of Politics.' In: A. Hemerijck, B. Knapen, E. Van Doorne (eds.), *Aftershocks*, Amsterdam: Amsterdam University Press: 93-102.

12 Monti, M. (2010) *A new strategy for the single market. At the service of Europe's economy and society*. Brussels: European Commission: 26

Priorities for a social investment welfare state

Bruno Palier

The lesson from 15 years of social investment is that it should not be done in half measures; partial implementation may at best deliver partial success. Social democrats need to craft new policies which balance social investment with social protection, explicitly focusing on inequality and quality of delivery

In the mid 1990s social democrats were in power across Europe and the new social investment perspective was being vigorously promoted. Today social democrats find themselves in a distinctly different place. More than a decade later, it can be said that the social investment perspective has been partly implemented at the EU level and more explicitly in some of the countries governed by the centre-left. Yet here we are, despite or because of this, in a situation whereby social democrats are out of power across Europe.

Thus, the perspective cannot be said to be new, and needs to be (re)assessed in light of the last 15 years before being reasserted politically. This paper will first summarise the main conclusions of research into the social investment perspective, before proposing some renewed priorities for a social investment welfare state.¹

What should be learned from past social investment experience?

Despite the fact that the social investment perspective was endorsed at the EU level and was perceived as a trademark of the new social democrats in the early 2000s, only a few countries have in reality fully implemented a social investment perspective. Neither southern European countries (Italy, Spain, Greece and Portugal) nor eastern European countries have really entered the social investment era. Globally, the continental European countries remain typically “traditional compensatory welfare systems”, having made few attempts to activate a turn to social investment. The countries that appear to have travelled the furthest are the Nordic countries. In addition, changes towards more active approaches can also be observed in the Netherlands as well as the UK and, for some dimensions such as family policies, France and Belgium.

If one looks at the development of social expenditure from the mid 1990s to the late 2000s, it is evident that old-age expenditure has increased everywhere, while typical ‘social investment’ expenditure on education has decreased in most OECD countries. However, the few countries who can be said to have developed more social investment types of policy have displayed two different strategies. The English-speaking and the Nordic countries are remarkably different examples of social investment in action. In the Nordic version of social investment, countries spend much more on investment-related social policies as well as on old-age and passive labour market policies. The British version of social investment is based more on high spending in “active” policies, with less spent on compensatory social policies. The idea here is that social policy should shift from a safety net to a springboard for personal responsibility: compensatory policies should be limited, and progressively replaced by “active” social investments. On the basis of a research assessment into these two strategies, it looks clear that the latter version is far from able to achieve social investment objectives.²

¹ This research is based on a project entitled “What future for social investment?”, co-ordinated with Nathalie Morel and Joakim Palme. Results should be published by the end of 2011 in a book called “Towards a Social Investment Welfare State?” published by Policy Press.

² See research project entitled “What future for social investment?”, co-ordinated with Nathalie Morel and Joakim Palme. Available at <http://www.framtidsstudier.se/eng/publication/what-future-for-social-investment/>

The experience of the Nordic countries suggests that social investment policies can be used successfully to achieve both social and economic goals. However, most other European countries are lagging behind. The Nordic countries have not only combined strong protection and strong social investment but have also put the emphasis on social equality as well as gender equality. In the latter context, social investment should be seen as a way to avoid compensation in the future. Childcare should not be perceived as a mere instrument for allowing mothers' employment, but should also promote gender equality and quality childcare for all. Through investing in childcare and other family policy instruments, Sweden and the other Nordic countries, as well as France, have been successful in dealing with the demographic difficulties brought about by falling birth rates.

On the other hand, it can be observed that some policies, implemented in the name of social investment, have in fact worsened the situation for certain groups of people, or at least offered them little to no aid in finding better jobs. On the contrary it has been found that they re-enforce inequalities and dualism in societies, failing to improve social cohesion. In this sense, the turns to "activation" in social policy have often been associated with the social investment perspective, but it should be made clear that the social cost of a strategy based on "making work pay" lowering the level of social benefits, the flexibilisation of the labour market and the creation of lousy jobs – is downward and negative.

Conditionality in unemployment insurance has increased in most Member States, replacement rates have been retrenched, and the duration of benefit periods shortened. Activation schemes are far from comprehensive, workfarist rather than individualised, and come in the form of counselling rather than comprehensive training. The quality of activation services is usually poor. Too often, the activation turn is designed to increase labour market participation at any social cost, pushing inactive people to take 'any job': a proper social investment approach would associate finding a (new) job with social promotion, putting the upskilling of people and improvement of their social condition as the number one objective. If the quality of jobs is forgotten, activation only leads to people shifting from inactivity to in-work poverty, which does not help achieve the economic goal of increasing the employment rates in order to enlarge the tax base and support future pensions and health care costs.

From this assessment of past experience, it can be concluded that social investment is a 'package', and partial implementation may at best deliver partial success. The life course perspective suggests that policies

Some policies, implemented in the name of social investment...re-enforce inequalities and dualism in societies, failing to improve social cohesion

can be effective only if the whole chain is maintained, and if it is aimed at the whole population and not reserved for the best. Two key values should be brought back onto the social democratic agenda: equality and quality. One should emphasise that the social investment is aimed at the social promotion of all citizens, and that the quality of programmes and jobs are of critical importance.

Europeans are angry about inequality

Inequalities are back, and this should not only be denounced but also combated.³ European Social democrats will miss a historic political opportunity if they do not denounce the excess of financial capitalism and its undue fortunes, the failure of the trickle down theory and all the discourses promoted by neo-liberals defending financial capitalism and its deregulated excesses. European polls show that the middle class is shocked by increasing inequalities, and by those in the top

³ See OECD 1998

incomes brackets (and their apparently uncontrollable behaviour). Worse, if they do not act, the social democrats risk being associated with these increasing inequalities.

The social investment perspective has indeed been fuelled by a critique of traditional welfare state policies and their inadequacy in addressing rising inequalities. But nowadays, as was touched on above, the social investment perspective itself can be criticised for having contributed to increased inequalities, especially in regard to the workless or the working poor, and for having abandoned the poorest in society.⁴

Equality seems to be both a pre-condition for a successful social investment welfare state and one of the most important outcomes of social investment policies. We know that egalitarian societies are more successful in implementing social investment policies. If it is a precondition it urges us to remember the merits of traditional social protection and anti-poverty programmes, and suggests that reduction of income inequality should remain high on the social investment agenda.

Equality is crucial for the implementation process in terms of securing equality of access; childcare for all, quality education for all; lifelong learning for all etc. Here gender equality should remain one of the main goals of social investment. Yet many male proponents of the social investment perspective appear to have forgotten the gender dimension to only promoting mothers' activation. Also importantly, ethnic inequalities are not only current realities but are likely to be of increasing importance in the future; and, in common with the gender dimension, this importance is not fully recognised.

Social promotion is based on quality of delivery

Given the challenges of economic globalisation, one protective measure is to remain economically active in terms of innovation, producing high quality goods and services. Research shows that, if well implemented, human capital investment can produce high quality jobs. Skill development is crucial to success in today's labour market. The quality of education matters more than simply participation for skill accumulation, particularly at the low end of the capability distribution.

There are good reasons to make quality a key part of the implementation of social investment programmes. Only high quality childcare has a long term impact on children's capacities and succeeds in reducing social inequalities. Quality childcare is essential in making a difference and reaching social investment goals (to reduce social inequalities among young children and allow all of the unemployed to acquire the necessary capacities to be successful in the contemporary economy). If one wants to have quality childcare, one needs to keep the ratio of children per adult low, and to provide childminders with good jobs.

Activation only aimed at pushing people back into 'any job' on the labour market does not produce good results. Active labour market policies can be seen as elements of social investment only if conceived as an instrument of social promotion (and not only as a way to increase employment rate at any cost). Amongst the various ALMPs, only those focused on upskilling seem to fit the social investment approach. Activation is not enough. If the quality of jobs is forgotten, activation only locks people into a cycle of inactivity and in-work poverty.

Preparing for a better future for all

If the objective is to serve the interests of the middle classes, then focus needs to be put on improving the quality of everyday life rather than only speaking of high tech and elitist economic activities. One

⁴ See the radical criticism of the Hartz IV laws in Germany for one of the clearest examples of the risk run by the social investment perspective to be accused to have generated more – in-work – poverty and inequality

pitfall of the Lisbon strategy was its elitist dimension. All the talk of the knowledge-based economy did not chime with the everyday experiences of large groups of people, who felt too average to be major players in this “new” knowledge economy. Hence the new economic and social strategy should focus more on “quality for all”, rather than on a smart economy for the few. In this perspective, improved (public/social) services seem central (and of interest to most citizens).

The strategy of investing in a quality future should not be reduced to an economic competitiveness strategy that will serve only a few and leave the majority behind. Major areas of concern for Europeans appear here: transportation, housing, access to quality healthcare and quality care for dependent people (the elderly but also children and the disabled). By improving the quality of services that surround everyday life, social democrats could address the concerns of the majority and not only prepare the best for the future.

If the objective is to serve the interests of the middle classes, then focus needs to be put on improving the quality of everyday life rather than only speaking of high tech and elitist economic activities

It is necessary to invest in quality services and hence in the qualifications and working conditions of jobs in sectors like transport, construction, health and education and personal services. These areas are too often regarded as not forming part of the economics of quality, because of inadequate accounting of productivity (based on the number of units processed per hour, and the level of formal education). The service and collective utility of the service should be promoted as criterion for evaluating the “productivity” or the “utility” of work.

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The politics of progress and an EU Social Investment Pact

Frank Vandenbroucke

The politics of progress are politics of the long term: social investment is a long-term strategy par excellence. The centre-left can build a dynamic vision of 21st century social progress by fighting for a new EU Social Investment Pact

How should we position social democracy in the EU? What policy proposals and political narratives can mobilise voters? These challenges confront us with two sets of interrelated questions. First of all, we have to confront short-term tactical questions related to the eurozone crisis and the current turn in EU politics and policy. Yet, these short-term questions by implication lead on to long-term questions about the nature of “social progress” and the institutions we entrust to achieve it. Is social progress a story about jobs, purchasing power, or skills and education? Is it about fairness or quality of life? Will we resist the rise of anti-EU populism and ask our electorate to invest trust in enhanced supranational co-operation? If so, what kind of co-operation is needed and what should be the leading aims?

The politics of progress are politics of the long term. In the 1990s, the centre-left embraced social investment, which is a long-term strategy *par excellence*. In 1999 the centre-left held in power in 13 of the 15 EU member states, and at EU level substantial political capital was invested in the Lisbon Strategy. The Lisbon Strategy was strongly influenced by the social investment paradigm, although the political translation of the concept was more ambiguous than one might have wished. Lisbon certainly represented an attempt to re-launch the idea of positive complementarities between equity and efficiency through investment in people and the development of an active and dynamic welfare state. In June 2010, “Europe 2020” was launched as a successor to the Lisbon strategy, aimed at generating smart, inclusive and sustainable growth.

Evaluating the Lisbon Strategy requires examining three types of problems: first, problems of governance (was the policy methodology adequate?); second, more substantive problems (are there intrinsic flaws in the social investment paradigm?); third, political problems (notably for social democrats, is it possible to mobilise political support for such a strategy?).

The governance debate

At EU level, the social investment perspective was associated with a specific policy methodology, known as the Open Method of Co-ordination. The merits and weaknesses of this approach have been the subject of debate in a vast tome of literature. My view may be summarised as follows: open co-ordination is undoubtedly as weak as it is ‘soft’, and one should not paint too rosy a picture in terms of its effectiveness. However, when it comes to steering the *overall* orientation of social policy in the member states, I see no alternative to ‘governance by objectives’; that is, no alternative to setting common goals and leaving the precise implementation of social and employment policy to the individual member states. Hence, the crucial question is how ‘governance by objectives’ can deliver more consistently in the new era of Europe 2020.

Social investment soul searching

A number of substantive issues, related to the social investment turn, merit more attention than they have received. Has the social investment paradigm delivered the goods? Is it really socially inclusive?

The fundamental societal trends that necessitated social investment are as relevant and important today as they were 10 years ago. But we should draw some lessons from the experience of social investment strategies over the last 10 years.¹

Employment rates have been increasing in Europe, but the proportion of children and working-age adults living in jobless households (households for which the poverty risk is much higher than the average) remained stable: this signals a crucial failure in the implementation of the social investment paradigm. Poverty did not decrease. Policymakers who promoted social investment should examine this failure seriously. I do not consider the social investment paradigm to be intrinsically flawed. However, promoters of the social investment paradigm should not deny that they are confronted with a *trilemma of activation*, i.e. that, in the short run, it may be difficult to simultaneously achieve three objectives that egalitarian believers in social investment wish to pursue, namely: (i) ensuring that the unemployed are not poor; (ii) ensuring that administrative monitoring systems are not excessively intrusive and cumbersome; (iii) ensuring employment growth in order to reduce benefit dependency. Such a trilemma is harder to deal with in times of budgetary austerity.

In the long term, the outcome of social investment strategies can be positive if structural unemployment and the proportion of work-poor households decrease, and if available resources are invested in quality childcare and education, in increasing net incomes for families with low-paid jobs, and in improving care (and where necessary also pension benefits) for the elderly. Although the jury is still out, there are five preconditions for a social investment strategy to be successful on social inclusion.

Firstly, equality seems to be both a pre-condition for a successful social investment welfare state and one of the important outcomes of social investment policies. We know that egalitarian societies are more successful in implementing social investment policies. If it is a precondition it urges us to remember the merits of traditional social protection and anti-poverty programmes, and suggests that reduction of income inequality should remain high on the social investment agenda.

Hence, we need a balanced approach, with an “investment strategy” and a “protection strategy” as complementary pillars of an active welfare state. Otherwise, it will be impossible to turn vicious intergenerational circles of disadvantage into virtuous circles of inclusion and emancipation.

Secondly, in order for social investment to be a driver in virtuous circles of inclusion, the investment function itself should be egalitarian: rather than to exacerbate background inequalities, the impact of childcare and education should be to reduce inequality in society. Social services should be genuinely enabling. Hence, the quality of social services is part and parcel of the social investment strategy. Education reform, with a view to enhancing real equality of opportunity, should also be high on the agenda in many countries.

Thirdly, creating virtuous circles of inclusion and emancipation presupposes that policies are sufficiently ambitious and mutually consistent. In order to reduce the number of people living in jobless households, they should reach out successfully to individuals and families who are far removed from the labour market. The social investment perspective brings a package of measures, and partial implementation may only deliver a partial success.

Fourthly, although the social investment paradigm has not crowded out traditional welfare programmes over the last two decades, a social investment strategy is not a cheap option that allows substantial budgetary savings. Simultaneously responding to rising needs in healthcare and pensions

¹ The following section summarizes Frank Vandenbroucke and Koen Vleminckx, “Disappointing poverty trends: is the social investment state to blame? An exercise in soul-searching for policy-makers”, forthcoming in *Journal of European Social Policy*, 2011.

and implementing a successful transition towards fully-fledged social investment strategies will require additional resources. The erosion of the tax base and the imperative of budgetary austerity in the wake of the economic crisis of 2008-2010 is a dangerous threat to the social investment strategy. Budgetary discipline must not destroy the social investment perspective: additional tax revenues may be a necessity to overcome the current crisis without destroying social investment. For the same reason, we will also have to convince public opinion that the budgetary cost of ageing must be contained in order to retain leeway for investment in youth. Working longer (and reforming labour markets) is imperative.

Fifthly, given the scarcity of resources, efficiency is paramount. Intelligently selecting and targeting policies will often be necessary, in the areas of both protection and investment.

In short, social investment must be seen as a package of reform. It is not a cheap option, nor an easy one. Therefore, social investment is a demanding strategy with regard to public support and trust –which in turn is a key factor for the strategy's political sustainability.

Finally, we have to draw an important lesson from the banking crisis and its aftermath: a social investment strategy is a supply side strategy. It is necessary, but not sufficient, as it cannot be a substitute for macroeconomic governance and sound financial regulation. Considerable progress in EU employment rates has been wiped out by the crisis occasioned by financial deregulation and economic mismanagement. The social investment strategy must be embedded in macroeconomic governance and financial regulation that support durable and balanced growth in the real economy.

Reconciling macro-economic and budgetary surveillance with the social investment imperative necessitates a new EU Social Investment pact, which must have as much bite and political clout as the so-called "Europact"

A backlash against the social investment state

Today, there is a real danger that social investment will be left orphaned by the financial crisis and its consequences. Budgetary discipline is an inevitable and hard reality. However, social investment must not fall victim to austerity. For that reason, the current debate in the EU on the new macro-economic and budgetary surveillance is critical: macro-economic and budgetary surveillance should serve the social investment ambitions that are – at least in principle – taken on in the Europe 2020 strategy. Reconciling macro-economic and budgetary surveillance with the social investment imperative necessitates a new *EU Social Investment pact*, which must have as much bite and political clout as the so-called "Europact".²

There are many reasons for scepticism about Europe 2020, the successor to the Lisbon Strategy. The policy methodology may be considered intrinsically weak, given its reliance on "governance by objectives" (or, as some would point out, given its reliance on *intergovernmental* management by objectives, instead of a more traditional "community approach"). With regard to policy substance, some of the targets, notably the target concerning social inclusion, may be seen as ambiguous and insufficiently ambitious. Let me, by way of example, develop this.

The headline target on social inclusion is based on a combination of three indicators: the number of people at risk of financial poverty; the number of people suffering from severe material deprivation; and the number of people living in jobless households. The ambition is to reduce the total number of people living in one or more of these conditions by 20 million towards 2020. Critics may remark

² After the London Seminar of Policy Network, Wiardi Beckman Stichting and FEPS the idea of an EU-wide social investment pact was developed in Vandenbroucke, F., Hemerijck, A. and Palier, B., "The EU Needs a Social Investment Pact", OSE Paper Series, Opinion paper No. 5, May 2011, 25p.

that in the second half of the Lisbon period the number of people in such conditions was reduced by 10 million; hence it is not a very ambitious target. More substantive objections against this multidimensional target may be raised. However, here we have – for the first time – a quantified target on social inclusion, and there are reasons to believe that it will not be so easy to reach this target by 2020.³ Hence, I propose to embrace this target, and to challenge the EU and all governments in the EU to deliver it.

The question then becomes whether the National Reform Programmes of the member states will credibly pursue *all* the integrated guidelines and headline targets of Europe 2020, and whether or not the European Council will be as strict in assessing the National Reform Programmes and monitoring the sustainability, education and social targets, as it promises to be strict on budgetary and competitiveness indicators.

I believe that the objectives formulated in the Europe 2020 strategy can provide a framework for reconciling those short-term and long-term considerations, *if* the social investment strategy is embedded in budgetary policy and financial regulation, i.e. if short-term macro-economic governance serves long-term social investment.

Let me add one thought about the role of the state. The social investment perspective implies crucial responsibilities for public policy as a key provider for families and labour markets. Because it is difficult to

Rather than conflating “progress” with the notion of a “high-skilled society”, we should say that progress calls for a “well-skilled” society

privately and/or collectively insure against new social risks, and as enabling social services are not self-evidently supplied by private markets, it becomes imperative for public policy to step in for effective protection against new social risks. Today, “public policy” is a multi-layered reality, as much as “the state” is a multi-layered reality. In Europe, state power is wielded by national governments, regional governments and the EU. Our capacity to deploy strategic policies in this part of the world will depend on our capacity to sustain strategic interaction between the EU, national governments and regions. Social democrats will have to come to terms with the role of the EU and overcome national and/or regional resentment vis-à-vis supranational co-operation.

Embedding social investment in the politics of progress

The social investment imperative must be embedded in an attractive concept of social progress. Formulating a new concept of social progress is vital for social democrats, yet is also a difficult task. Rhetorical tricks will not suffice. We need a substantive concept of progress that is sustainable in a dual sense: it must be ecologically sustainable, and it must be credible in the long term, i.e. we must be able to deliver on it. “Big promises” will not convince, *a fortiori*, if they have a purely material content (e.g. big promises about increasing purchasing power).

The social investment strategy, as it was often presented, was a liability rather than an asset in this respect. It was associated with a one-sided, and therefore erroneous, understanding of the evolution of the knowledge society. As a matter of fact, jobs we consider as “low-skilled” or “medium-skilled” will remain very important in our societies, notably jobs encompassing important non-routine tasks (such as care work, domestic cleaning, hair-cutting and so on). The non-routine competences for those jobs require quality training. Rather than conflating “progress” with the notion of a “high-skilled society”, we should say that progress calls for a “well-skilled” society. Everybody should aspire and has the right to be *well* skilled.

³ It may not be so easy to continue the progress registered in the second half of the previous decade, which has been a – fortunate – by-product of the high rates of economic and employment growth in the new member states before the crisis, for two reasons. First, the financial crisis may have a very adverse impact on these indicators, both in the new and the old member states. Second, if the realization of the target is not simply catered for by a further reduction in the number of people suffering from severe deprivation in the new member states (in an optimistic scenario), i.e. if the 15 “old member states” have to take up their part of the “20 million”-target, then this definitely is an ambitious target.

Together with the egalitarian aspiration of social investment, that understanding of the skills agenda should be part and parcel of an explicit focus on *fairness*.

Give an EU Social Investment Pact some political clout

From past experience we can draw three broad lessons: social investment is a supply side approach, and as such is incomplete; the financial crisis proved that we also need financial regulation and macro-economic governance; social investment has to be a consistent package; and social investment must not be perceived as an elitist project.

We need a new social investment approach. It has to be consistent, and embedded in macro-economic and budgetary governance, and in an attractive narrative of social progress. That is what should inspire us to fight for an EU Social Investment Pact.

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Economic competence and the social investment state

Anke Hassel

Social investments remain crucial for maintaining the economic competence of the centre-left. The new economic agenda of centre-left parties needs to build on the positive developments of the 1990s, but emphasise and reconceptualise the need for social investment as a precondition for economic competitiveness

Despite the current economic and political environment, it is important to remember the overwhelming success of the economic agenda propelled by modern Western European centre-left parties. Spearheaded by the Clinton administration in the US, New Labour in the UK and later taken on board by the Dutch, German and other European centre-left governments, the principle of reconciling strong markets and business with high levels of social investment remains the most powerful and credible economic agenda to date.

There is also little evidence that these centre-left governments lost power due to a lack of economic competence. Rather, the opposite is true: during the first two years of the financial crisis, the centre-left held treasuries in the US (since 2008), Germany (until 2009) and UK (until 2010) played a crucial role in stabilising the banking system, pushing for financial market regulation and boosting economic demand. Though Germany, the US and UK were at times at opposing ends of the policy spectrum, domestically these actors were largely perceived as competent managers of the financial crisis.

The centre-left should take pride in its role of responding to the crisis effectively and should not fall into the trap of internally doubting the economic competence of its leaders. While the left did not benefit from the fall-out of the financial crisis, there is little reason to believe they were punished particularly hard by the financial crisis. At the same time, the economic and political environment in which the centre-left operates has fundamentally changed over the last two decades, partly as a consequence of its own governmental actions. Therefore, there is a need to reconfigure an economic agenda for the 21st century that takes into account the new economic and political environment.

Little room for manoeuvre

Increased economic integration and international interdependence has left all industrialised political economies vulnerable with regard to the renewal and protection of their economic base. Globalisation has led to economic specialisation and the exploitation of comparative advantages, and thereby induced continuous economic restructuring and business repositioning. While this process has added to wealth creation and in particular helped emerging economies become part of the global economy, the strain on national governments to protect their economic base has become increasingly important. At the same time, global financial markets, regulatory arbitrage and tax competition require supranational cooperation and coordination to level the playing field.

As a consequence of the financial and ensuing fiscal crisis, the manoeuvring room for national governments to pursue a principled and independent economic agenda is further reduced. Balancing public budgets, striking a balance of growth and expenditure cuts, and dealing with financial markets will occupy a great deal of economic policy space. Economic essentials such as protecting the skill and tax base, attracting investors and keeping high value added businesses in the country

are paramount. Electoral competition on socio-economic issues beyond the narrowly defined social justice and fairness debates over expenditure cuts will become narrower due to shared economic policies across the mainstream party spectrum.

On the other hand, how cuts are made and where the axe falls will be crucial for industrialised countries' economic base. The balance of tax increases, reduction of public services, welfare payment cuts and macroeconomic policies will shape the national political economies for a long-time. Short term public spending cuts in education, childcare and infrastructure can do long-term harm to economic recovery.

At the same time, the political space has become more fragmented and socio-economic voting patterns have further weakened. In almost all advanced industrialised countries, voter turn-out has further declined, the number of parties has increased and the share of votes for established parties has decreased. All traditional centre-left parties in Europe have lost votes during the last two decades. With few exceptions, the peak of the centre-left in Europe was in the 1950s and 1960s, not in the 1990s. In particular, centre-left parties that embraced a centrist socio-economic approach have lost further support in their traditional working class strongholds, with voters shifting to far-left or far-right parties. New socialist parties emerged, occupying the far left of the party spectrum previously covered by the centre-left. The appeal of socioeconomic issues per se has declined and a more complex electoral space has emerged, giving a premium to post-industrial, environmentalist and libertarian but also nationalist and xenophobic parties.

Economic competence and readiness to govern have become the more sought after party qualities

Political competition on the centre ground

Recapturing economic competence for the centre-left must therefore start by positioning the party in this new economic and political environment. There is little hope that the constraints of globalisation, public budget deficits or political fragmentation can be reversed, so party leaderships must take their new environment into account. Therefore, the political space available to centre-left parties will become more narrowly defined. Policy options and electoral strategies need to become even more focused and interdependent. At the same time, the speed and degree of change also opens opportunities vis-à-vis the political competition on the centre ground. Economic competence and readiness to govern have become the more sought after party qualities.

The transformed economic and political landscape suggests it is wise for the centre-left to continue capturing the centrist socio-economic grounds even at the cost of opening electoral space for the far-right and socialist left. The alternative would be worse: competing with the socialist left leaves the centre ground open for centre-right parties which could redefine mainstream politics. Therefore, centre-left parties need to focus with greater urgency than before on the value dimension of the electoral space. The post-industrial values of the centre-left include an appreciation of diversity, tolerance, modern family life, aspirations at work, global justice, intergenerational fairness, environmental protection as well as equal access to education and assets.

When occupying the centre ground, the new economic agenda of the centre-left must go beyond the classic New Labour approach of facilitating growth in order to pay for policies aimed at social fairness provided by public services. More than before, the centre-left must emphasise the importance of social investment not only as a potential and precondition for growth, economic competitiveness and the economic base, but also as rooted in the values of a modern and open society.

Modern society and the social investment imperative

Modern societies only will succeed in the global economy with a highly developed infrastructure of education, transport and culture, which facilitates innovation and productivity growth. Middle and lower middle class families in particular appreciate these public provisions and are also highly dependent on them for their well being.

Centre-left values and policy goals should be integrated more explicitly in a centre ground economic agenda. The agenda should emphasise the role of a competitive and productive service economy, the importance of female employment and the necessity of a high skill base.

If public investment cannot shoulder all costs, governments can ensure private investments for public goods. Given lower growth, the necessity for budget consolidation and a subsequent narrowed scope for additional public spending, protection of social investment must be maintained as a precondition for economic recovery and growth. Public investments in all levels of education and high quality childcare improve the skill base of national economies and protect the economic base. They are necessary for breaking the dependency culture of some pockets of long-term unemployed, helping to integrate migrant workers into industrialised economies and facilitating high productivity levels in the service economy.

A variety of policy measures could facilitate greater private investment in education and childcare: new forms of private financing of social investment, such as social bonds, should be encouraged to be developed; private funding of higher education and regulated childcare markets could be facilitated. Public private partnerships on higher education business models could be explored; social entrepreneurship could be facilitated by tax breaks and subsidies; and charitable work by corporations could be integrated in a broader social investment agenda. This also includes a stronger role for corporate welfare, which has been declining over the last three decades. In addition, an economic agenda should redefine social investment expectations of big firms as part of business responsibility and legitimacy.

Protection of social investment must be maintained as a precondition for economic recovery and growth

The productive function of welfare spending is recognised by many scholars studying the puzzling coincidence of high rates of social spending paired with highly competitive economies in the Nordic countries. When renewing its economic agenda the centre-left should build on these experiences and push the expectations of the centre ground further towards an active social investment agenda. Private investment needs to complement public spending. On the whole, an even more rigorous commitment to social investment will strengthen centre-left parties' economic credibility.

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The labour market and workplace

Changes in the world of work

Alan Manning

Delivering on valid labour market policies

Werner Eichhorst

Hidden depression in the workplace

Frans Becker & Pim Paulusma

The workplace and industrial democracy in the post-crisis age

Hannah Jameson

Changes in the world of work

Alan Manning

In formulating a response to income inequality and job insecurity, indications of public distrust for government interventionism and the experience that more regulation is not the same as effective regulation mean that progressive instincts for wealth redistribution and labour market regulation should be followed with intelligence and pragmatism

This short paper outlines what I see as the major trends in the labour market and the challenges and opportunities these present for the progressive agenda. In the short to medium term, everything is dominated by the crisis and the response to it. But in the longer-run there are more powerful trends at work driven by innovation and globalisation. I start with the longer-run trends.

Inequality at work

For many years, the main concern was about the quantity of work available. Although this is again a concern in the present recession, the focus has shifted in the past decade to the quality of jobs. If one looks at how the jobs in the economy are changing one sees rapid growth in the highest-paid occupations (managerial and professional jobs), somewhat slower growth in the lowest-paid occupations (e.g. caring jobs) and declines in the middle occupations (skilled manufacturing and clerical jobs). A plausible explanation for these trends is that technology replaces human labour in tasks that can be routinized, essentially described by some lines of computer code. This trend is often referred to as job polarisation. In addition it is clear that the demand for some types of labour are much more strongly affected than others by globalisation.

What are the consequences of this? First, in and of itself, it should not be regarded as a problem. Although these low-paid jobs are sometimes referred to as 'lousy jobs', one should recognise the dignity of those involved in cleaning or caring and not fall into the trap of thinking that the people doing these jobs are less worthy of respect than others. The main way in which they are lousy jobs is because they are low-paid and the main problem caused by job polarisation is that it is a potential cause of rising inequality.

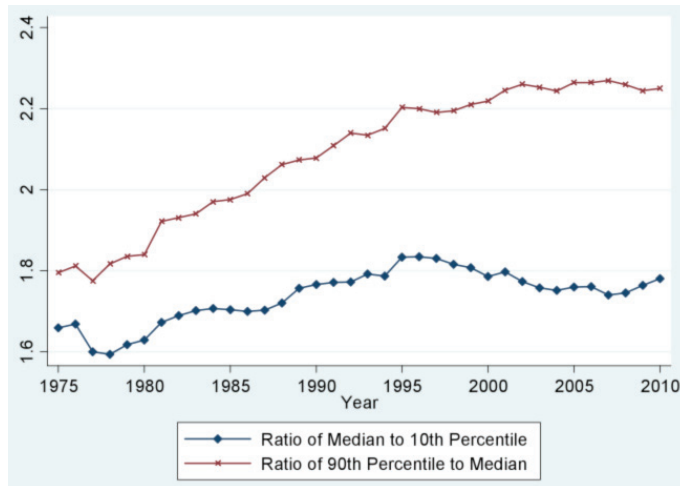
But here the outcomes have not been as bad as many have feared or allege. Figure 1 shows inequality in hourly earnings in the UK since 1975.

Since the mid 1990s the lowest paid have made gains relative to the average, probably because of the job polarisation described above and the introduction of the National Minimum Wage in 1999. One should not exaggerate this: we still have more inequality at the bottom of the distribution than we had in the 1970s.

One might wonder, given the success of the National Minimum Wage, whether we should push on further by raising it substantially. The most common form of this argument is that we need a 'living wage', a requirement that all jobs pay an amount that can support a family, an argument that, in practice, boils down to the demand for a higher minimum wage. Campaigning organisations like London Citizens have done a fantastic job in persuading a sizeable number of employers to pay the living wage. But, though wishing them well in their campaigns to persuade employers to sign up to the

scheme, I would not support raising the minimum wage to the proposed living wage across the whole of the UK as I would be concerned that the proposed level of the minimum (£7.60 per hour) is more than the labour market could bear. It is an indictment of the free market that it cannot guarantee high enough earnings for everyone to have an acceptable standard of living but it is not a fact one can wish away. It should remain the job of the welfare system to provide adequate living standards for everyone in the economy.

Figure 1: The Evolution of Wage Inequality in the UK, 1975-2010



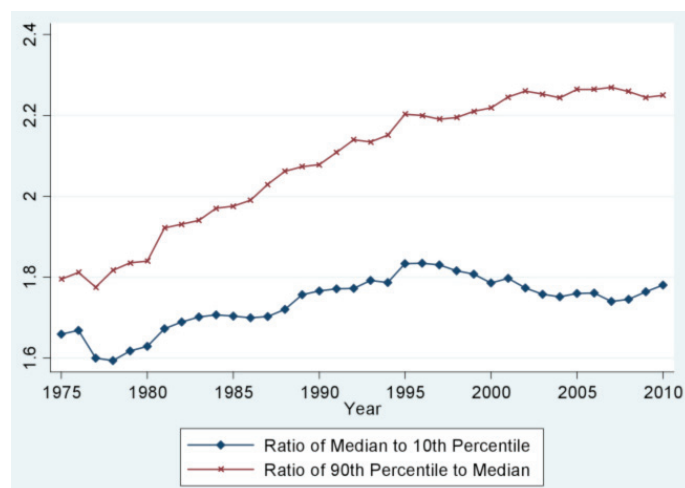
Source: NES/ASHE

The rampant rich

There is one other feature of Figure 1 that stands out: the rampant rich, how the highest earners have pulled away from the rest. In fact, Figure 1 only goes to the 90th percentile – the trends are much more dramatic if one looks at the 95th or 99th percentiles (see, for example Will Hutton’s Fair Pay Review). Before the crisis this rise in the earnings of the rich seemed to be tolerated by the ‘middle’ on some version of the ‘trickle-down’ principle – the average citizen seemed to be thinking that they were getting some share of the benefits accruing to the rich. But we now know that much of this was illusory, that a large part of the gains of the rich were at the expense of everyone else.

What is remarkable is how little impact the crisis seems to have had on the attitudes of the average citizen to the rich. Even Mervyn King, the governor of the Bank of England, expressed the view that “The price of this financial crisis is being borne by people who absolutely did not cause it,” and that “Now is the period when the cost is being paid, I’m surprised that the degree of public anger has not been greater than it has.” One can see this in social attitudes data. For almost 30 years the British Social Attitudes Survey has documented changing attitudes to many things including income inequality and redistribution. Figure 2 presents time series on the fraction of respondents who think “the income gap between rich and poor is too large” and who agree or strongly agree that “government should redistribute”.

Figure 2: Changing attitudes to Inequality and Redistribution



Source: *British Social Attitudes*

One notices the rise in pro-redistributive attitudes in the 1979-1997 Conservative government that may have contributed to the Blair landslide general election victory. One also notices the sharp fall to the lowest levels recorded of pro-redistributive attitudes during the 1997-2010 Labour government even though that government did not manage to reduce income gaps by very much if at all. Post-crisis there is a slight tick up but nothing very dramatic. It is also worth noting that though the fraction of the population thinking the income gap is too large is now much the same as in the early 1990s, the fraction thinking the government should redistribute is lower than then and close to an all-time low. This suggests that citizens no longer trust government to redistribute effectively even if they think income gaps are too large. This lack of trust in government is a major problem for the progressive agenda as redistribution does require government intervention.

Because it is the middle parts of the income distribution that are currently experiencing a large squeeze on their incomes through a combination of the recession and the longer-run trend of job polarisation - and it is this group's votes that will likely determine the outcome of the next election - this is probably not the time to be pursuing policies that involve a redistribution from those with middling incomes to those with lower incomes. But it is a time to be pursuing redistribution from the highest-earners to those with middling and lower incomes. There are a number of forms this should take.

First, be comfortable with and robustly defend a higher marginal rate of tax on the highest earners – the argument seems to be too readily accepted that higher marginal tax rates will cause the highest earners to work less hard. But that argument does not withstand scrutiny. Increase the marginal tax rate from 40% to 50% and the hourly earnings of the top 10% are only back to where they were in the mid 1990s. Because the top 1% have seen much larger increases in incomes, a 50% marginal tax rate still offers them higher hourly pay rates after tax than they had a decade ago. I seem to recall they thought it worth getting out of bed in the morning to go to work then. Perhaps they will all leave and go to Switzerland but the Economist on 11th March had an article about how the few that had gone are miserable and coming back to London.

Second, think about ways to limit pay at the top. This is difficult but important. Difficult because I don't think that rules like maximum pay ratios or maximum pay are workable. Either they will be set so high as to have no impact, or low enough to have some bite but to require exceptions. The pay distribution

is much more spread out at the top than the bottom so a maximum wage is much more difficult to implement than a minimum wage. We also need to think about improved governance structures.

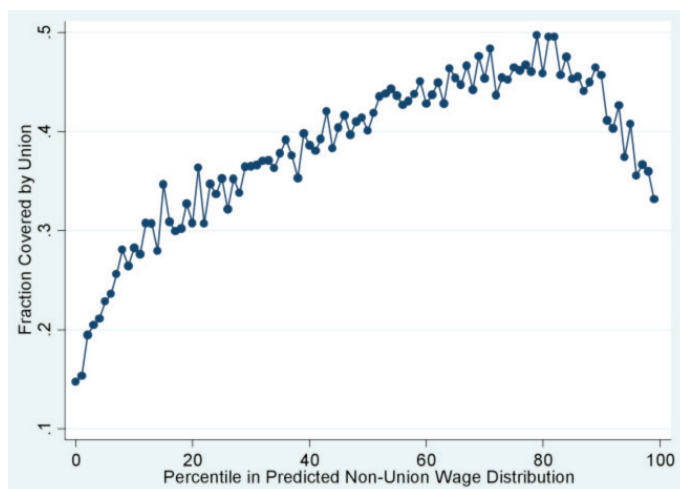
But perhaps what needs to be done is to stir up some righteous indignation on the part of the population. The global elite like to argue their ever-increasing share of income is an inevitable result of 'progress' but it is not.

Regulating the labour market

There is a continued need for smart regulation of the labour market – the financial crisis has made it clear that markets cannot be relied upon to deliver acceptable outcomes. I think this will have to be through legislation on individual rights rather than bolstering the power of collective bargaining and relying on unions to negotiate good outcomes.

Unions have become increasingly problematic as ways to deliver the progressive agenda. Figure 3 shows the unionisation rate at different points in the wage distribution (the non-union wage distribution so this is not affected by the fact that unions may raise wages).

Figure 3: Union Coverage Across the Pay Distribution

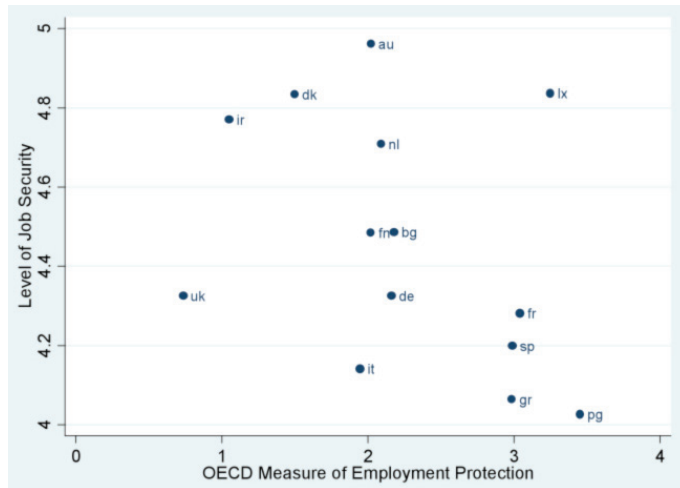


Union coverage is now highest at the 80th percentile and higher at the 95th than the 35th. Union members are increasingly located in the public sector. That means they can be relied upon to support parts of the progressive agenda - those that require strong public services in education and health, and a redistributive welfare state with people to administer it. But that support is based on the fact that union members are those that deliver the services rather than those who benefit from them, and it is the latter group that progressives should care about. Sometimes these interests are aligned but that alignment is not automatic, a point illustrated, for example, by current disputes about public sector pensions. Because progressives do need the state to achieve their objectives, they need to be more interested in making sure the state is efficiently run. Therefore they should be in favour of a small but effective state.

In what areas of the labour market do we need more regulation? There is one area that stands out though it is hard to think of a magic bullet to produce the desirable outcome: we do need to find a way to allow workers to achieve a better balance between work and family life. We need to find a way for more and better jobs to be available on a part-time basis – perhaps through a more effective limit on the hours people work.

There are also areas where we do not need more regulation. The current crisis has led to an increase in job insecurity and it is tempting to respond to that by restricting the ability of employers to lay off workers. I think that would be a mistake. The countries (primarily in southern Europe) that responded to fear of job loss in the 1980s by protecting employment have not delivered a greater sense of job security, as Figure 4 shows.

Figure 4: The Relationship between Perceived Job Security and Employment Protection



Source: European Community Household Panel and OECD Labour Markets Database

The reason for this is that employment protection leads to a sclerotic labour market in which job loss is feared even more because the prospects of re-employment are so poor. This is not to say that Germany did not get it right in the current recession – it was the right thing to keep skilled workers in manufacturing industries in the belief that these companies were fundamentally sound. But, equally, one would not want to have maintained employment in the Spanish construction industry. The countries that have been most successful in creating a sense of job security are those that have actively sought to get back into work those unfortunate enough to lose their jobs.

It remains the case that much of the progressive agenda requires an active state to mitigate the effects of the market. In a recession like the current one, the resources available to the state are squeezed as the tax base falls and demands on the welfare state rise. But we must make sure that the state serves its fundamental progressive purpose –to redistribute wealth - and does not get captured by special interest groups. We should be simplifying the welfare state to make sure, as far as is possible, that the state does not tax with one hand and give out to the same people with the other, employing large numbers of people to administer the system.

Low support for the market economy

The current crisis and longer-run trends in the labour market present both constraints and opportunities for the progressive agenda. Constraints primarily because when real living standards are falling, people tend to hunker down and look after themselves rather than be inclined to consider the welfare of others less well off. But opportunities because the crisis has made it clear that unfettered markets have big problems and that the existing model of the market economy primarily only delivered benefits for the rich.

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Delivering on valid labour market policies

Werner Eichhorst

Many of the labour market policies introduced by centre-left governments over the last decade reinforced inequalities in a two-tier employment system. Social democrats should respond not by seeking the next big answer to the workplace challenge, but by focusing on pragmatic strategies that build on the largely accepted objectives of a more inclusive labour market and welfare state

Since the mid-1990s, reform-oriented or 'progressive' social democrats in many European countries have favoured a recalibration of individual rights and responsibilities, in particular with respect to conditions that have to be met in order to receive social benefits. Activation of benefit systems via activating labour market and social policies has become a major policy priority together with the aim of lowering barriers to employment.

In contrast to other political parties which favoured deregulation as a genuine priority, the 'reformist' social democratic approach aimed at a more inclusive labour market not just via less regulation but also, and maybe primarily so, via positive, human capital-oriented policies. While compared to earlier phases of 'de-commodifying' social policy, all major political camps stressed work incentives and individual responsibility, combining better employability supported by public services in order to enable people to cope with a dynamic labour market have been cornerstones of the 'progressive' road to higher employment and lower inactivity.

With hindsight, activating policies and a stronger linking of rights and duties can still be perceived both as a correct principle and a timely and appropriate policy response to a situation of high unemployment and persistent benefit dependency in many European welfare states. Related to this, the late 1990s also saw the rise of social democratic 'flexicurity' as an alternative concept to 'pure' flexibility-oriented labour market reforms.

What happened to the labour markets?

Over the last decade, most EU member states embarked on activation policies focusing on unemployment benefits, social assistance and different forms of early retirement schemes, including disability and sickness benefits, so that benefit receipt became less attractive. Most EU member states now combine a 'work first' approach, stressing individual work incentives with some enabling policies. While Scandinavian and continental European states re-emphasised the role of incentives and sanctions, while cutting some of the human-capital oriented policies, Anglo-Saxon states, which had adopted 'work first' policies much earlier, saw some growth in active labour market policies. This was often complemented by a looser regulation of labour markets, thereby widening the scope of non-standard contracts. However, a number of states simultaneously introduced more binding minimum regulatory standards regarding non-standard work and minimum wages.

All in all, the bulk of the reforms focused on labour market entrants, benefit recipients and 'outsiders', whilst for incumbent workers and labour market 'insiders' the institutional environment remained quite stable. Building upon earlier phases of marginal deregulation, this has reinforced a two-tier employment system with a significant and growing secondary segment of non-standard contracts and low pay. Skills-biased technological change and the transition to a service economy have affected labour markets dramatically and led to a stronger heterogeneity between 'lovely' and

'lousy' jobs. However, institutional reforms have certainly reinforced the general trend towards more flexible jobs.

While this has helped create more jobs and bring more people into employment, some polarisation in labour markets, to the detriment of the most vulnerable groups, has become increasingly apparent. In many countries young people, the low skilled and workers in some parts of the private service sector occupations face particular difficulties in entering employment and finding stable and decently paid jobs. In some segments low-pay/low-skill equilibria have emerged, e.g. in frontline occupations such as the retail trade or hotels, restaurants and cleaning. But unstable employment and wage dispersion have also grown in some medium- and high-skilled occupations, not least in some parts of the public and non-profit sector. Deregulatory policies have certainly increased employers' bargaining power and helped reinforce inequalities in the labour market. While in earlier years the major divide was between employed and non-employed people, there is now also a more significant divide within the labour market.

Thus, opportunities for solid inclusion into employment do not exist for everyone. Activation policies have increased at least temporary labour market attachment by stressing the 'work first' component, but employment stability and upward mobility remain limited, in particular for low-skilled workers. This can also be attributed to the fact that implementing effective enabling policies has proven to be more challenging than expected — and flexicurity-type reforms with proven success in easing labour market transitions have remained a rather rare phenomenon in Europe.

Political side-effects and the seduction of old recipes

While social democratic governments adopting 'third way' reformist agendas were in power in many EU member states around the turn of the century, in most countries they went on to face electoral defeat. While the reasons behind the loss of power are certainly specific to the national situation, widely shared disappointment with the promises of labour market and welfare state reforms have obviously contributed to a gradual weakening of 'progressive' policymakers. In particular, the long-standing alliances with trade unions have been characterised by growing tensions.

In addition, the trust of the public at large and the electorate in the capacity of reform-oriented policymakers to avoid social exclusion and the threats of growing poverty risks in a turbulent economic environment has vanished. Although welfare states have not been retrenched, but rather expanded over time, in particular to the benefit of the poor, the most vulnerable groups do not see any real chance for upward mobility and have become rather afraid of even more adverse socio-economic pressure. In many European countries, the middle class nowadays perceives stronger economic insecurity and increasing risks of losing income and employment stability, which may eventually lead to downward mobility. At the same time, the economic position of high wage earners and entrepreneurs has seemed to have improved dramatically.

The trust of the electorate in the capacity of reform-oriented policymakers to avoid social exclusion and the threats of growing poverty risks in a turbulent economic environment has vanished

In political terms, these perceived losses of stability and opportunities have led to stronger electoral abstention and growing support for populist parties, both at the far left and right of the political spectrum, despite these parties failing to offer credible policy alternatives. Social democrats, and

also some centre or Christian democratic parties, in a trapped situation like this, have not only failed to claim credit for their real achievements in terms of welfare state recalibration and job creation, but they have explicitly turned their backs on their own policies.

Rather, in order to appeal to voters and their own rank and file, the current discourse runs the risk of repeating 'old' mistakes by promising a return to 'good old' redistributive and regulatory policies. 'Retro politics' imply a substantial turn to traditional left social policy interventions proposing more benefits, less activation, stronger regulation or higher taxation of the rich – issues that may be popular amongst the rank and file, the electorate and trade unions, but may not be terribly helpful if implemented on a mass scale. Thereby, resources are crowded out for enabling policies, in particular education, training and child care support, which would be more helpful in the medium and long run, but are probably harder to sell politically and deliver in terms of funding and effective governance.

Realistic steps ahead

Future policies to increase social cohesion and overcome dualisation have to take into account the lessons from past achievements and failures. After many years of experimentation and evaluation, some problems still persist, and it has become increasingly clear that there is no silver bullet to solve all major challenges simultaneously. There is some expert and political consensus nowadays about the fundamental and beneficial role of early childhood education, vocational training and continual adult learning. For activation policies and regulatory issues, the evidence and political support is more mixed, but still, the experience of recent years has helped pave a way towards acknowledging basic dilemmas and the costs and benefits of different models.

At the same time, established differences between political parties seem to have eroded to some extent. Hence, in the absence of new big stories and ideas, a more pragmatic attitude towards policymaking could create room for political compromise. Realistic steps ahead do not necessarily imply different policies, but rather better ones, which should deliver on the largely accepted objectives of a more inclusive labour market and welfare state. Two major objectives are of predominant importance: effectiveness and fairness.

First, in a situation of growing public indebtedness, fiscal consolidation is a major priority and will remain so for the foreseeable future. This calls for taking into account available evidence on the effectiveness and efficiency of past and current policies and for cautiously assessing the impact of proposed policies and reforms on current and future public budgets. Hence, scarce resources should be focused on the most effective and efficient public policies.

Second, policies should not only be evaluated regarding their fiscal consequences, but also with respect to their distributional effects on different groups in society. Better policies need to rebalance chances and risks in order to achieve a higher level of fairness in the labour market and the welfare state. While it may be easy to achieve consent on the general principle of fairness, in politico-economic terms this is potentially much trickier. Obviously, taking fairness seriously implies that protective policies in favour of labour market 'insiders' cannot be left untouched. From what we have learned over the last 20 to 30 years, it seems clear that one cannot have an inclusive and permeable labour market along with a strictly regulated core, and one cannot have an inclusive welfare state in unison with a strictly dualised model of social protection.

A note of caution, however, has to be made. Given recent experiences with policies and evaluation, one has to be aware of the fact that there is no such thing as a silver bullet to foster upward mobility

and employment stability for all. Better training, appropriate labour market policies and regulatory provisions can help, but even in this case there is no guarantee for individual success, and no automatic lifting of standards for everyone. From this it is also clear that, in realistic terms, there cannot be complete public insurance against labour market risks. The service economy is associated with higher labour market heterogeneity and new forms of flexibility which have to be tolerated to a certain extent if entry to the labour market and job creation are to be promoted.

Public policies set the frame for individual actors in the labour market, but actors refer to these rules and reshape them with their actual behaviour. Recent developments have also shown that the capacities and creativity of actors are so strong that policies can be converted and lead to unintended consequences. Policies contribute to these capacities, but markets create opportunities that have to be seized. For example, given technological and demographic change coming together, we will see even more favourable working conditions for skilled workers, e.g. family-friendly working times and other work-life balance policies, emerging without much government intervention.

If we make the assumption that everybody should be able to contribute the best of his or her capacity to society and work as a guiding principle, public policies should be designed to facilitate labour market entry for everyone, overcome established status differences and promote positive transitions to the greatest extent possible. This rather calls for focusing on a few universal and transparent regulations and a few core policy areas in which effective delivery of quality public services matters most.

Enabling policies

Policies which enable people to participate in the labour market and to develop their professional careers are of the utmost importance – and they almost exclusively fall in the realm of major public responsibility.

This concerns early childhood education, with its dual effect on competence-building of children and mobilising female employment, and also schooling and higher education. Investing in education and training remains a major priority in economies and societies faced with accelerating technological and structural changes. Public educational policies are a major element of 'redistributive' policies regarding individual life opportunities. The individual skills of each person must, at the very least, be sufficient to enter the labour market successfully and have a realistic prospect of earning stability and self-sufficiency. Education and training also reduce the need for public support later in life and help people avoid being stuck in 'lousy' jobs and low-paid work.

Active labour market policies (ALMPs) should focus on the most effective programmes such as temporary and targeted hiring and start-up support and avoid heavy and potentially long-lasting subsidisation of non-sustainable activities. Policymakers and service agencies delivering ALMPs should refrain from filling available slots in programmes but rather provide tailor-made, individual support when needed. Furthermore, forward-looking policies supporting skill adjustment, in particular to the benefit of the less skilled, is an area for future activities. Here collaboration with employers is needed. Targeted and temporary public support can help. The same holds true for policies to overcome youth unemployment, which has increased during the crisis in many countries. Vocational training in partnership with firms seems to work better than purely public training measures in this field. For young people it is absolutely crucial to keep them in training and to build bridges to employment and to prevent early exit to benefit receipt.

Income protection

The recent crisis has emphasised the role of proper unemployment protection systems as automatic stabilisers for individual incomes and also for the economy. Maintaining or developing substantial unemployment benefit systems that are accessible to all members of the labour force is crucial. This does not necessarily mean a single, means-tested, working-age benefit, as two-tier systems consisting of insurance and assistance are still viable.

Two challenges remain: first, having a reliable basic floor is a core element of social policies preventing poverty; second, access to insurance benefits should be eased in order also to include labour market entrants, people with short employment biographies or those on non-standard contracts. In many countries they currently suffer from a dual disadvantage of a higher risk of unemployment and more difficult access to unemployment insurance benefits. While this calls for strengthening income protection in order to buffer labour market risks, in terms of labour market integration, better unemployment protection of entrants and flexible workers is better than strict re-regulation of labour law. Flexibility has to remain – but complemented with elements of security. Current purely passive policies have to be phased out, in particular those for older workers or the disabled. Here incentives for withdrawal from the labour market are a thing of the past – benefit systems characterised by general rules will no longer provide privileges to certain groups.

Funding issues

Regarding revenues and expenditures, one core element of sustainable social policies is to avoid wasting scarce resources on programmes which do not help achieve major policy objectives. This concerns all ‘passive’ policies to discourage labour market participation, but also ineffective active labour market programmes and many forms of wage subsidies. However, some measures recently discussed with a positive overtone are highly problematic, such as life-course saving schemes when directed towards early retirement, overly complex and costly ‘transitional labour market’ arrangements or unconditional basic income schemes (which would also imply the end of benefit conditionality and activation policies).

Furthermore, mass subsidisation of low wages, in particular in combination with part-time labour market attachment, is questionable, as it creates barriers to substantial employment. The other side of the coin, of course, is to ensure proper funding for public policies, both for benefits and services, and the shift in taxation towards consumption and green taxes is still on the agenda. However, a crucial element has to be appropriate, progressive income taxation which contributes to reducing inequalities in market incomes and to automatic stabilisation of economies. All in all, the funding needs for good public services and a proper welfare state basically preclude substantial tax cuts for the foreseeable future.

Labour market regulation

External labour market flexibility has mainly increased at the margin of the labour market in many European countries. In some cases this has created problematic working situations and ‘excess flexibility’. Here some readjustment is viable without endangering job creation, flexibility of firms and suppressing market signals. First, minimum wages are feasible and do not hamper job creation and access to the labour market for the young and the low skilled if set at a moderate level and evaluated closely, before adjusting them. Second, equal treatment and equal pay principles are viable without creating new problems at entry points to the labour market, in particular with respect to agency work and fixed-term contracts. Equal pay and equal treatment would also reduce incentives for employers to rely on these types of jobs. Third, and most fundamental, recalibrating employment

protection would mean rebalancing risks across different groups in the labour force. Establishing a universal type of employment contract can overcome the duality of 'regular' and 'non-standard' jobs. In the end, this would imply replacing existing labour law distinguishing between fixed-term and open-ended contracts – at least in highly regulated labour markets – by a flexible, but also reliable, unified legal framework, so that employment stability increases with tenure.

Delivering, rather than promising

In conclusion, the time is right not for making great promises, but for delivering on policy objectives and principles which are still valid. This is not only appropriate in terms of substantial outcomes, but also in terms of credible policymaking. Real problems have to be taken seriously and better policies have to be proposed based on a solid evaluation and a realistic assessment of the situation regarding what is feasible in particular circumstances. This helps people and society much more than developing new and big policy ideas, which have often resulted only in marginal, short-term and therefore inappropriate measures. The quality of public services in general is probably one of the core elements to ensure political support. This is true for not only education, training and labour market policies. Public services are important redistributive tools to ensure a good living and working environment, so delivering them is major priority. Otherwise, further disappointment is guaranteed.

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Hidden depression in the workplace

Frans Becker & Pim Paulusma

Fundamental changes in the economy, labour relations and management strategies have, in both public and private sectors, undermined the value of human capital, professional ethics and democratic relations in the workplace, thus creating a labour force weakened by anxiety and discontent. Social democrats can correct their relative silence on this issue by setting out a clear “good work” agenda

There is a hidden depression in our societies located at the heart of our economy: the workplace. Unfortunately, however, this has not registered on social democracy’s political radar. In the first decades after the war, the mainstream perspective of the left was about economic growth and macro-economic policies, income distribution, social security and sound financial policies. In more recent years, it focused on welfare state reform, the labour market and social security. The present focus on social investment is important, but shows little awareness that the workplace is a crucial social institution for the identity and wellbeing of a large part of our citizenry and social democracy’s constituency. In the public sector in particular, working conditions - except at the top - have deteriorated, eroding professional ethic and autonomy, and thus quality of performance. Working conditions, firm-level labour relations and workplace democracy should therefore again be made central issues on the political agenda.

The workplace in social-democratic thought

Originally, the socialist movement had the liberation of labour as its goal. But what did this liberation of labour actually mean? The anti-industrial, anti-machine protests of the early labour movement were not in social democracy’s vein. The social-democratic movement and its thinkers were impressed by the productive power of capitalism, but they resisted its dehumanising effects, both at the workplace and in the living conditions of the workers. The harsh exploitation, the crude discipline and the risks at work were the practical issues that the socialist movement had to deal with. In the more reflective, theoretical perspective of Marxism that came to dominate large parts of the late nineteenth century movement, the alienation the worker experienced in both the capitalist production process and in the property of the means of production were identified as crucial issues for the liberation of labour – but liberation could only be realised through the abolition of capitalism itself. In the end, it was the political power struggle, not the economic self-determination propagated by parts of the anarchistic and syndicalist movement, that would be decisive.

In the other important socialist critique of capitalism developed by John Ruskin and William Morris in the Arts and Crafts movement, the art of the industrial production process and its outcomes as well as the position of the worker and his craftsmanship were the crucial issues. Their influence in the early socialist movement was substantial, but was soon overshadowed by more practical reformism in economics and politics. In the 1980s and 1990s, however, they were rediscovered: recent work by Richard Sennett rehabilitated the concept of craftsmanship and has opened up a new perspective for dignity at the workplace.

In the course of the 20th century, social democracy was very successful in improving the quality of the workplace and the working conditions of the working class through national legislation,

local policies and union action. In the interwar period - at least in the Netherlands - schemes for the 'socialisation' of the economy were developed, but were never realised. Instead, Taylor's techniques of mass production were introduced and supported by socialist thinkers and politicians because they were considered to be a step forwards in rationalising the production process and the organisation of the workplace.

It was not until the 1960s and 1970s that more democracy in the Dutch workplace was brought about. The Yugoslavian model of workers' councils became popular among parts of the social-democratic rank and file. A few elements of co-determination were added to existing legislation in this field, but research shows that employee councils at company level have little grip on the central issues of company strategy and most workers do not feel represented by them. The basic - and unresolved - dilemma for social democrats is the desire for more democracy and influence at firm level versus the fear of collaborating with the capitalist system and thus taking responsibility for strategic choices that might be unfavourable for the employees themselves.

And maybe that's why the other strand of social-democratic labour politics became dominant in the post-war period of affluence: the idea of liberation *from* labour. Certainly, work is considered as a duty, as a part of social responsibility and as a means of participation and integration into society. But the world of freedom lies outside the working realm. A reduction in working hours was one of the central themes of the early socialist movement in its fight for the eight hour day and it symbolised its struggle against the exploitation of the labour force. In the course of the past century, with productivity and real wages rising, the idea that self-realisation should happen in the workplace gradually shifted to the idea that it would take place in the sphere of consumption and leisure time. Where craftsmanship and professional ethics are overshadowed by market and money, and respect is replaced by tough management, many employees have chosen to resign from the workplace to find their purpose elsewhere.

As the economic downturn in the 1970s and early 1980s led to a fast growth in unemployment and growing numbers in welfare, disability and other social security schemes, another paradigm became dominant in social-democratic thought: that of liberation through labour. This was partly due to the rising costs of inactivity and unemployment and partly due to a new philosophy that elevated the importance of participation in the labour market. In this view, work is essential for citizens to participate and integrate in society, to develop social networks and to contribute to society at large. Social security should not function as a safe haven for the inactive, but as a trampoline to get back to work. This view became popular in those countries where the welfare state had primarily been based on transfer of income (such as the Netherlands and Germany) instead of activating labour market policies (as in the Nordic countries). 'Reform of social security', 'labour market policies', and 'participation strategies' became key ideas which coalesced in the central concept of the activating welfare state. Somewhere on the way, the insight that work is good for us, but only if it is "good work"¹ became lost.

The case for good work

Good work is at the heart of a decent society, not in least because people spend a large part of their lives at work and their job is closely connected to their identity, their feeling of security and their self esteem. Work, as David Coates has put it, 'is a fully human activity ... it engages all our skills, talents, capabilities and emotions.'² The rights people have as citizens are not sacrificed when they cross the employers' threshold, so any concept of employment has to be consistent with the idea of democratic citizenship. We have to be realistic about the limits of the employment relations, but

¹ We owe the expression to David Coates, 'Good work in recessionary times', in: David Coates (ed.), *Advancing opportunity: the future of good work*, The Smith Institute, London 2009, 7.

² The argument presented here is based on and closely follows that in note 1 quoted by David Coates: David Coates with Rohit Lekhi, 'Good Work': *Job Quality in a Changing Economy*, The Work Foundation, London 2008.

of basic value is the extent to which employees have a degree of autonomy and control, and this depends largely on the organisation of work, the design of jobs and the quality of management. As Richard Layard has put it: 'Perhaps the most important issue is the extent to which you have control over what you do.' This is the same type of argument Richard Sennett makes when focusing on the concept of craftsmanship. It is the ability to exercise judgment - based on knowledge acquired through experience - and it is part of what makes work fulfilling.

Second, there is a strong case for good work to be understood in terms of health and life chances. Temporary workers have shorter life expectancies than those with permanent contracts, poor mental health outcomes are associated with precarious employment and workers who believe their work is insecure experience significant adverse effects on their physical and mental wellbeing.

Thirdly, there is a strong business case to be made about good work. Good work works better, for employees as well as employers. The features of the workplace - summed up

by Coates - that are particularly important include: employment security; the extent of autonomy, control and task discretion; an appropriate balance between the efforts workers make and the rewards that they receive; the possession of appropriate skills to ensure that employees can cope with periods of intense pressure; commitment by the employer to the principles of procedural fairness; and the strength of workplace relationships, or what some researchers have described as social capital.

And, we would like to add, respect - at the workplace as well as on the way to the labour market. All these features are essential for "good work". But how did these features of the workplace develop over the last decade?

The promise of the new economy

In the 1990s, the impact of technological changes and the rise in educational levels among employees induced widespread optimism about the quality and democratisation of the workplace. The National Planning Association, a Washington based economic thinktank with roots in the New Deal period, introduced the concept of the 'new American workplace'. The old model of a bureaucratic, impersonal, hierarchical corporate order had become obsolete. In this model, the workers didn't produce primarily for the customers: 'The real client, the real customer, was the boss.' The NPA report argued for a new relationship between management and labour, in which the latter was considered to be the most valuable asset of the company. This 'Every employee is a manager' model put the responsibility of the worker central stage.³

The American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) developed a similar perspective on the future of labour relations. AFL-CIO argued for a high skill-high wage approach with a new type of labour relations at the company level. The work organisation would increase the quality of labour by being democratic, providing excellent training and qualification for employees, and giving them more responsibility in production processes while at the same time guaranteeing income and employment stability. Such a strategy could not replace healthy macro-economic and industrial policies, but would contribute substantially to a programme of economic innovation. 'When Lee Schore went to work at an instruments factory in 1978, her job classification

The promises to bring about better quality and more democratic work places through new technology and higher educational levels have not been realised

³ John R. Stepp, 'The evolution of US labor-management innovations', in: James A. Auerbach and Jerome T. Barrett (ed.), *The future of labor-management innovation in the United States*, Washington 1993, 14 and 19.

⁴ The new American workplace: a labor perspective. A report by the AFL-CIO Committee on the evolution of work, Washington 1994; Quotation from Margaret Hallock and Bob Baugh, 'High stakes. Oregon labor sets union agenda for high skill, high wage strategy', in: *Labor Research Review* # 19, 69.

said “no thought required”. This Tayloristic approach didn’t seem to fit anymore in a time of rapid technological change and a global economy.⁴

In the United States and western Europe, post-Fordism seemed to carry the promise of a new type of democratic workplace, with human capital as the real treasure of the enterprise.

The hidden depression

What has become of this optimistic scenario? Certainly, there have been all kinds of interesting experiments in the field of social innovation in larger and smaller firms, enabling employees to get more grip on their working conditions.⁵ But, the promises to bring about better quality and more democratic work places through new technology and higher educational levels have not been realised. In-depth research and individual stories, such as by Günther Walraff and Barbara Ehrenreich, show that there is widespread discontent, worry and anxiety in the workplace, and that working conditions for many people are far from ideal – not only amongst the precariat and workers in low-skilled sectors, but increasingly also amongst those who used to have ‘decent jobs’, such as in the healthcare sector.

The experience of union representatives confirms these anxieties. In 2009, alarming figures about suicides in French businesses raised issues around workplace stress, tough

Anglo-Saxon management methods and a lack of respect for the individual employee. The cleaners’ strike in the Netherlands in 2010 brought the abominable working conditions of the working class pariahs right out in the open, and showed how many firms and public institutions profited from them.⁶ The remarkable aspect of these examples is that they’re not about the traditional themes of organised labour (working hours and wages). Rather, they involve the quality of the workplace, the atmosphere at work, the level of control and responsibility, and the depth of respect for craftsmanship and professional ethics.

One of the most discomfoting reports in this respect is the 2007 SIREN report *Changing Working Life and the Appeal of the Extreme Right*. The authors held more than 300 in-depth interviews in various European countries and point at three different patterns of reactions to far-reaching socio-economic change. The first involves intensive feelings of injustice stemming from frustrations over ‘Company restructuring, redundancies, early retirement, new management styles or intensified competition on the labour and housing markets’ which ‘devalue qualifications, acquired experience, previous hard work and sacrifices and brings to nothing the expected rewards for the subordination to the demands of a pitiless world of work.’

A second pattern has at its core the fear of *déclassement*, of social decline, ‘the insecurities and the feelings of powerlessness that are associated with industrial decline, precarious employment or the devaluation of skills and qualifications.’⁷ Some expressed their concern about their social position ‘referring to the fact that in our society the middle class has almost disappeared and that there is a growing gap between rich and poor ... In particular strong feelings of injustice are aroused when people are deprived of the fruits of a life-long of hard work or when those who have jeopardized their health for their job don’t get the opportunity of an early retirement with a decent income.’⁸

A third pattern could be found with people ‘who had experienced occupational advancement [and] As a consequence, some tend to identify very strongly with the company and its goals. Regarding their work

The weakness of parties on the left on these issues has left a political void that may be filled by the extreme and populist right

5 Cf. Frank Pot, *Sociale innovatie als inspiratie*, Radboud Universiteit Nijmegen 2009.

6 Our conclusions are partly based on a current WBS interview-project with various groups of employees, on the experience of union representatives and academic experts in the WBS working committee on labour issues and on a WBS research project of which the results were published in Frans Becker, Jurre van den Berg & Monika Sie Dhian Ho, *Om de plaats van de arbeid. Een politieke agenda voor de PvdA*, Wiardi Beckman Stichting, Amsterdam 2008.

7 Jörg Flecker (ed.), *Changing Working Life and the Appeal of the Extreme Right*, Aldershot 2007, 59 ff.

8 Quoted by René Cuperus, *De wereldburger bestaat niet. Waarom de opstand der elites de samenleving ondermijnt*, Amsterdam 2009, 146.

9 Flecker, 61.

ethic, the performance orientation seems to be strengthened, which raises the demands they put on their colleagues and subordinates.⁹

The authors of the SIREN report infer from these three trends that socio-economic change is an important factor in explaining the rise of right-wing populism and extremism in various European countries. The research shows that “good work” is at the centre of concerns for many working and middle class people. The weakness of parties on the left on these issues has left a political void that may be filled by the extreme and populist right. A strong social-democratic agenda for “good work” is therefore necessary.

Differences and common denominators

A complicating factor in cross-national analyses such as the SIREN report is the fact that workers in different countries tend to have different attitudes towards work. While Americans regard their job mainly as a source of income and for Germans work is significant for personal development and security, the French see their job primarily as a course of social contact. Work means social status and prestige - and that's why the French worker prefers a lousy job to being unemployed. The absolute horror, according to the French psychiatrist Reic Albert, is losing one's job. But the absolute happiness is getting retired.¹⁰ As research by Coates and others suggests, the national differences are not so much related to different varieties of capitalism - the liberal vs. the co-ordinated economies - as they are to 'employment regimes', the difference in priorities given to the nature and quality of workplace relations. The focus here is on the balance of power between employers and employees, the commitment to creating quality employment, and the extent to which a focus on the quality of working life at the enterprise level translates into a national conversation about the quality of work.

In spite of these national differences, there seem to be some basic trends at work. The SIREN research shows that anxieties regarding social decline, growing inequalities and a lack of respect for professional ethics are present all over Europe. The concerns about “good work” are thus not country specific. But what are the common denominators which can explain these trends?

1) In the past decades, the balance of power within corporations and banks has shifted from long-term investment interests to short-term profit interests, putting shareholder value at centre stage. Restructuring, takeovers and mergers threaten to turn companies into ordinary pieces of merchandise, severely undermining employee motivation and their corporate identity.¹¹ The recent history of the Dutch ABN Amro bank, as told by the journalist Jeroen Smit in *De prooi* (The prey), is a telling example of this trend.¹²

2) Basic working conditions in a number of sectors and jobs types are simply below the level of 'decent work'. Flexibilisation may suit the personal circumstances of some groups of employees, but the type of flexibilisation we are witnessing, characterised by a lack of long-term perspective on a steady job, access to education and a decent social security system, is a breeding ground for feelings of insecurity. Guy Standing argues that we are witnessing a new class coming into being, the precariat, that defies social-democratic definitions of social conflict and has to be approached in its own way.¹³

3) Jobs may not only be 'bad work', but also dead-end jobs where possibilities of social mobility within the company seem to have diminished. From a 'social-ladder-economy' where people used to climb up to become part of a broadening middle class in post war society, our societies have become 'hour-glass-economies', where upward social mobility has become very difficult. Indeed, many employees have a fear of falling.

10 'Le travail qui fait mal', in: Le Nouvel Observateur, nr. 2343, 7-10-2009.
 11 Cf. Arnout W.A. Boot, De onwontelde onderneming. Ondernemingen overgeleverd aan financiers?, Assen 2009, 126 e.v.
 12 Jeroen Smit, *De prooi*. Blinde trots breekt ABN Amro, Amsterdam 2008.
 13 Guy Standing, *The Precariat*. The New Dangerous Class, London 2011.

4) A new class of managers has entered the world of enterprise: managers without material knowledge of the production or service processes that are central to the company, but who are driven by financial targets, efficiency schemes and a desire for power. Managers are being perceived as extensions of the untamed capital markets, not as true representatives of the company which many of the employees have helped to build over decades. Many employees experience a lack of respect and appreciation for their efforts in this new company culture. They feel vulnerable. Their answer is not protest, but resignation. The new class of managers, on the other hand, consists of firm believers in the individual credo and have a contemporary social-Darwinian view on society.¹⁴

5) Good work is, in other words, not just about the 'bottom' part, but also and increasingly about the middle part - skilled blue collar and service workers - who are confronted by restructuring, the end of the 'home' firm, Taylorisation of their work, flexibilisation of their contracts, rising expectations, a loss of respect for their craftsmanship, and an unbridgeable gap with the real rich who have taken off for the moon.

6) Stress is the key word to understand the effect of the pressure to combine demanding work, raising a family and taking care of parents and other relatives. The pressure on families in general and women in particular to combine work and family responsibilities seems to keep on rising in the rush hour of life. Recent data confirm that in the period 2000-2005 again more time was spent on work and family care. Women in particular feel the pressure: 41% of women consider the combination of work and care as a burden; for women with small children this percentage is even higher (53%).¹⁵ Although the pressure and stress might not relate directly to the workplace, the solution will undoubtedly have to involve a change in working conditions.

The problem with these trends, however, is that quantitative research tends to deliver a different picture: most people are fairly happy with the quality of their workplace. OK, there is more stress, rewards do not always meet efforts, and there is diminishing control. But in general there is little to worry about. This picture is unsatisfactory. The survey-method is misleading. There is enough evidence to know that there is a hidden depression in our societies that is located in the workplace, the heart of our economy. Unfortunately, this theme has disappeared from social-democracy's political radar. By the way: our labour unions haven't been very alert in this field, either. The quality factor is not only at stake in the private sector. Blaming capitalism for the lack of quality of the workplace is the natural argument for the left - and there is a lot of truth in it when we look at the big private corporations. But the argument is rather thin if we start including the public sector.

The public workplace

In the public domain, where politics is in charge and where social democrats have played a major role in shaping the 'public workplace', working conditions have deteriorated and the quality of work is under severe pressure. Those who have been led by a vocational and professional ethic, human interest or by a public morale, now find themselves exposed to excessive control, market and profit incentives, permanent policy changes, a magically multiplied management, weird rules, and perverse forms of Taylorism.

Let's review the basic trends.

1) The employees in the public sector - once labelled as the street level bureaucrats by Lipsky - are overloaded with problems and an 'unleashed' public: parents who aggressively ask for better marks

¹⁴ Cuperus, 143-145.

¹⁵ Rutger Claassen, 'Kindertijdwerk', in: Socialisme & Democratie, 2007 1/2.

for their children; drunken youths fighting on a Saturday night; the policeman unsupported by bystanders; and the ambulance worker having to go it alone.

2) That's the challenge from below. There's another one from above, comparable to the trends in the private sector. The public sector has been exposed to an avalanche of new policies, restructuring and reforms which distract the average public worker from his or her basic mission. Fortunately, she is fairly resistant to this, but what is striking in this policy circus is that the public workplace is never the prime mover of policy making - it's the system managers who are in control. The shameful failure of top-down educational policy reform in the Netherlands, as told by the parliamentary investigation committee led by PvdA MP Jeroen Dijsselbloem, is a telling witness.

3) Many half-hearted attempts at deregulation and liberalisation have been introduced into the public sector. The position of the public worker has seldom been the main focus of attention. It is the 'consumer' or the state that has played the main roles. What did happen is that from this half-hearted introduction of markets and new financing methods, incentives have been introduced into the public sector that are contrary to the basic ethics that should distinguish these institutions from the real market place.

4) The introduction of New Public Management in the public sector has led to an overkill of control and accountability. Quasi-markets in the public domain have led to more state interventions - but ones of the wrong kind. The miraculous multiplication of managers has further undermined the professional autonomy of the public worker. Indeed, the most absurd Tayloristic schemes have been introduced for workers in the home care sector which allow three minutes for nail cutting and two for teeth brushing, but none for a decent conversation with the patient (or 'customer').

5) The reform of the public sector has alienated teachers, policemen, nurses and other public workers from social democracy, and has alienated many others as well because the public sector is a collective arrangement they depend upon.

The economic argument about privatisation and the introduction of markets has clearly fallen short of what happens in the reality of the public sector. Incentive structures for both 'workers' and 'customers' that do not fit the mainstream economic theory turn out to be quite decisive for the working conditions and the quality of work in the public services, as Julian Le Grand has shown.¹⁶ In the Netherlands a number of initiatives have been set in motion to enhance the concept of a professional ethic. It is an answer to the frustrating experience of extreme forms of control and accountability, of the negative effects of liberalisation, of the introduction of new public management, of the erosion of craftsmanship and of the denial of intrinsic motivation. If the conditions are right, the 'intangible hand' of acknowledgement and esteem might be a powerful force to improve the quality of the public workplace as well as the quality of the public services involved.¹⁷

Social democracy has not responded adequately, focusing mainly on the consumer side of public services. It's not targets, however, but responsibilities that should move the public services. The quality of the public sector is largely dependent on its frontline workers; professional ethics and a certain level of autonomy play a large role in defining the quality of their work. The pleasure and pride they take in their work will be crucial for the quality of the services they perform.

Putting the workplace democracy back on the agenda

We have dealt with a number of general trends influencing the workplace and labour-management

¹⁶ Julian Le Grand, *Motivation Agency and Public Policy*, Of Knights & Knaves, Pawns & Queens, Oxford 2003; also Romke van der Veen, 'De klant koningin', in: *Socialisme & Democratie*, 2005 7/8.

¹⁷ Thijs Jansen, Gabriël van den Brink en Jos Kole (red.), *Beroepstrots. Een ongekende kracht*, Amsterdam 2009.

relations at company level. While in the 1990s optimistic expectations about democracy on the shop floor were high, in the following years reality has not met the expectations, neither in the private nor in the public sector. The situation is incomparable to that of the early days of capitalism, of course. Nonetheless, fundamental changes in the economy, labour relations and management strategies put heavy pressure on the quality of the workplace and account for the demise of “good work”. The trends differ in their effects for different sectors, jobs and companies. In general, the more highly educated seem to be better off. In some sectors and for some types of jobs, the optimistic scenario actually seems to have become a reality.

There is direct and indirect evidence to show that - on a much larger scale than is usually assumed - employees experience anxiety, a lack of respect and insecurity at the workplace, causing resignation and popular discontent. Human capital, one could say, is heavily under used. In the private sector, the company as a community of interests is under pressure; in the public sector its professional ethic is being eroded. Our knowledge about these processes may be incomplete, but it is clear that they will be important for social democracy in the years to come.

What social democrats need is not only an agenda for the labour market, but also an agenda for “good work” in the workplace. Social democrats are currently faced with unresolved questions. How do they understand the workplace? What is Labour’s perspective on labour? Is a job more than just earning a living? Do we regard the workplace as a place for economic democracy and self realisation and as a place where respect, control, craftsmanship and professional ethics reign?¹⁸ It is time to put these questions back on the agenda.

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¹⁸ Standing, 161-162.

The workplace and industrial democracy in the post-crisis age

Hannah Jameson

The financial crisis has changed attitudes to employment relationships. The decline of trust in business and its societal value have illustrated that employment relationships are not merely of a transactional nature, but intrinsic to identity and well being. The renewal of industrial policy for a post-crisis age will require bolder action on workplace democracy, accountability and governance in the wider economy

Thirty years ago it would have been unimaginable for the centre-left to speak of social democracy without industrial democracy. Throughout the history of the labour movement in Britain, greater democracy in the workplace has been seen as the best means through which to tackle the inequalities of power and resources generated by capitalism, ensure fairer distribution, and empower working people. Whether through cooperatives, mutuals and other forms of employee ownership, trade unions or co-determination, the centre-left held on to the belief that the economy was best governed through democratic cultures and structures. From a social perspective, there was a recognition that the power relations that prevailed in the workplace were intimately connected to power relations in society, and that to meet the needs and aspirations of the electorate, the centre-left must speak to both.

In 2011, the centre-left in Britain is hurriedly reassessing its economic model in light of the global financial crisis, ensuing recession, and uncertain prospects for growth. The considerable interest in cooperatives and mutuals among politicians and others reflects the crisis of trust in UK business and shareholder capitalism in general. It is a starting point for a wider discussion of how sustainable businesses are built, and as part of that, how workplaces are governed, what role the workforce has in decision making, and how the proceeds of growth are shared. In short, whether social democrats should be prepared to argue again for greater democracy in the economy as part of a new sustainable capitalism.

Industrial democracy has been described as 'incapable of definition', and as is the tendency of the left, it has often been reduced to the institutions and structures that best attempt to deliver it.¹ At the turn of the 20th century industrial democracy, as described by the Webbs, was synonymous with trade unions and collective bargaining.² By the 1970s and the infamous Bullock Report, industrial democracy began and ended with discussions of worker representation on company boards. But beyond this specific history, the term recognises that workplaces are places of competing interests, and that democracy is the best way of ensuring that justice is done and interests are reconciled. It reflects the belief that certain civic rights, particularly a right to voice, are inalienable and should apply whether one is on the street or in the workplace. It is this broader definition which is used in this article.

The last substantial discussion of industrial democracy in Britain took place within a specific social, as well as economic, context. Post-war social democrats saw industrial democracy as the means by which the class demarcations that shaped the social and cultural landscape of Britain could be redrawn along egalitarian lines. Crosland, casting his eye over unequal 1960s Britain, saw that the disparities in power across society were reinforced by disparities in the workplace. He noted the

1 O. Kahn-Freund, 'Industrial Democracy', *Industrial Law Journal*, Vol. 6, No. 1 (1977), p. 65

2 S. & B. Webb, *Industrial Democracy*, (London; Longmans, 1911)

3 C.A.R. Crosland, *The Future of Socialism*, (London: Jonathan Cape 1966)

'still powerful influence of work relationships on social attitudes'.³ Shop floor and management were separated by culture, class, status and power. But Crosland did not prescribe any change in ownership, or industrial democracy in the sense of the appointment of trade unionists to company boards. Instead he proposed a renewed attack on class privilege in industry, mechanisms to assure workers of fair pay and the spread of enlightened management practices.

But does it mean that the centre-left should simply consign industrial democracy to history, and what does it lose by doing so?

Much of course has changed since Crosland's day. The large scale industry that dominated the British economy and led to concentrations of power is long gone. At the beginning of the 1950s just four per cent of young people went to university, now it is 40%. The demand for unskilled labour has declined dramatically, and certainly those without skills are unlikely to find secure and decently paid employment as they once did. Although research still shows the effects of class on entry to elite institutions and certain professions, it no longer determines social and cultural life in the way it once did.⁴ But does it mean that the centre-left should simply consign industrial democracy to history, and what does it lose by doing so? Are the workplaces of the early 21st century now a benign influence, or do they still play a role in shaping social and economic relations?

New Labour and industrial democracy

Following 18 years of conservative government, New Labour's political economy centred on attempting to reconcile economic efficiency and social justice. But other social market objectives such as social harmony, stability and democracy barely featured for a party whose focus was firmly on encouraging the development of an economy capable of generating the returns necessary to support European levels of public spending and rising living standards. Indeed, within the economic discourse of the late 20th century it was hard to make sense of arguments that were not couched in the language of greater efficiency or improved performance. When measures were put in place to democratise the workplace – for example the Information & Consultation of Employees regulations (legislation deriving from a European directive) – the change was justified in terms of the evidence of improved performance arising from employee involvement, and received little support from government once in place.

Perhaps reflecting this narrow economic thinking, New Labour's record of promoting a more democratic economy was inconsistent. The idea of the stakeholder economy, advanced particularly by Will Hutton's 1995 book, *The State We're In*, had some influence on New Labour thinking before they entered government, but could not match the strength of the City when it came to influencing policy. The Companies Act 2006 nodded to the idea of a group of stakeholders, separate to shareholders, whose views directors must take into account, but the much vaunted Operating and Financial Reviews which would have compelled companies to report on aspects of their workforce management – encouraging investors to take a longer term view of company performance – were quickly withdrawn by the then chancellor to prevent any further 'burden on business'. The concerns about short-termism and its effects on the wider UK economy which had been prominent in the early 1990s did not gain much attention until the global financial crisis.

Against the hopes of many social democrats and trade unionists, New Labour maintained relative neutrality on the role of trade unions. This meant that one of the key levers for greater democracy in the workplace struggled to develop and legitimate this aspect of their function in the minds of employees. Therefore, despite growing employment and more favourable employment law, trade

⁴ See "Unleashing Aspiration" - The Final Report of the Panel on Fair Access to the Professions. Presented by Alan Milburn to the UK Prime Minister in July 2009.

union membership continued its decline, and the breadth and scope of collective bargaining did not substantially expand.

Only in the dying days of government did New Labour make concerted efforts to address the power employees had over their working lives; their desire for security; a stake at work; opportunity; and voice. The answer provided was employee ownership. Ideas for widening employee share ownership, public service cooperatives and mutuals abounded, and formed a key election battle ground. Part of what made this type of approach so attractive was that it provided something that policymakers and government could do to actually deliver change in the workplace, which up until that point had been so difficult. The downside was that it was never going to be an agenda that affected the majority of employees in the UK.

The new politics of the economy

Some social democrats will always support the aim of using dispersed democracy to temper the excesses of the market, devolving power to employees, communities and other stakeholders. But there are also reasons to suggest that the new politics of the economy which have emerged since the global financial crisis and recession make it not just desirable, but necessary for the centre-left to ground its economic approach in a new social market framework, with economic democracy running throughout.

Bonuses and pay have become a significant political issue for voters across the political spectrum

Trust in business, and its ability to benefit society, is at an all time low. Although damaged by the global financial crisis, according to some (including former CBI director general Richard Lambert) the depletion of trust is not recent, but part a reaction to the 'unsettling' development of capitalism in the UK over the last 20 years⁵. The weakening of the national political and social bonds with business, linked to the globalisation of capital; the pursuit of maximum rather than adequate profits; and the marriage of executive remuneration to shareholder returns and its implications for short-termism, have all altered business culture in the UK. While public reactions to such changes may have been muted in periods of sustained economic growth, their concerns about the value of business in the UK are now being expressed through popular protests such as the UK UNCUT group as well as through support for other models of ownership.

In addition bonuses and pay have become a significant political issue for voters across the political spectrum, and intense media attention has concentrated awareness of the 'us and them' economy. Pay at the top in both the public and private sector is largely seen as unjust and unmerited. The government's apparent inability to respond to the public's dissatisfaction with private sector pay and bring about change has only added more fuel to the fire. It would be wrong to suggest that concerns with pay at the top of the private sector are new, but taxpayer support for failed financial institutions and difficult labour market conditions have heightened frustrations.

At the same time, it is clear that even during the sustained economic growth of the last 15 years, the benefits of growth were not shared equitably across society. Although government redistribution and interventions such as the minimum wage helped to reduce levels of poverty, wage stagnation – particularly for those living on average income levels – meant that many failed to see much improvement in standards of living. In-work poverty increased over the last decade, and may well increase further as benefits are cut for those in work. Pay awards remain low and inflation high.⁶ At the same time, public support for redistribution has dropped dramatically in recent years, and it is

⁵ Speech by Richard Lambert, director-general of the CBI, March 30, 2011, RSA/Sky Sustainable Business Lecture Series

⁶ A. Parkehk, T. MacInnes and P. Kenway, *Monitoring Poverty and Social Exclusion 2010*, (York: JRF, 2010)

questionable whether any centre-left government elected in the next few years would be able to simply increase tax-credits and other benefits.

Finally, the attitudes and expectations of workers have changed, with consequences for the centre-left. The turmoil of the financial crisis and recession has placed security at the top of employees' list of priorities. This spike may be short-term, but it highlights a truth about modern employment relationships; that many are more than transactional economic relationships, they are also a source of identity, wellbeing and community. This means that a dynamic economy in which changes in ownership are easy and high levels of competition drive continuous change can be unsettling for employees. The pace of change is perhaps an inevitable part of the global economy, but its negative effects on employee wellbeing are exacerbated by workplace practices that give employees little autonomy, control and influence. The consequences of this disempowerment are well documented in the epidemiological literature: higher levels of stress and poorer health.⁷

These changed attitudes to business, pay and employment relationships provide both opportunities and challenges for the centre-left. In light of changing public attitudes and priorities, the maxims of the mid 1990s on what was politically achievable must be critically re-examined.

Industrial democracy today

The 1990s discussion of the stakeholder economy and social markets was scuppered by the influence of shareholder value on New Labour's thinking, market pressures and the reliance on returns from booming financial services to fund public service investment. But the global financial crisis and the recession have changed the landscape. The social markets in countries such as Germany, dismissed in the past for poor performance, seem now to have lessons to offer. Can an agenda which argues for a more democratic economy offer Labour a route through the new politics of the economy?

However much mutuals and co-ops thrive in the coming years, the majority of employees will continue to work in privately owned enterprises

The centre-left's reconnection with employee ownership is important. Greater variety in ownership can help challenge business cultures and provide choice within the market. But its limitations must also be acknowledged. Employee ownership itself has little impact on the performance of the organisation if it is not accompanied by high levels of employee involvement and participation; and employee ownership is not an automatic guarantee of such democratic cultures. In a sense, the need for effective democratic structures is therefore as important here as in the wider economy. The centre-left's interest in mutuals and co-ops may have been a reflection of the immediate post-crisis political climate, but if it is to be a serious part of its vision of the future economy, then it must be accompanied by a clear understanding of the conditions of success. The centre-left's enthusiasm for employee ownership should also not be a distraction from the reforms necessary in the wider economy.

However much mutuals and co-ops thrive in the coming years, the majority of employees will continue to work in privately owned enterprises. What will Labour's offer to these workers be? How can it meet their desire for a fair share in the success of the company, security, influence, and opportunity? Independent of government, the recent recession has shown that employer attitudes to the workforce are changing. Despite a six per cent drop in output, the fall in employment to date has been just under two per cent. In part this can be accounted for by a higher skilled workforce that

⁷ M. Marmot et al., various publications, the Whitehall II study

is valued by the employer and hard to replace. This subtle power shift, where an individual's skills are an important bargaining chip, provides a new context in which to implement reform.

Businesses may increasingly recognise their workforces as stakeholders with an important role in their success, but changes that might flow from this grind up against the demands of generating immediate returns for shareholders. If the UK is to move closer to a stakeholder economy, then the strength of the shareholder value model must be challenged. As the UK attempts to rebalance its economy, long-term investment in sectors with export potential will be important. But as Unilever CEO Paul Polman has pointed out, the pressure for businesses to deliver quick returns to short-term shareholders undermines the ability of leaders to focus on long-term development, success and sustainability, and cultivate the relationships with employees, communities and supply chains that might support this. The last government set out sensible proposals to slow the pace of hostile takeovers and give greater voice to the shareholders of the target and bidding company to ease some of the pressure, but more will need to be done. The ways in which the tax system and regulatory framework might be adjusted to encourage institutional investors to take a longer-term view should also be re-examined. Executive pay needs to be aligned to the long-term success of the organisation, not shareholder returns.

The recent government led debate on public sector pay has shown how quickly norms on pay can change. The benchmark of £140,000 – the prime minister's pay – has quickly been established as the reference point for executive pay across the public sector. In the private sector, the government clearly has less direct power and fewer levers to pull, but the public sector example does suggest that government can lead and channel public opinion and help to establish new norms. Whilst acknowledging the competitive pressures some business face, the centre-left should lead the debate on what pay is for, and the processes through which pay is decided. Remuneration committees currently face too little scrutiny and companies are under little pressure to increase transparency on pay. This is not just a question of executive remuneration. Reforms to benefits will mean that wages will play a more important role in income, and so there must be new norms on what constitutes a living wage.

The annual bank bonus season has shown again the political difficulty governments of any colour have in regulating private sector pay. Beyond the question of legitimacy, central government regulation can be clumsy and difficult to enforce. Although there may be a case for targeted regulation on pay, it may be more desirable and practical to look at ways to empower stakeholders at the company level to influence pay awards. For example, the push for an export-led recovery will place demands for increasing productivity in many industries, which the workforce will be crucial in delivering. Particularly in non-unionised workforces, it will be important to look at what structures would be necessary within the company to ensure that employees gain a fair share of productivity gains, and have confidence that pay is fair.

The UK already has legislation that allows employees in workplaces with over 50 employees to trigger a process through which a representative employee forum must be established to inform and consult with them on change within the business. It has been a significant departure from the tradition of UK industrial relations and as might be expected, has struggled to take off. Awareness among employees remains low, and union apathy has meant that there are no actors supporting employees to organise. However, there are pockets of success and it is an important step in introducing more democratic structures into non-unionised workplaces. If the financial crisis revealed anything, it is that boards alone will struggle to govern our complex companies effectively. Other stakeholders,

particularly those with an intimate understanding of the organisation, need to be given a stronger voice to hold executives to account.

There is little the UK can do to slow the pace of change associated with participation in the global economy, but there is convincing evidence that where employees feel they have a voice and can influence the consequences of change, stress and insecurity are reduced, with positive benefits for health and wellbeing. There is great potential to enhance and strengthen these arrangements by raising awareness, providing funding for the training of representatives, and enhancing links with unions. It would be worth examining whether employee forums could have a role in increasing confidence in fair pay. But again, these structures are only likely to thrive where employees are seen as real stakeholders. Too often employee forums are concerned with issues of work organisation and have little influence on strategic issues, unable to penetrate the board room agenda.

The question for the centre-left is whether to challenge the dichotomy between the domain of politics and the domain of markets in order to take a more developmental approach to the economy and the role of the workplace within it. A centre-left party entering government in the next few years will face considerable pressure to deliver growth, employment and public sector investment, but a return to the economic model of the 1990s is unlikely to deliver the sustainable capitalism on which confidence in Labour's long-term economic competency will rest. A low-growth economy and changing public attitudes provide grounds on which to formulate a new response, tackling the inequality of power and resources at the source, not solely through a redistributive state. Different models of ownership will be part of the solution, but the centre-left must be prepared to put in the hard work of developing democratic structures and cultures within workplaces capable of challenging and holding leaders to account. However, the success of democratic structures in influencing decision-making will rest on the extent to which they are seen as true stakeholders; for this, further reform of corporate governance will be necessary.

Work is not only a means of securing wages and adequate living standards; it is an intrinsic source of satisfaction and a core part of the growing interest in issues of quality of life and human satisfaction. Making such a reconnection between the domain of politics and markets might enable the centre-left in Britain to attain a new radicalism and a new vibrancy, forging a new economic settlement for the post-crisis age.

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Intergenerational inequality

Allying generations and modernising social protection

Karen Anderson

The 21st century pension dilemma

David Natali

Generational justice and social trust in an ageing society

Anna Hedborg

Generational equity and the smoke screen of National Accounts

Thomas Lindh

Allying generations and modernising social protection

Karen Anderson

The dual achievements of ageing populations and new labour market trends now threaten the sustainability of Europe's social protection institutions. Designed on the premises of high fertility, employment, and growth, if left unreformed the institutional organisation of European pensions systems will result in intergenerational inequality and conflict

Two challenges dominate debates about the future of social democracy and the sustainability of European welfare states. First, the dramatic ageing of populations creates unprecedented pressure on social protection institutions that were designed for a high fertility, high employment, high growth socio-economic context. According to the most recent projections of the European Union, the proportion of people aged 65 and over in the EU-27 will increase from 17% in 2007 to 30% in 2060. Moreover, the ratio of elderly persons to working age persons (age 15-64) will increase from one to four today to one to two in 2060. Population ageing coincides with a second challenge: rapidly changing labour markets and employment patterns. Full employment for standard, full-time workers seems to be a thing of the past. Instead, "dual" or "segmented" labour markets have emerged in many European economies,¹ characterised by high levels of youth unemployment, the expansion of part-time and atypical work, and persistent long-term unemployment.

To be sure, we should celebrate population ageing to the extent that it reflects rising standards of living (increased life expectancy) and the ability of women to choose the conditions under which they bear children (declining fertility). Yet we cannot escape the very real economic, social, and political consequences of ageing. We should also embrace the decline of the standard employment relationship to the extent that it means saying goodbye to the standard full-time worker defined as a male breadwinner who was usually white. Nostalgia for the "golden age" of full employment and high economic growth that lasted from about 1950 to 1980 is really a false nostalgia, because the "golden age" was usually only golden for white male breadwinners; it certainly was not a golden age for most women and minorities. I do not mean to argue that full-time standard employment is not desirable, only that ageing and rapidly changing labour market patterns – as destabilising as they are in many ways – also partially reflect tremendous social progress.

How can social democracy respond to the intergenerational inequalities – and potential conflicts – produced by population ageing, shifts in family patterns, and changing labour markets? The response I propose here emphasises three core values set out by Jane Jenson: autonomy, security, and social inclusion. Autonomy refers to the capacity to form an independent household; security means having access to sufficient income, health care and housing; and social inclusion means participating in collective/societal/civic life.² An inclusive society that promotes autonomy and security must put these principles to work not only for the working age population and retirees, but also for those under the age of 18. The challenge for social democracy is to devise a policy approach that unites, rather than divides, the generations.

The single most pressing challenge related to intergenerational inequality concerns paying for the pension and health care costs of growing numbers of pensioners. Appealing to some notion of a "contract between the generations" is particularly problematic in this context because this is just

¹ See for example, Palier, Bruno and Thelen, Kathleen. 2010. "Institutionalizing Dualism: Complementarities and Change in France and Germany." *Politics and Society*, vol. 38, no. 1, pp. 119-148.
² Jenson, Jane. n.d. "Seeking a roadmap for gender and generational equality." *Progressive politics*, vol. 4.3.

another way of saying that current workers – who had no influence on the contract in the first place – should finance current pensions. Such appeals are clearly unsustainable in the light of rapidly rising old age dependency ratios and tight government budgets. Moreover, growing levels of spending on the elderly crowd out spending on the kinds of social investment strategies that should be at the heart of social democracy’s political project (I return to this point below).

How, then, should public, pay-as-you-go pensions be reformed? In my view, the fairest and most progressive approach is to weaken, if not sever, the link between the generations in collective pension systems (both public and private). The heart of the “pension problem” lies in the fact that fewer and fewer workers will be financing more and more pensioners. The more that pensioners believe their pension rights to be earned (on the basis of contributions on earnings) and therefore to have the status of rights, the less likely they will be to support pension reductions. This dependency of older generations on younger ones often generates severe distributional conflict when revenues are not sufficient to cover pension costs, because neither pensioners nor workers are likely to want to cover the funding shortfall. Thus the “contract between the generations” is just as likely to unleash intergenerational conflict as it is to foster intergenerational solidarity.

The 1994/98 reform of the public pension system in Sweden demonstrates how *intergenerational* solidarity can be replaced with *intra-generational* solidarity.³ The ATP pension system introduced in 1957 was a defined-benefit (DB), pay-as-you-go scheme.⁴ The recent reform transformed the old DB scheme into a notional defined contribution (NDC) scheme. Financing remains pay-as-you-go, but the shift from DB to NDC replaces *intergenerational* solidarity with *intra-generational* solidarity. Rather than each generation depending on subsequent generations to finance their pensions, each generation now “pays for itself.” Each worker in Sweden has an account with the Swedish Pension Authority; contributions (based on employment) are credited to the individual account, and the balance is adjusted annually by the internal rate of return (based on economic growth and wage growth) in the system.⁵ The value of notional pension capital in an individual’s account is also adjusted for changes in life expectancy for that person’s birth cohort.⁶

The role of social democracy in responding to these trends should be to improve the situation of the most vulnerable pensioners and to devise a political strategy for increases in taxes for the most affluent

A second challenge related to pension reform concerns growing income inequality among pensioners and between pensioners and the working population (obviously these two trends take different forms in different countries). The OECD reports that in the mid-2000s, people 65 and older had an average income that was 82.4% of average population income. Those aged 66-75 had higher average incomes than those aged 76 and older. Women are more likely to be represented in the over 75 group because of their higher life expectancy, and their non-standard earnings biographies (part-time, career breaks, etc.) result in lower earnings and therefore lower pensions. The OECD also reports that in 13 of the 25 OECD countries studied, the incomes of the elderly grew more quickly than that of the working population between the mid-1980s and mid-2000s.⁷

These statistics point to growing pensioner affluence, even if average pensioner incomes remain below that of the average income for the entire population. In other words, pensioners have an increased capacity to maintain an autonomous household, to be “socially included”, and to enjoy security in terms of health care and housing. At the same time, however, the numbers of frail elderly

3 Anderson, Karen M. and Immergut, Ellen M. “Sweden: After Social Democratic Hegemony.” In Ellen M. Immergut, Karen M. Anderson and Isabelle Schulze (eds.), *The Handbook of Pension Politics in Western Europe*. Oxford: Oxford University Press, pp. 349-395.

4 The ATP benefit formula was generous: the best 15 of 30 years of labour market participation determined the level of the pension (up to a ceiling). The system was partially funded. Excess contribution revenue was placed in five public trust funds that invested in housing and later in stocks and bonds.

5 The internal rate of return can be negative, as it was for the first time in 2010.

6 The new pension system also includes an individual, funded pension account called the premium reserve. See Anderson and Immergut (2007).

7 OECD. 2011. *Pensions at a Glance*. Paris: OECD: 146

are growing, as are the numbers of females over the age of 75 with low incomes. The role of social democracy in responding to these trends should be to improve the situation of the most vulnerable pensioners (often women over 75) and to devise a political strategy for increases in taxes for the most affluent pensioners.

So far I have emphasised two policy responses to the consequences of population ageing: switching from defined benefit to defined contribution pension schemes in order to reduce intergenerational dependency, and increasing taxes on the growing incomes of pensioners in order to free up resources for low income pensioners and to finance other policy priorities. Again, the attractiveness and feasibility of these two policy options will differ across countries because of the difficulty of proposing uniform solutions for what are often vastly different institutional settings.

Shifting the social policy centre of gravity

How can social democracy apply the values of autonomy, security and social inclusion to policies affecting the working age population and their children? And how can such a strategy form the basis for an alliance across generations? As many authors have noted, social investment should be a central element in social democracy's political programme. The elements I would like to emphasise here are policies that facilitate the reconciliation of work and family, early childhood education, job training and re-training, and labour market activation (these categories are not mutually exclusive). As Julia Lynch argues, welfare states have an "age orientation" in the sense that social policies provide benefits and services to different age groups.⁸

Every welfare state is characterised by its own mix of programmes aimed at different age groups. It can and should be the task of social democracy to shift the social policy centre of gravity where possible toward the education and development of children and young adults and to the continuous re-skilling and up-skilling of workers. This is not to advocate deep cuts in pensions in order to finance the expansion of public day care, but rather to suggest a slowing or reversing of the increase in spending on social policies oriented towards the elderly and raising taxes on the affluent elderly in order to create resources for more "youth-oriented" social investment based policies.

The emphasis on education, skills and employment should promote high levels of labour market participation, especially of women

Shifting the social policy centre of gravity towards early childhood education, general education and labour market training has several advantages that are central to the social democratic political project. First, there is ample scientific evidence demonstrating that early childhood education is one of the most important factors in improving the educational performance of children from immigrant families and disadvantaged families. Second, the old age dependency statistics I presented earlier will mean labour shortages in many European countries in the not too distant future. This will increase the demand for skilled workers. Third, the emphasis on "skilling and up-skilling" will make labour market re-entry easier after a spell of unemployment. Finally, the emphasis on education, skills and employment should promote high levels of labour market participation, especially of women. It is well known that women earn less than men, partly because of part time work and career interruptions. These lower earnings result in lower pensions and can be disastrous for the woman in the case of marital breakdown. In other words, investing in both education and increased labour market participation, especially of women, will enhance the capacity of those below the age of 65 to maintain an autonomous household.

⁸ Lynch, Julia F. 2006. *Age in the Welfare State. The Origins of Social Spending on Pensioners, Workers, and Children*. Cambridge: Cambridge University Press.

I would like to conclude by noting that the trickiest parts of the policy approach proposed here concerns raising taxes on affluent pensioners and further increasing the labour market participation of women. Again, the details of national institutional and political contexts will shape how debates over these two issues unfold. As the literature on “new social risks” shows, it is not impossible for political actors to forge alliances between disparate groups who stand to gain from reforms aimed at modernising social protection.⁹

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⁹ See for example, Häusermann, Silja. 2010. *The Politics of Welfare State Reform in Continental Europe: Modernization in Hard Times*. Cambridge: Cambridge University Press.

The 21st century pension dilemma

David Natali

EU member states' pension systems face a two-fold dilemma in adequacy vs. sustainability, and in the problem posed by the inequality in the distribution of risks (and protection) across social groups and generations

Public pension schemes are one of the most expensive elements in the public budget, but protection against the risks of old age is at the core of social security and is becoming increasingly important in the context of an ageing society. In the last two decades, pension reforms have been shaped by tightening eligibility conditions (particularly for early retirement and disability pension schemes); scaling down the level of public pension benefits and their growth (in relation to wages); and moving towards increasing retirement age. At the same time the emergence of new social risks has been dealt with through measures directed to allow more people to access public and private pension schemes (e.g. through lowering minimum contribution needed to have a pension benefit, the introduction of contribution credits for periods of inactivity, etc.).¹

Recent reforms have led to a certain degree of convergence. On the one hand, the institutional design of the pension systems is increasingly fragmented. Protection for the elderly is shifting towards a mix of public and private provisions. In continental, southern and eastern European countries (Germany, Sweden and Poland), the generosity of the public pillar is expected to decline and to open more room for private institutions. The apparent paradox of the projected decline of benefits and the parallel increase of public spending is due to the impact of population ageing. On the other hand, the increased role of private protection has led to efforts for stronger public regulation and new forms of public/private mix.

Present and future policy challenges

Despite reforms introduced in the last decade, old and new challenges are far from being solved. Here I focus on three major challenges affecting pension policy: population ageing, labour market transformation, and the most recent financial, economic and fiscal crisis.

Population ageing

As a result of progress made in the average standards of healthcare and quality of life in European countries we observe a progressive increase in longevity. As Barr and Diamond note, this is an historic success of the European welfare states, but it should lead to a new (problematic) balance between generations, with the growing number of old age people and hence of the non-active population.² The second factor which contributes to the 'demographic crisis' then is represented by the continuing growth in the number of workers over 60, at least until 2030, when the so-called 'baby boom' generation will become elderly. That generation is numerous and when it reaches retirement the balance between the active and non-active population will be negatively affected.³ Third, low birth rates will further impact population trends. A number of elements, such as difficulties in finding jobs, costs of housing, new study, and working and family life choices have all contributed to a decrease in fertility well below the population replacement level (equal to 2.1 children per woman).

¹ See Natali, D. (2008), Pensions in Europe, European Pensions, Brussels, PIE-Peter Lang

² Barr, N. and Diamond, P. (2010), Pension Reform, A short Guide, Oxford, OUP

³ See Natali, D. (2008), Pensions in Europe, European Pensions, Brussels, PIE-Peter Lang

Labour market transformation

Labour markets in Europe have experienced a set of important innovations: de-industrialisation and the tertiarisation of employment, the massive entry of women into the labour force, increased instability of family structures and the de-standardisation of employment. These trends, both individually and in interaction with one another, have altered structures of social risk in western societies.⁴ In many EU countries pension reforms have consisted in the reduction of public pension benefits, while labour markets have seen important changes towards more flexibility, lower employment protection, and activation. In some cases the combination of these two processes leads to increased risks of pension gaps, especially for some social groups (atypical workers, women, migrants, etc.).

Many analysts have talked of new cleavages between insiders and outsiders, the latter being at risk of income losses in their old age.⁵ This is particularly the case with pension systems based on contributions – not only supplementary funded schemes (those based on a defined-contribution logic), but public pensions financed through contributions (e.g. notional defined contribution systems, as in Sweden, Poland and Italy). Periods of inactivity, low contributions (due, for example, to low wages), and limited or incomplete coverage of supplementary schemes may be the source of this gap.

Financial, economic and debt crises

The collapse in stock markets had a profound effect on private pensions in many countries. They are an important part of retirement-income provision and, in some countries, they are already mature and play a significant role in providing old-age incomes. The financial crisis then spawned an economic crisis in which output is falling, unemployment is rising fast (and is expected to reach 10% of the workforce in 2010) and earnings are under pressure from wage cuts and shorter working hours. This reduces revenues from pension contributions and increases the demand for unemployment and other benefits.⁶ While it is still too early to predict the precise consequences of the crisis for pensions, some initial impacts can be assessed. As for first pillar pension schemes, short-term effects have been limited. Pay-as-you-go schemes are largely immune from short-term financial crises⁷, but the long-term effects may be considerable and lead to further adjustments to secure their financial viability.

Firstly, they have been used as ‘automatic stabilisers’ to mitigate the potential social consequences of the negative economic situation, which is expected to increase social spending in many EU countries. Secondly, the economic downturn has coincided with new challenges to the financial sustainability of social protection: growing unemployment and negative GDP growth represent a loss of revenue for welfare programmes and thus may lead to the deterioration of public budgets. As for second and third pillar schemes, fully-funded schemes have seen more direct effects. Investment losses and negative rates of return have been massive.

‘Adequacy vs. sustainability’ and ‘socialism vs. individualisation’ of risk

Pension systems in EU member states are under revision, and yet they are still dealing with old and new challenges to their long-term viability. Decision makers and stakeholders are in need of solutions to face the renewed (two-fold) pension dilemma.

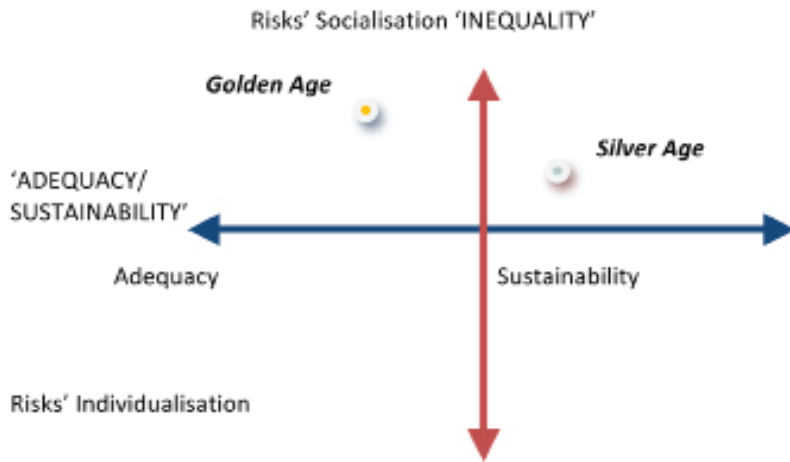
4 Bonoli, G. (2005), “The Politics of the New Social Policies. Providing Coverage Against New Social Risks in Mature Welfare States”, *Policy and Politics*, Vol.33, No.3, pp.431-449

5 Jessoula, M. and Hinrichs, K. (eds.) (2011), *Labour Market Flexibility and Pension Reforms, Flexible Today, Secure Tomorrow?*, London, Palgrave

6 OECD (2011), *Pensions at a glance*, Paris, OECD, forthcoming

7 In pay-as-you-go (PAYGO) schemes, current contributions paid by both employers and employees (or revenue coming from current taxation) are not accumulated but rather immediately used for financing current benefits.

Figure 1: The pension dilemma

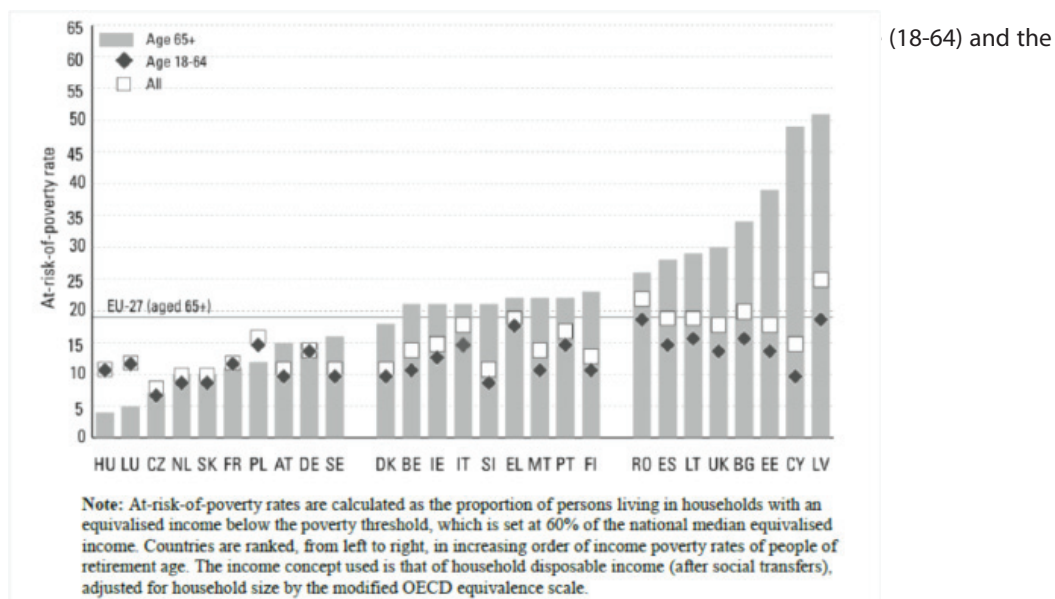


Risks' Individualisation

The dilemma is based on two dimensions: the first has to do with the right balance between social adequacy and the financial viability of pension systems; the second with the inequality in the distribution of risks (and protection) across social groups and generations. Both represent a risk for the long-term political sustainability of the generational contract at the base of contemporary pension systems.

The 'adequacy/sustainability' dimension

Adequacy and sustainability do represent an apparently intractable dilemma. Pension systems at the beginning of the 21st century are dealing with the trade-off between granting adequate resources while improving the financial sustainability of both public and private programmes. The challenges outlined above are putting huge pressure on the renewed public/private pension systems. An adequate protection means firstly providing resources against the risk of poverty in old age. Yet the capacity of pension systems to eradicate poverty is still questionable.



Source: Zaidi, 2010

Problems of adequate protection concerns social insurance/earnings-related schemes too. As shown in Table 1, benefit ratio and (gross) replacement rates from the public pillar are expected to decline in major part of the EU members.

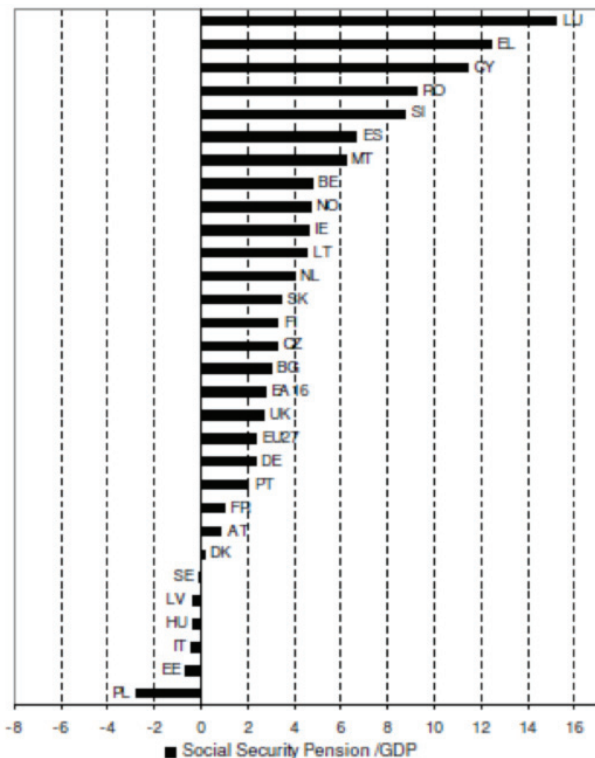
Table 1: Projected evolution of benefit ratio and gross replacement rates (2007-2060)

	Benefit Ratio (%)						Gross Average Replacement Rate (%)					
	Public pensions			Public and private pensions			Public pensions			Public and private pensions		
	2007	2060	% change	2007	2060	% change	2007	2060	% change	2007	2060	% change
BE	45	43	-4				45	42	-7			
BG	44	36	-20	44	41	-8						
CZ	45	38	-17				33	27	-17	33	27	-17
DK	39	38	-4	64	75	17	33	33	0	71	84	18
DE	51	42	-17									
EE	26	16	-40	26	22	-18	28	16	-41	28	31	9
IE	27	32	16									
EL	73	80	10				61	67	10			
ES	58	52	-10	62	57	-8						
FR	63	48	-25									
IT	68	47	-31				67	49	-26			
CY	54	57	5									
LV	24	13	-47	24	25	4	33	22	-33	33	33	2
LT	33	28	-16	33	32	-2	32	29	-10	32	37	15
LU	46	44	-4	46	44	-4	53	62	17			
HU	39	36	-8	39	38	-3	49	38	-23	49	43	-13
MT	42	40	-6									
NL	44	41	-7	74	81	10						
AT	55	39	-30				49	38	-22			
PL	56	26	-54	56	31	-44						
PT	46	33	-29	47	33	-31	58	56	-3			
RO	29	37	26	29	41	41	36	44	20	36	49	34
SI	41	39	-6	41	40	-2						
SK	45	33	-27	45	40	-11						
FI	49	47	-5									
SE	49	30	-39	64	46	-27	49	31	-36			
UK	35	37	7									
NO	51	47	-8									

Source: Commission services, EPC.

Problems with providing adequate protection are paralleled by financial tensions. Despite the reforms introduced in the last decades, the financial sustainability of both public and private schemes has to be improved. Figure 3 shows the projected increase of public pension spending in the EU. Ageing is the major driver of the increase of public outlays.

Figure 3: Projected change in the public pensions / GDP ratio (2007-2060)



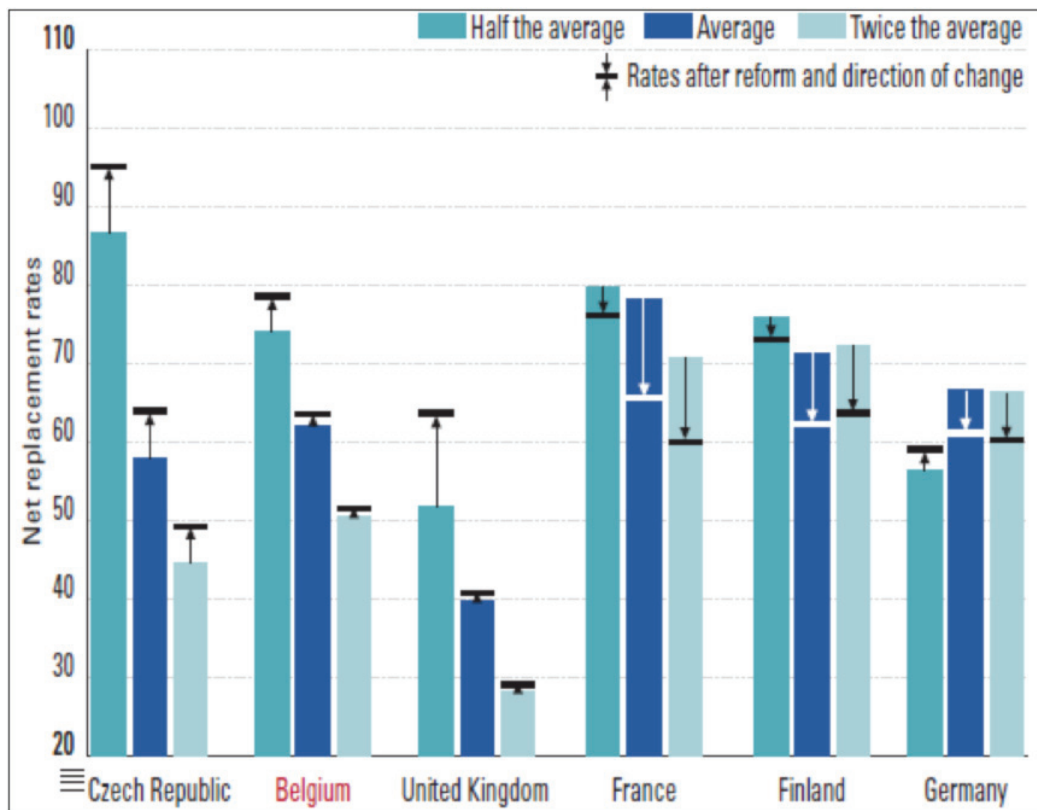
Source: COM 2010

Distribution of risk: inequalities in old-age protection

The broad recalibration of pension policy has also produced important distributional consequences.⁸ On the one hand, in many countries reforms have led to a more complex institutional setting consistent with fragmented pension rights. Encompassing protection against the major social risks has been reduced as a consequence of retrenchment; and the extended coverage of new social risks has been based on selective interventions (largely based on targeting). As argued by Palier, for Bismarckian welfare states, the more fragmented protection against social risks is leading to different ‘worlds’ of welfare for different social groups.⁹ New forms of inequality have emerged across different welfare regimes. And this leads to a more complex articulation of interests through more fragile social and political compromises. The increased relevance of the actuarial logic (both in first and second pillar schemes) is also consistent with such an individualisation of old-age risks.

As shown by Hinrichs and Jessoula, the increased role of private schemes may lead to adequacy gaps, especially for atypical workers (part time jobs, short term contracts, etc.) and social groups with peculiar and fragmented working careers (e.g. women).¹⁰ As illustrated in the British case, supplementary schemes may show an uneven spread across occupational groups and firms (with large gaps especially in Small and Medium Enterprises).¹¹ Figure 4 below shows the protection against old-age risks in European countries for groups with different earnings levels, and the distributional effects of reforms. According to Zaidi, countries can be divided into three groups: countries with reforms that protected low earners (that is the case of France, Germany and UK), countries with reforms that strengthened the link between earnings and contributions (the case of CEE countries, like Poland, Slovakia and Hungary), and countries with reforms that resulted in across the board cuts in benefits (especially southern European countries like Italy and Portugal).¹²

Figure 4: Reforms’ impact (on net replacement rates) by earnings level



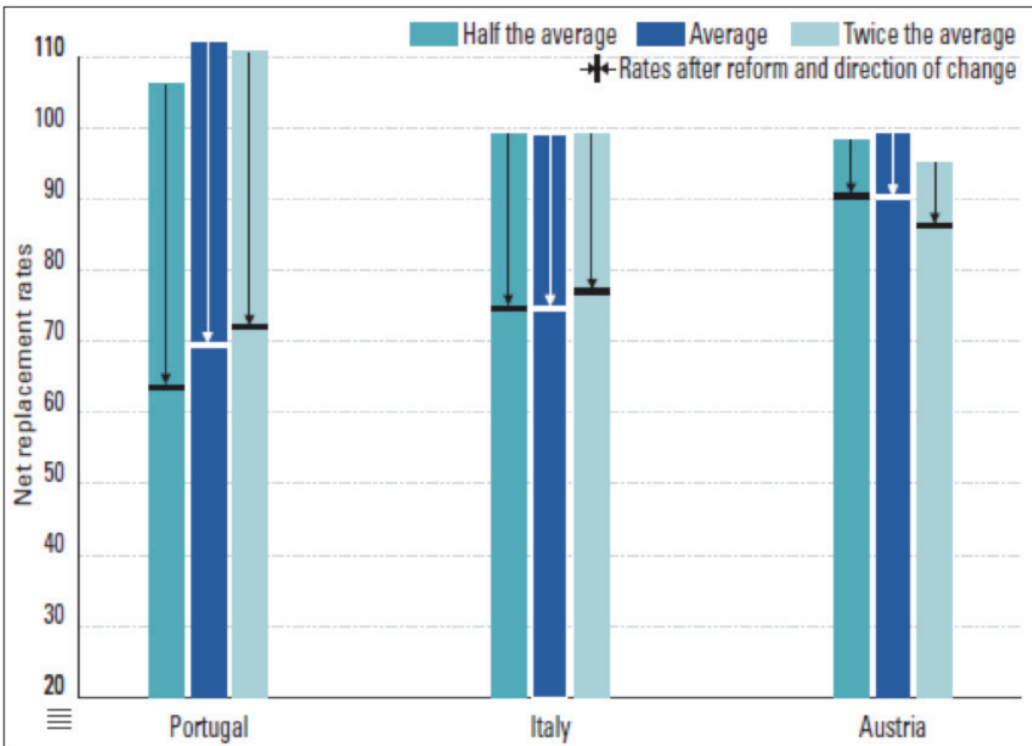
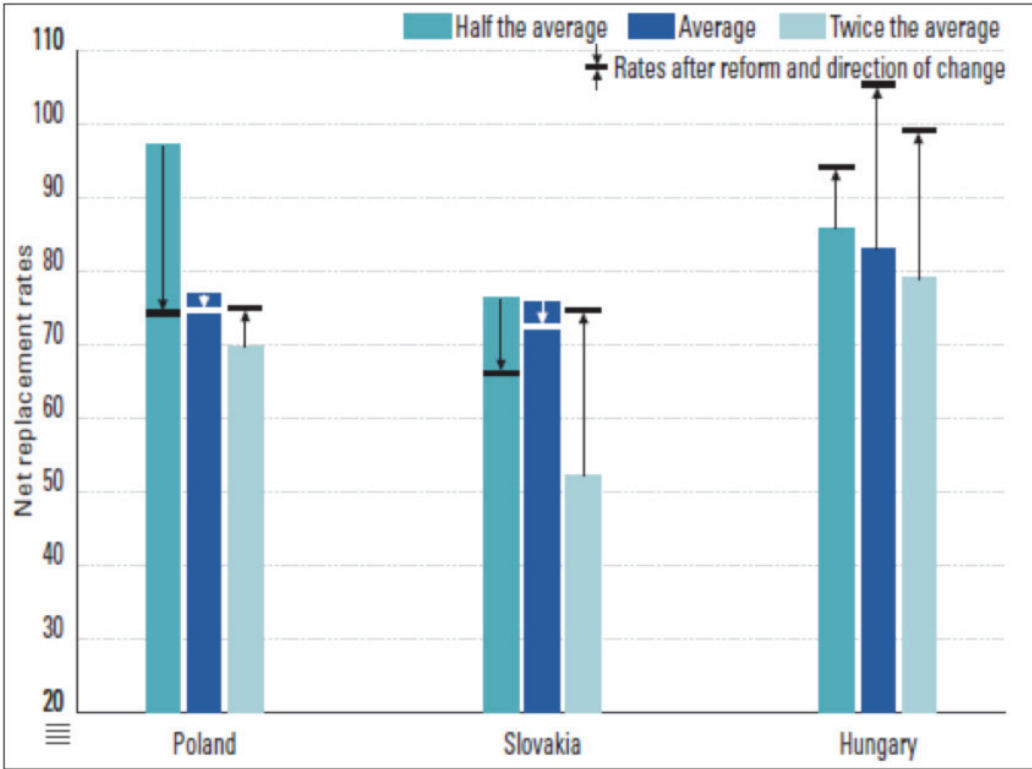
8 Seeleib-Kaiser, M., A.M. Saunders and M. Naczyk (2010), Shifting the Public-Private Mix: A new dualisation of welfare?, paper prepared for the conference ‘The Dualisation of European Societies?’, Oxford, January 14-16

9 Palier, B. (eds.) (2010), A Long Goodbye to Bismarck? The Politics of Welfare Reform in Continental Europe, Amsterdam, AUP

10 Jessoula, M. and Hinrichs, K. (eds.) (2011), Labour Market Flexibility and Pension Reforms, Flexible Today, Secure Tomorrow?, London, Palgrave

11 Natali, D. (2011), ‘Lessons from the UK? When Multi-pillar pension systems meet flexible labour markets’, in Jessoula, M. and Hinrichs, K. (eds.) (2011), Labour Market Flexibility and Pension Reforms, Flexible Today, Secure Tomorrow?, London, Palgrave

12 Zaidi, A. (2010), ‘Fiscal and Pension Sustainability: Present and Future Issues in EU Countries’, paper prepared for the conference Assuring Adequate Pensions, Belgian EU Presidency



Source: Zaidi, 2010

What strategy to tackle the pension dilemma?

What strategy and political offer can be proposed to European societies to inspire confidence and propose a vision of social progress across generations? In the following I outline a strategy based on three key steps to tackle the twofold pension dilemma introduced above.

First, confidence in governments' ability to reform must be restored. The alarm over revision of European pension settlements has largely been exaggerated. Nevertheless, a commitment to minimum security in pensions is crucial to reducing poverty, and will be greatly facilitated by the solidarity which results from collective schemes. As Ebbinghaus notes, 'only broad-based public policies and collectively negotiated self-regulation can pool risks' and thus reduce uncertainty and inequalities.¹³

Similarly, pension reform must take seriously the 'adequacy/sustainability' dilemma outlined above. The key measures to combat this will involve increasing employment rates among all ages, as high levels of unemployment will frustrate attempts to improve Europe's economic dependency ratio. Furthermore, increasing the retirement age in a flexible way based on occupation could be a 'win-win' solution to safeguard financial sustainability of pension programmes while increasing benefits. In addition, pension markets must be made efficient by ensuring effective regulation and the right public/private mix.

Finally, the strategy must address the inequality dimension of the pensions dilemma. Greater protection for those in need must be pursued by a combination of measures including an increase in basic benefits for vulnerable groups such as non-standard employees – women, migrants, atypical workers. Inter-generational equality should be ensured through a fair distribution of cost-containment measures (e.g. reducing the phase-in periods). This must be accompanied by allocating fewer resources for regressive measures: tax incentives for supplementary schemes cost and increase inequalities; more homogeneity in public protection (lower inequality through public benefits). Importantly, protection should be made more encompassing through supplementary schemes. In this regard security and savings gaps have to be tackled through broader protection (via collective bargaining and/or mandatory schemes).

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13 Ebbinghaus, B. (eds.) (2011), *The Varieties of Pension Governance. Pension Privatisation in Europe*, Oxford, OUP

Generational justice and social trust in an ageing society

Anna Hedborg

Pensions should be understood as a form of social insurance that promotes social trust and integration. Generational justice and integration are at risk of turning into conflict however, if measures to update European pension systems in line with social change are not pursued – the Swedish pension reform programme provides a social democratic model

Western societies are growing considerably older, to the extent that today more than half of new born girls can expect to live for 100 years. Figures from Sweden, which can be generalised, suggest that in 25 years those over 85 will have doubled. Growing old means that opportunities for self-reliance diminish toward ever greater dependence on others: the closer we move to times of dependency, the smaller are the opportunities to do something about it through one's own effort.

Lead times, therefore, are long. Not only does it take a working life span to build up a decent pension, but to retract pension promises for those who are close to retiring age creates motivated distrust. So does happy short-sighted negligence of future financing problems of health and care. Those who are middle-aged today know that they are tomorrow's elderly, and will therefore start worrying decades before their actual need for care. If they do not have faith in the sufficient strength of tomorrow's public finances they will lack the social trust which comes from knowing that future probable needs for care will be met by public well organised trustworthy efforts.

From this perspective, pensions and care can be understood as insurance. Life is a risky business, because we can all be afflicted by contingent events, such as fire, theft, illness, unemployment or, in the case of pensions, a long life. Those are risks that will occur, but we don't know in advance to whom and when. When people collectively pool their risk buffers, they can be much better covered individually at a much lower cost than when they are forced to build up individual precautions.

Insurance, then, is a useful social invention. It deals with risk, because one cannot decide to join when the event insured against has occurred, and thus it is paid for in advance and the service rendered is the knowledge that if something happens one is covered. Insurance is about addressing anxieties, and to fulfill its task of creating security it is important that conditions are known and communicated in advance and cannot be changed after occurrence of the insured event.

These are preconditions for elderly people's feeling of security at the prospect of ageing further. Alternative individual solutions to pensions and care needs are less and less available as the risk of needing the services grow. To realise that society is no longer prepared to carry the cost of what you – while you paid your taxes and social fees – had reason to believe should be there for you when needs occur, will probably lead to feelings of deceit and insecurity.

Social democrats will be judged by the social security experience

Social democracy did not invent social security and public responsibility for social services, but these themes were developed as its hallmark. With great self confidence social programmes were looked upon as social investment: healthy, well fed, economically secure and well educated people would work with greater efficiency and thereby pay back. It was argued that raising the standard for all

would increase both productivity and equality. And equality was not only to be the outcome of better education, health care for all and universal income security. By organising child care, schools, care and social income security in universal public organisations people would also in practice live under the same conditions, the knowledge of which promotes integration and social understanding. Social trust is one of the key values characteristic of societies with great social democratic influence.

This strength is at risk of turning from advantage to disadvantage if self-confidence is lost. The social fabric of our societies is so intertwined with traditional social democratic welfare politics that failure to deliver is likely to mean both strong feelings of social distrust and a discredited social democracy.

From the post-war era until the 1980s it was easy to be confident about the social democratic model. Unemployment was low and the belief in potent economic policy was great. It was possible to argue for taxes and be trusted. Fast growing economies led to a belief that growing social programmes could be financed by tomorrow's incomes. Democratic and egalitarian values were at their climax. Or at least those were the feelings that prevailed within most of political debate. In fact research into attitudes toward the welfare state and taxes in Sweden suggests that they have never been more positive than now. Yet there is little confidence that old social programmes are able to deliver or that new programmes are feasible.

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No doubt this is partly the result of a right wing political atmosphere that has dominated since the 1980s, but it also reflects a realistic judgment that some of these old prescriptions have to be redesigned. With ageing populations on the one hand, and globalisation on the other, things have changed.

Economic efficiency and equality – two sides of the same coin

Social democratic politics has always been at its strongest when economic efficiency and redistributive success has worked hand in hand. Economic efficiency very often coincides with employment. Full, high and evenly distributed employment means a competitive economy as well as more evenly distributed income than any redistributive programme. Hence, the important role full employment and labour market policy have always played as the basis for both efficiency and equality.

It is not only that the social cost of pensions and care are a pressing burden for the coming generations. In addition, the members of this smaller generation do not find employment sufficient enough to support themselves. Unemployment does not affect all young people, but particularly those with bad educational results. In the globalised economy, there are no longer jobs available for those with a poor educational record, and to this extent they risk becoming outsiders, leading to intra-generational inequality and tensions. In this scenario, the social integration within and between generations, such an important achievement of the former social democratic agenda, faces the risk of unraveling into polarised generational debate. In its prolongation will follow increased individualism and less solidarity. Therefore, social democracy must develop its solutions for the young to solve the problems for the old.

Solutions must be sought in two directions. One is to be as insistent on full employment for the young as was the case for the older generation when it was young. This will be more complicated in today's

world, but without the sound economic and social basis of employment for all, the alliance between generations and social trust will weaken. High quality educational programmes from nursery schools onwards and labour market programmes including demand policies where necessary are among what needs to be developed with the old confidence towards social investment. Social democrats must therefore emphasise that the future of the young is crucial for the future of the old, thinking about how social programmes for the old can be restructured in order to foster mutual solidarity.

Pensions and generational fairness

Providing pensions for the old is the most pressing issue of an ageing society. When the first public pension system was introduced in Sweden in 1913, retirement age was 67 years and average life expectancy was under 60. Thus, the social pension insurance was genuine insurance – one could not count on reaching pension age, but in this eventuality, the insurance was there to support you.

Today the situation is completely different. Pension age in Sweden and most countries is at best 65, but expected length of life is on average 80. Most of what is often called pension insurance is not insurance any longer, but savings. Pensions should support at least 15 years on average. Not until after that comes a period which could be regarded as ‘the risk of an unusual long life.’

When almost everyone in a much bigger group requires support for at least 15 years the question of fairness between generations arises. When this group was small – regardless of how generous their pensions were in relation to their earlier salary – only a small fraction of the active generations’ salaries had to be set aside to support the elderly. Using the idea of unfunded, pay-as-you-go systems, pensions could be delivered to retired people without waiting a whole generation for their own savings. All active people paid a small fraction of their salaries as an insurance fee in case they were to survive average age. The younger generation could without hesitation solidaristically pay the older generations’ pensions, knowing that they had an insurance promise to get the same if needed.

Even when the costs of pensions looked certain to rise, these worries were offset by the trustworthiness of economic growth. Even growing pensions would be taken care of by growth so that they would not be felt to be too much of a burden on the younger. What was unforeseen, however, was the degree to which people would survive, and the precarious nature of continuous growth. With less economic growth the younger generation cannot be as certain as before to live a more prosperous life than the former generation.

Pension systems had not been carefully constructed to relate pension rights directly to the length of work by the individual, and typically they had a fixed pension age. People have become accustomed to retiring at a certain age and are very reluctant to work longer because they probably will live longer, especially as most systems don’t pay higher pension if they do.

When, in one of modern societies’ great achievements, longevity exploded, pensions cost also exploded. When cost increases in a pay-as-you-go system it has to be paid out of pocket. What the young generation, who now foresee even longer lives, realise is that today’s pension benefits are not sustainable; they realise that they will not get today’s benefits, at least not as early. Of course they want to renegotiate the pension contract, and of course the generation which is about to resign, or has already resigned, will protest, for it is too late for them to do anything about their own pensions.

The question of who is paying whom must, however, be reopened when pension insurance has turned into so much of a savings system and so little of an insurance scheme. In insurance those who do not require the insurance (in this case those who die early) always pay to those who do need it (those who live longer). Everybody gains something, because generally nobody knows in advance when he or she will die. What everybody gets from the insurance is security in the knowledge that they will be supported if needed.

In a situation where there is a need to save over almost the whole life in order to afford to live several years without working, there has to be special reasons why one group should pay for another. There are such reasons, and the good thing about compulsory social insurance is that redistribution can be built into the system. But just because it is so easy to build in redistribution, systems must be reorganised to be functional in the new era.

Below I present the Swedish pension reform programme as an example of how one can think about these issues. Every country will have to take into consideration its own institutions and history, but I think the Swedish reform has led to a system which is quite compatible with modern needs. Above all, it is a system which was created to ensure justice between young and old in order to maintain solidarity between generations. While the old system looked as if it was very generous, it ran the risk of being over generous to the older generation, and in turn too heavy on the young. It was not sustainable and thus untrustworthy.

The Swedish pension reform

Introduced in 1960 after intensive political conflict the Swedish ATP system was long regarded as the jewel in the social democratic welfare crown. It was comprised of an income related pension of 60% of the income of the best 15 years of 30 years at work that was offered at the age of 65. The pensions were price indexed. The implications of the rules were that pensions were high relative to wages and expensive for the paying generations when economic development was poor, and pensions were low and cheap when growth occurred. Those with long careers and flat pay, typically blue collar workers, paid for the pensions for people with long studies and steeper wage careers. Whether you did 30 or 45 was irrelevant, which made it possible to earn a second pension abroad, but also allowed for staying at home with children and make a career later (something which proved more useful to academic women rather than working class women). The 15/30 rule also meant that working after 65 often did not pay at all in higher pension.

Incentives and distribution effects were in fact negative and it was easy to foresee economic developments where the young generation would have to pay for the older generations' benefits which they could never count on for themselves.

No escape from the numbers

Five parties and 90% of parliament agreed to a reform package where all income over life should count the same. 16% on income is assigned to a personal notional defined account. The amount on the account is indexed with each year's average income increase. 2.5% on income is put on a real account in a fund chosen by the individual.

From the age of 61 you can choose when and how much to take out as a pension. The sum on the account is divided according to expected remaining life. Even after having started to draw on the pension one can earn more on the account for as long as they like.

The most important redistribution in the system is a minimum level supplement paid by taxes for those who have not earned enough and the unisex expected life calculation, which means that men support women on average. Pension fees have also been built into unemployment and sick leave insurances, which reduce the effects of unemployment and sickness on pensions. Taxes will also pay a supplementary pension fee for parents to children under 4.

The core principle is that all rights earned will be paid for when earned, either by pension fees or taxes, and they will appear as an asset on the individual account and be indexed with average income increase. Before indexation a total calculation of the system is made to see whether full indexation is sustainable. If not, indexation is reduced that year, but could be repaid later when the economy of the pension system has improved. The economy of the system is not a matter of judgment, but a calculation of definite rules set in the formulas of the system.

All this is foreseeable and individually communicated each year in an “orange envelop”, which is very well known, not very loved

To avoid retroactivity when the new system was introduced pension rights are calculated according to both old and new rules for all born before 1954. The younger the person the smaller the portion of the pension is paid according to the old rules. Those born 1953 get one twentieth from the old system and 19 twentieths from the new.

What this represents is a tough, but fair and economically sound pension system. People are basically forced to work for their own pension with well defined exceptions of consciously chosen redistribution, which is paid for in advance. If expected life increases, two thirds of that increase has to be working time if pensions are to be as high as before. All this is foreseeable and individually communicated each year in an “orange envelop”, which is very well known, not very loved, as it is telling the tough truth about what it takes to get a pension, but more and more respected as an honest contract.

Building social infrastructure for all generations

Welfare politics is fundamentally about young and old. Conditions for children and young people form their opportunities to choose their own lives. Conditions for elderly must take into consideration that growing old means shrinking possibilities to form ones own life and therefore increased need for the security in knowing what could be expected from society. Old people do not want to be irresponsible or demanding. They are parents and grandparents to the young and it is normally important for them not to be a burden on their children. It is the task for politics to form the social conditions in which both young and old can look ahead and feel that ordinary life as a self-supporting adult or a more dependent member of the older generation will be good, secure lives because they are built on honest, foreseeable and fair contracts. Only generational justice can be the basis for social trust in the ageing society. Old people of today and tomorrow are grown-up, responsible people who understand this. It is and will continue to be the social democratic task to dare to build the social infrastructure for all generations in the ageing society.

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Generational equity and the smoke screen of National Accounts

Thomas Lindh

As an economic indicator GDP per capita is zealously observed, but its flaws as a measure are nevertheless apparent. As regards intergenerational justice, a narrow focus on National Accounts fails to acknowledge the importance of human capital accumulation, thereby distorting issues of generational equity

The targets we set govern the view we develop of the world, and as the single most used indicator of the economy, GDP per capita growth is followed with almost religious attention by policymakers and journalists alike. We are well aware of the deficiencies of this indicator as a measure of the welfare of the population (see Stiglitz-Sen-Fitoussi report, SFS), yet it nevertheless remains the criteria employed for successful policies. The deficiencies of GDP as defined by the System of National Accounts are many – SFS reports a very long list – but my intention here is to focus on how the GDP perspective clouds issues of generational equity and the dynamics of the economy.

National Accounts are intended to reflect the state of the economy at a given moment in time. It is based on measurement conventions that ignore many of the dynamics of an economy and the population, and in particular it relies on a concept of the economy that ignores human capital accumulation. Further, National Accounts also distort issues of generational equity by hiding intergenerational redistribution flows.

In every sustainable human society the adult population must produce a surplus to cover the consumption needs of children. Even in comparison to our close primate relatives humans spend much more resources on their offspring. In pre-modern economies the extra cost of taking care of the handicapped and the few elderly that survived into a state of dependency was negligible to the economy as a whole. However, this has changed as society has made demographic transition, and with it the ‘rectangularisation’ of age distribution: instead of the previous state of high mortality combined with high fertility, this represents a state of low and decreasing mortality and, with a few exceptions, a low and still decreasing fertility rate. The rising share of the elderly has begun to alter the average direction of intergenerational resource flows from being primarily downwards in the age distribution. At the same time gender equity has risen, and female labour supply in the market is increasing partly in activities that substitute home production. In fact substantial parts of GDP growth is due to home production moving into market activities, not least in the case of a variety of care activities: child care, elderly care, and care for people with handicaps.

Intergenerational redistribution of consumption can take place in three essentially different ways: (1) through saving and accumulation of property and capital, both for one’s own use in old age, not least through bequests and gifts; (2) through private transfers, predominantly within the family or kinship group; (3) through public transfers. There are advantages and disadvantages associated with each of these channels, and different societies mix them in a variety of ways. Here I focus on one specific point: the investment in the human capital of future generations and social security at old age. There are other individuals with dependencies in the economy (the physically challenged, victims of accidents and incurable illnesses and so on) but the overwhelming part of redistribution has always been towards the young and, in modern societies, increasingly towards the old.

In (1), the capital market channel, the implication is that a good education for children will be within reach only for high earning families, or families with accumulated wealth from previous generations. In this case, at some point in the income distribution parents will have to make choices regarding whether to save for their own old age or for the benefit of their children. From this we can expect increasing inequality in the opportunities to receive education, health care and elderly support. On the other hand the accumulation of capital provides a driving force for increasing productivity that raises at least the average welfare. The supply of human capital, though, will tend to be comparatively scarce in relation to what it could have been with a more equitable supply of education.

In a context of low fertility and increasing longevity, family transfers (2) tend to generate high investment in the earnings capacity of the young, but like the capital market channel above favours the already wealthy. With fewer children and increasing age at first birth the risk of old age poverty increases, and increasing longevity creates so called 'sandwich generations' whose care responsibilities include both their own children and parents. On top of that there may even be grandparents to care for. Therefore, investment in human capital raises productivity but the rising demands on households to provide support and care for increasing numbers of elderly people tend to generate early retirement and low female labour supply.

Alternatively, public transfer systems (3) add an element of social insurance to the intergenerational redistribution where resources are redistributed to a greater extent also within cohorts. Investment in human capital is more egalitarian and poverty rates among the elderly are kept lower, but the transfer wealth generated may crowd out private incentives for saving and capital accumulation. With an ageing population the demand for further redistribution increases.

In the National Accounts asset-based reallocation across generations through capital markets is not very visible, private education and health expenditure is defined as part of private consumption; *there is no such thing as human capital investment in the accounts*. The corresponding investments through public transfers, health and education expenditure is part of government consumption. For many, Government consumption is considered something to be minimised, and in any case it is taboo to finance it by loans. This stands in stark contrast to investment in buildings, infrastructure and machinery. Family transfers are almost entirely invisible from this perspective, creating a false impression that family care and household production is some sort of free lunch.

Research is now under way to make these resource flows visible, and only then will it really become possible to gauge generational equity in an objective way. National Accounts are inadequate for this task. Alternatively, National Transfer Accounts build on the same accounting data as National Accounts, but decompose it by age group. It is an international joint effort to develop a common methodology in order to make international comparisons possible.¹ The important point to note here is how that decomposition impacts on the conceptual view of the economy.

While National Accounts focus on the production of value added, i.e. labour and capital income generated by the economic system in a given year, NTA focus on how labour income is redistributed to cover the consumption needs of the whole population, capital income being one of the channels by which this is accomplished.

To professional economists it has long been clear that pay-as-you-go transfer systems carry a return to human capital similar to that of capital. Originally this return was expressed as the rate of population

¹ Anyone interested in the details can visit www.ntaccounts.org

growth, but as population growth wanes and begins to decrease it becomes clear that it is productive capacity, rather than the number of persons, that count. Modern growth theory emphasises the importance of human capital production in creating sustainable growth

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regimes. Hitherto we have not been able to measure this social return in any satisfactory way, relying on years of schooling and similar proxies at the aggregate level, and estimates of the private return to schooling at the micro level. The latter is, however, a measure of the relative income advantage of another year of education which is very far from a measure of the social return. Just make the thought experiment to give everyone an equal amount of schooling – there would be no private returns to an additional year of schooling while the social returns could be huge. Besides, years of schooling are a blunt instrument since this measure cannot account for the quality of that schooling.

The NTA perspective demonstrates that saving at the expense of families and children will come back with a vengeance when economically deprived and badly educated children grow up to provide the resource base for their aging parents. In the public transfer system the tax base will tend to shrink and in countries with below replacement fertility and insufficient immigration elderly welfare systems will crumble. In family based systems the pressure on individual household production and economic support for parents is likely to undermine labour supply in the market and increase tension between the generations. In capital based systems social coherence and family ties will tend to weaken.

Making these dynamics visible, today's common goal of maximising GDP per capita clearly stands out as a social myopia that is quite likely to undermine long-term survival in yet another way, apart from the environmental externalities that are so much emphasised in today's debate. The value added of a good upbringing in a healthy environment and universal education opportunities is not accounted for in National Accounts, and the invisible investments made are ignored. Strong emphasis in government policy, reinforced by the provisions in the Maastricht treaty, makes budget balance and surplus goals holy cows that stand in the way of economically sound investment in future human capital.

Any farmer knows that there is a time to sow and a time to reap. If some of the grain to sow is eaten then next year's harvest will be thin. No business man expects profit without investment and industry would grind to a halt if no one dared to invest unless they could cover the whole investment with current liquidity. The reason why so many economists think governments are different is because the purpose for which revenue is collected is regarded as useless. In fact many theoretic models assume revenue is just thrown away. A more sound accounting practice would make it more visible to the public and politicians alike that the bulk of public expenditure is social insurance and investment in the health and productive capacity of the population.

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