

Social Protection Reforms in Europe: Strategies for a New Social Model

Bruno Palier

Executive Summary

January 2004

Research Report F|37 – CPRN Social Architecture Papers, is available at
<http://www.cprn.org> or on request at (613) 567-7500.

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Western European countries have their own “social model,” one that differentiates them from other industrialized countries. Established during the boom period after 1945, this social model included full employment and Keynesian policies to stimulate demand, as well as welfare and social rights. However, all Western European countries also adapted this framework by introducing policy compromises, approaches and institutions for social protection tailored to their own needs and contexts. Consequently, the European social model can be subdivided into four types or regimes: British, Nordic, Continental and Mediterranean. Since the middle of the 1970s, this model has been in crisis and much reformed. Some people even suggest that a new social model for Europe is needed. Since the late 1990s, the institutions of the European Union, in particular, have been working to build the foundations of a new model.

The objective of this research report is to isolate the major trends that are reshaping social policies (that is, the search for a new social model) as well as policy methods and concrete reform processes (that is, national strategies). It documents the changes in European social policy in two steps.

First, it focuses on national-level policy changes, describing reforms driven by both institutional constraints and policy choices. Despite differences across countries, this section reveals a broad trend of a growing orientation of policies towards fostering employment and focused on the supply-side. The section also analyzes the policy strategies used to achieve these complex reforms. Second, the paper examines actions by the European Union, in particular the role of European institutions and their contributions to the new social model, as well as the consensus-building strategies employed to coordinate movement towards this new model.

Institutional Constraints and Policy Choices

Inherited differences among regimes are a major constraint on present actions. Diversity among systems of social protection exists in both the problems each country faces and the solutions selected. Not all options are open; each country is obliged to work with existing institutions.

In most cases, the reforms carried out over the last twenty years have reinforced the logic of each regime. By further commodifying their social policies, liberal welfare regimes have become even more liberal and even more residual. Thanks to the egalitarian distribution of reductions in benefits (a reduction of 10 percent for all benefits) and the revival of a “work orientation,” social democratic welfare regimes have managed to retain their egalitarian approach to social protection. Most continental welfare regimes remain unchanged, not only because the handful of measures that have been undertaken reinforce their existing characteristics, but also – and primarily – because they have been unable to implement significant reform.

Such observations of stability and reinforcement teach that it is foolhardy to try to introduce a policy “as is” into another institutional context. They also highlight the impossibility of designing a single, universal solution to current challenges. There is no “one best way” to reform social architecture.

Despite this, however, it would also be a mistake to only emphasize the mechanisms of institutional inertia, while neglecting reforms that are *actually* occurring. A detailed analysis of recent reforms in Europe reveals that, notwithstanding differences in their approaches, the measures adopted share important *common trends*: to make social policies more employment-oriented and to institute supply-side social policy instruments. There is, then, the potential for a new, shared approach to social policy in Europe.

Whatever the regime, its survival depends on preserving or returning to high levels of employment. The result is that the objective of reforms has gradually changed, focusing on *both* increasing the employment rate and decreasing the unemployment rate. Three main sets of reforms have been undertaken: (i) changes in funding; (ii) introduction of conditions for training (or for other occupationally related activities) in return for benefits; and (iii) increased public services designed to increase women’s labour force participation.

Efforts to implement reform bring political challenges. In its efforts to successfully implement this new social policy orientation, each government has had its own particular room to manoeuvre. In spite of economic and demographic pressures, in spite of the fact that the past weighs heavily on efforts to introduce reforms, and in spite of the dearth of readily available solutions, some governments have been able to develop and implement coherent policy strategies to reform social policy.

In order to explicate the political prerequisites for a legitimate reconceptualization of the national social contract, this research report reviews the political processes involved in basic structural reforms in several countries. These include the transformation of Southern Europe’s health care systems, the reform of pension systems in Italy and Sweden, social pacts employed as part of the framework for introducing the single currency, and the “national miracle” involving the reform of wage policies, social protection and the labour market in the Netherlands.

Comparison of reform efforts reveals the political prerequisites for successful transformation of social protection systems: involving all stakeholders; seeking consensus on the diagnosis, principles and objectives of reform; negotiating; developing the basis for a political trade-off on reform among the various actors; developing a public and explicit discourse to justify the reform; developing a global and integrated strategy on areas of intervention (particularly wage policy, social policy and labour market policy); and transforming but not reducing benefits. By contrast, where there was no overall coherence and no strategy to clarify and justify their objectives, reform has resulted in an undisciplined transformation of the system, and often in a worsening of the social circumstances of their citizens (as is the case of France and Germany).

The Growing Role of the European Union

The research report focuses on the European Union in order to assess a quasi-federal relationship in social policy redesign. In order to understand the social architecture of European countries today, it is absolutely necessary to pay attention to the European Union's activities and institutions. The European Union has become increasingly active in social policy in the last years, in large part to fill a growing gap between European-level economic policies and national-level social policies. Despite the lack of clear constitutional responsibility for social policy, from now on it is at the European level that any new social model will be designed. Institutions for coordinating national policies and for fostering a back-and-forth interaction among European and national institutions and actors are constructing a new mode of governance for social policy regimes.

Since the mid-1990s, the major governing bodies of the European Union – the European Commission, the European Court of Justice, and the European Council – have adopted positions on the “reforms required” in the fields of pensions, health and, most importantly, employment policy (including the links to family policy via guarantees of gender equality and work-family balance). These actions are unintended consequences, or spill-over, from the institutionalization of the Single Market and the European Monetary Union (EMU). The new economic institutions drastically reduced the room for manoeuvre that had previously been available to Member State governments via their control over exchange rates, interest rates, and public spending, as well as policies affecting prices. They therefore created challenges to national-level social policy practices.

In the 1980s, the dynamics of construction of the European economy had resulted in pressures for neo-liberal social policy redesign. In the 1990s, however, a number of actors more attentive to the social consequences of economic adjustments – left-wing governments in particular as well as unions and other non-governmental organizations – sought better control over social policy reform in order to modernize the European social model. European institutions have tried in recent years to influence the vision and discourse on social policy redesign rather than attempting to impose any particular changes on national governments.

Moves towards a common European framework for social policy, now termed the Open Method of Co-ordination (OMC), provide a novel form of intervention governance. Rather than seeking to “harmonize” legislation or programs, the goal is to harmonize ideas, knowledge and norms of action, so that policies will converge towards a common political vision. Therefore, the main task of the European institutions is to work at the elaboration of a common vision for social policy, that is, a new European social model, and ensure this vision is shared by all Member States and informs the benchmarks used. The aim of the OMC is “to organise a learning process about how to cope with the common challenges of the global economy in a co-ordinated way while also respecting national diversity.”

For the European Union, promoting quality in employment and social policy is a key element in reaching the goals of building more and better jobs, creating a competitive and cohesive knowledge-based economy, and ensuring a positive mutual interaction among economic, employment and social policies. As such, quality goes hand in hand with improving efficiency, especially as far as public finances and labour market incentives are concerned. For the European Union, social policies are not simply an outcome of good economic performance and policies but are at the same time an input and a framework. Hence the pursuit of more and better employment and higher levels of economic performance cannot be separated from the overall aims of the modernization of the European Social model.

Conclusion

By the end of the 1990s, there was increasing evidence that social policy reforms were driven by a desire to redesign social spending patterns and not simply to cut them back. Despite the diversity of the reforms and the processes leading to them, the reform objectives (more than their outcomes) exhibited several common trends. In the various European countries, they reflected an attempt to adapt welfare regimes to new macro-economic norms, putting more emphasis on the market and sound public finances, employment, and so on.

In the area of old-age pensions, and despite using different paths to get there, most European countries are now developing a multi-pillar system, one that combines pay-as-you-go and fully-funded methods with a tight link between the level of pension payment and the amount of the contribution made. In health care systems, the introduction of managed competition seems to be spreading to all national health systems; it has also penetrated health insurance systems through competition among insurers. Employment policies founded on the concept of activation are widely shared despite big differences in the ways policies are implemented.

This picture, although very general, provides an opportunity to see the emergence of new concerns and the foundations for a redesigned social architecture. Nowadays, all national European governments, as well as the European Union, seem to recognize that social policy must be compatible with achieving international competitiveness. It should also be “employment friendly,” reducing costs (especially non-wage costs) and offering benefits that are incentives to take up employment.

One might argue that these challenges and shifts are due more to “globalization” than to European integration per se. However, it is within the European single market that European firms and states have encountered increased economic competition. It is also under pressure from the criteria of the European Monetary Union that many countries have changed their social policies. The search for new solutions has become, in this way, central in the European agenda, which is now able to call the tune for national social policy reforms.