

Challenges of social cohesion in times of crisis: Euro-Latin American Dialogue

M. Zupi and E. Estruch Puertas (eds.)

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EDITED BY M. ZUPI AND E. ESTRUCH PUERTAS

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Foreword

The current situation presents an excellent opportunity for the revival of politics and for the return of the state to its role in government and as regulator of the economy. The market-centred model of development, applied in the 1990s, has hindered any significant, sustained progress in the fight against poverty and inequality. Some decades ago Karl Polanyi warned us that “the market is a good servant but a very poor master”. The State has come to the forefront once again and the European social model has become a focus of attention because it proposes a society which is cohesive and based on shared growth.

The European Union (EU), as a global force, seeks to promote certain values in its relations with the rest of the world. In the preamble to the Lisbon Treaty, freedom, democracy, equality and the rule of law are declared to be fundamental values. The European project thus goes beyond the imperatives of economic integration and implies a model of society founded on the creation of citizenship based on social cohesion; and promoting this model is one way of projecting our values beyond our borders.

In recent years there seems to have been an international consensus on the establishment of a social agenda for globalisation that focuses on rights. Gradual progress has been made in the development of this agenda and, in the context of the current world recession, it truly begins to make sense. Investing in necessary public facilities and providing stronger mechanisms for social protection means that people without resources are not left destitute and can participate in society with dignity, enjoying all their rights as citizens. The European social model, with all its virtues and failings, is today more relevant than ever, highlighting the EU’s role as a leading international force.

The EU is a reliable partner, predictable, and keen to find partners with a common approach. Our relationship with Latin America is based on shared values, common interests and the same view of the world. Nearly ten years ago, in Rio de Janeiro, the EU and Latin American and Caribbean countries agreed on the process to build a bi-regional strategic association, which has been strengthened through biannual summits. Although relations between the two regions are currently in a state of transition, because of the changes taking place in each of the areas and on the international level, Europeans and Latin Americans must both make an effort to overcome the current impasse and develop a bi-regional strategic view of the future. If we succeed in coordinating our agendas and can adopt common positions on a range of issues such as development, social cohesion, growth with equity, climate change and regional integration, which go beyond the financial crisis

and which have featured in our political dialogue up to now, and if we can manage to project a shared vision as a Euro-Latin American area, the influence of both regions on the international stage will be greater. At a time of uncertainty like the present, social cohesion, understood as greater equality in access to public goods and services through a capable State and an active citizenship, should not be a secondary or marginal objective but central to the direction of government action.

We are living in a change of era, not an era of change. The current crisis poses challenges but is also an opportunity for Europe and Latin America. And it seems clear the way out of the crisis and the answers to old challenges and new social risks have to come from the politics. It is, therefore, fundamental to strengthen political dialogue between the EU and Latin America. This does not only mean providing more forums for political discussion but rather dealing with such dialogue on a more equitable basis, through a bi-directional approach centring not only on the problems of Latin America but also on those of the EU. In this respect we would hope for a renewed interest in the situation of the EU on the part of Latin America.

The dialogue established in this book helps us to reflect on public administrations and policy reform which are needed to reduce inequality and advance towards greater social cohesion. However, as is emphasised repeatedly in this volume, it is not a question of extrapolating models but examining the EU's experience in the field of social cohesion to learn lessons which are valid for Latin America. There is no single recipe nor are there magic solutions: each country must find its own path. This is what the EU's member states did taking into account their historical background and their collective choices, and this is what the countries of Latin America should also do.

The purpose of this book is more modest although it is more useful in my view. The dialogue between this group of European and Latin American experts on the subject of social cohesion presented in its chapters draws attention to certain aspects of European social policies which may be relevant to Latin America. The book will stimulate thought and fuel debate but it is also intended to provide input for political agreements leading to a new public agenda in the region, focusing on social cohesion as an indispensable factor for development.

In the *Fundación Internacional y para Iberoamérica de Administración y Políticas Públicas* (FIIAPP), we will continue to promote the creation of areas for academic, political and institutional debate and reflection concerning the dilemmas with which Europe and Latin America are confronted in the field of social cohesion. But our commitment to social cohesion goes far beyond this. It is perhaps for this reason that the European Commission entrusted us with the coordination of two European programmes for co-operation with Latin America which tackle social cohesion from an inter-regional approach: EUROsociAL and Urb-AL III. In the space of four years EUROsociAL has succeeded in moving from projects to programmes but the challenge for the future is to transform programmes into public policies which are supported by the public and are sustainable over time. The role of co-operation is to accompany, not to usurp, and it can be a valuable tool for the exchange of experience and to benefit from lessons which have been learnt and from good practice. The importance of a programme like EUROsociAL does not lie only in its relevance to the most unequal region in the world but also in

innovation and the implementation of mechanisms for co-operation in line with the real situation of middle income countries.

Europeans and Latin Americans are part of a globalised world and need to develop a shared view of the future, define common objectives and act together. This book may constitute a first step towards defining these objectives and I hope that it will be useful in this sense.

Antonio Fernández Poyato
Director, FIIAPP

Preface

MARCO ZUPI AND ELISENDA ESTRUCH PUERTAS

This book is the outcome of a research project implemented throughout 2008, by CeSPI (Centro Studi di Politica Internazionale) and within the framework of EUROsociAL, the regional programme for social cohesion in Latin America funded by the EuropeAid Co-operation Office of the European Commission.

According to the 2005 Communication of the Commission to the Council and to the European Parliament titled “Stronger Partnership between the European Union and Latin America”, “social cohesion will be made a priority in its aid and co-operation for development policy (2007-2013 programme)” with Latin America (LA). EUROsociAL is a technical co-operation programme to support this political strategy in terms of institutional strengthening of public administrations. The implementation of the first phase EUROsociAL, which concluded in the second half of 2009, was carried out by several institutions from the European Union and Latin America, grouped in consortia for the sectors of Education, Employment, Health, Justice and Taxation. The coordination office, managed by the *Fundación Internacional y para Iberoamérica de Administración y Políticas Públicas* (FIIAPP), has emphasized the importance of update analysis and research to promote a dialogue between the European and Latin American scientific communities. This scientific dialogue is expected to contribute through useful inputs for Latin American countries to undertake new approaches to strategies and programmes.

The theoretical discussion and policy debate on social cohesion has gained relevance over the last years, both in Europe and in Latin America. Nonetheless, it has still not been possible to reach and apprehend a common approach to elaborate and compare ideas and instruments in place. In view of this, the book is aimed to contribute to this dialogue, and we felt it would be useful to put together a body of critical essays. With this goal in mind, CeSPI solicited contributions from a diverse group of European and Latin American experts who are currently doing some of the leading research related to social cohesion. This volume has two primary target audiences in mind. One comprises the European and Latin American social scientists and experts who are interested in converging on such issues and discussing general knowledge of concepts, theories, approaches, strategies which, combined, can contribute to a better understanding of what is happening in Europe and how these interact with developments in Latin America.

The second target group comprises administrations and policy makers who wish to acquire an overview and general knowledge as well as an analytical framework, which can provide them with inspiring ideas and a critical feedback on policies and strategies to be implemented.

This book intends to comprehend theoretical and methodological knowledge on social cohesion in Europe and Latin America and promote common language and exchanges of approaches and experiences among academia and practitioners about social cohesion. Specifically, the project aims at generating and promoting quality policy-oriented research and theoretical debate about the different approaches and policies to social cohesion in Europe in continuous dialogue and collaboration with significant proceedings in the Latin American region.

This volume is organised into four parts.

The first Part comprises four conceptual chapters by Marco Zupi, Anton Hemerijck, José Antonio Ocampo and Sônia Miriam Draibe, respectively.

The opening Chapter by Zupi introduces and elaborates in general terms the social cohesion arguments related to European internal and international co-operation policies. There is no a priori consensus on what should be understood by social cohesion neither is there agreement on how social cohesion can be thought about. We do not and cannot know: social aspects may be treated not as the study of variation from a norm but as manifestations of society itself. By analysing the concept and policy implications of social cohesion, the author addresses the complex nexus between social cohesion and poverty. As no single concept stands outside history and culture, the author presents a critical review of the parallel evolution of the European discourse, regimes and policies on poverty and social cohesion as well as, of development co-operation discourse and policies. This is a way to explore current legacy of and promising areas of intervention for the future European development co-operation policy.

In Chapter 2, Hemerijck focuses on the specific link between social cohesion and welfare state experience in Europe. This chapter deals with the issue of structural change and its impact on the welfare state. Economic globalization, post-industrial social change, fiscal austerity and intensified European integration are presented and discussed as the main changes that challenge the EU to review of the main perspectives on social cohesion in the international academic literature; the author tries to conceptually capture the recent efforts to recast the welfare state in terms of the multidimensional concept of welfare recalibration. Next, Hemerijck examines welfare performance in terms employment, redistribution, and educational attainment, across different countries and makes an inventory of a number of substantive changes in the make up of Europe's mature welfare states over the final quarter of the 20th. The constraints and opportunities for EU engagement in ongoing processes of recalibrating EU policy agenda setting on the issue of social cohesion are highlighted. To conclude, the author articulates a capability-oriented social cohesion agenda for early 21st century Europe.

In Chapter 3, Ocampo focuses on the debate between the two dominating concepts of social policy, universalism and focalization, re-emerged in the past few years. This is the English version of a paper included in Spanish in the Latin American Journal *Nueva Sociedad* and based on a project prepared for the *Corporación Andina de Fomento* (CAF) (Andean Promotion Corporation). Ocampo argues that, although focalization has some advantages, a strategy based on universalism and solidarity is the most adequate for attacking the inequality and poverty in Latin America. In spite of what has been argued in the past, the statistical evidence demonstrates that the redistributive effects of social

public expense are greater when more social services are covered; in other words, that better focalization is a universal policy. But a strategy of this type implies a large fiscal effort, which means that it will be necessary to revise the region's tax schemes, and above all, work on constructing more progressive systems.

In Chapter 4, Draibe traces the origins, the prior conditions and the current characteristics of the debate about social cohesion in Latin America. She says that the strategy for social cohesion, particularly relevant in the area of the fight against inequality and poverty, is growing in importance in Latin America and it is a consequence of the influence of various mechanisms and instruments of co-operation between the European Union and Latin America (for example, meetings, networks and especially decentralised projects of co-operation). At the same time, the author recognizes the importance of a second influential factor represented by the activity of ECLAC (Economic Commission for Latin America and the Caribbean), who has, since 2006, been gathering and producing definitions and indicators in an attempt to encapsulate the Latin American particularity with regard to social cohesion. A succinct examination of some European and Latin American local experiences of co-operation guided by the search for social cohesion concludes the chapter.

Part II comprises four long sectoral chapters which explore, theoretically and empirically, social cohesion in Europe as related to employment, health, education and taxation. Based on an European comparative perspective and lens, each of these papers covers the following sections: (a) at theoretical level, a description of the evolution in Europe of the linkage between the concept of social cohesion and the key policy sector of interest; (b) at policy level, authors review the policy implications of the linkage between social cohesion and the key policy sector of interest; (c) select and critically review some best practices across Europe, just as a way to translate into operative terms the policy assessment. Each chapter is followed by a brief essay, providing a commentary on the issues from a Latin American perspective.

In the first of these chapters (Chapter 5), according to Nick Adnett the European Union (EU) sees joblessness as a major cause for poor living standards and a key determinant in individuals' capacity to participate fully in society. However, research has still not provided sufficient evidence on the effects of employment policies and labour market institutions on aggregate employment. Employment policies in Europe have evolved together with changes in theoretical paradigms, which in turn have changed in line with empirical evidence. Hence, there has been a great diversity of approaches over time and across countries. After having described the main elements focus of past decades, the author presents the new approach of 'Make work pay' reforms which gained increasing relevance through activation policies and on the concept of flexicurity. Some best practices are reviewed as well as the state of art as referred to indicators and monitoring process. Besides, the importance of coordination with other policy sectors is stressed.

Victor Tokman in his comment (Chapter 6) shows that there are several similarities and differences between employment policies in EU and LA regions. The importance of the so-called eurosclerosis problem in Europe and the influence of the Washington Consensus in Latin America paved the way for similar policies. However, in Europe there has been a growing emphasis on active labour market policies and less on passive ones;

whereas, in LA, active labour market policies have been incorporated but with scarce resources and insufficient institutional capacity. In terms of targeting, in the EU, much effort has been devoted to the re-employment of long-term unemployed, whereas in LA, focus is rather to be placed on informal workers and those under atypical work contracts. Implementation of many of the EU labour market policies would be largely unable to cope with the challenges posed by these segments of the labour market.

In Chapter 7, Manfred Huber starts by arguing that European health care systems grant universal, or near universal, rights to public health care, especially tax-funded assistance, but there are some cross-country differences in terms of services covered by the public system, as well as large geographical disparities in terms of access to health across, and also within, EU countries. A major concern in Europe is linked to the financial sustainability of health care systems in view of ever growing expenditure, and the author presents the evolution of ways to address growing pressure on the public systems. After having clarified that several vulnerable groups would still need further focus, Huber suggests that inter-sectoral coordination is necessary especially with education, employment and fiscal policies. Another general message is that development of adequate indicators in the health care sector remains a key challenge.

Ana Sojo in her comment (Chapter 8) begins by saying that there has been substantial progress in terms of health status of populations, especially of children, in Latin America. But there are diverging trends across socio-economic groups by ethnic origin, area of residence, household income and mothers' educational level. In fact, indigenous and African descendent population appear to be particularly disadvantaged, as well as rural populations. Fragmentation and segmentation of population is reflected in the various forms of financing health systems across LA countries as well as in the low levels of social health insurance coverage. Some country case studies are briefly presented.

In Chapter 9, Marie Duru-Bellat argues that education has traditionally placed a key role in social cohesion as a means to unify society, and more importance is given to it in the context of a strategy for a knowledge based society, such as the Lisbon strategy. In terms of assessment of the role of education on social cohesion across Europe, there are a number of challenges, as it is difficult to disentangle the specific impact of education due to a large combination of societal phenomena enter into place and there are different approaches to assessment. The author describes two strands of policies experienced in Europe: one has focused on increasing the mean level of education; the other, on reducing the risks of exclusion. A brief presentation of the main limitation of quantitative assessment is included. Duru-Bellat proposes to give priority to high quality early childhood provision and pre-school education in addressing the perpetuation of social inequalities

Flavia Terigi in her comment (Chapter 10) starts by emphasizing that, differently from Europe, the major concerns of Latin America governments are related to overcoming poverty, reducing inequalities, recognizing cultural diversity and improving educational achievements. In particular, Latin America it is a region with an enormous cultural diversity, with a major base of Latino and mixed-race population formed by several waves of migration and with important groups of indigenous people and Afro-descendants, who are in conditions in terms of education that are much worse than those of their fellow citizens. During the past decade, the region has brought about important reforms to

educational systems: gross and net participation rates, at every level (particularly, primary education), have experienced sustained growth. But educational expansion has taken place, and still takes place, within an environment of a deepening of social inequality, so that the quality of education should be of main concern in the next future.

According to Bent Greve in Chapter 11, despite common challenges (globalisation, ageing societies, etc) the convergence among European countries in terms of taxation is still relatively low. Nevertheless, some common trends are noticed: efforts to simplify tax systems, as well as to reduce tax subsidies and corporate tax, and to broaden the tax base in order to lower the marginal and/or average tax rate with no need of reducing expenditures. The issue of equity and progressiveness in the tax systems through different instruments is explored. Together with this equity concern, the issue of financial sustainability of expenditures is taken into consideration. Some key elements currently debated, such as fiscal innovation, implementation of flat tax rate are presented as well as the importance of tax system coordination with other sectors, in particular benefits systems (employment) in order to reduce inactivity traps and favour labour market participation.

Oscar Cetrangolo in his comment (Chapter 12) emphasize that LA countries have traditionally encountered problems in tax collection, especially those taxes with greater redistributive potential, as tax systems are highly dependent on consumption taxes. Wealth concentration arises as a major reason for difficulties in raising collection levels and recent changes introduced in regional tax schemes have not moved towards more progressiveness. Despite regional heterogeneity, tax burden has increased since the early 1990s, except in some individual countries which benefit from other financial sources (hydrocarbons and mining exploitation). Social security systems are underdeveloped and diverse across countries, too. There are some systems exclusively financed from payroll taxes, while others need to combine them to other sources of financing. The authors present the main elements of tax reforms over the region and clarify how any potential transferability of EU experiences has to account for LA particularities.

In Part III the essays broaden the focus to two cross-cutting issues: the importance of social dialogue and participation processes as well as the relevance of undeclared or informal work and the need to improve corresponding indicators.

In Chapter 13, Marina Izzo starts by emphasizing the importance of the strengthening of civic participation and clarifying that in some European countries (Italy and Spain) and in Latin America, the necessity of renewed forms of social dialogue has arisen with particular reference to local economic development, in which both political and administrative decentralization and the principles of participative democracy play a major role. Hence the chapter aims at analysing the concepts and the practises of social dialogue both in the European Union and in Latin America, trying to identify possible theoretical and practical connections. The examples of social dialogue examined are the ones relating to the Italian *programmazione negoziata* (negotiated planning) and to the Brazilian participatory budgeting. Both these experiences take place at local level and aim at supporting social cohesion in the framework of local development process.

In Chapter 14, Elisenda Estruch Puertas places the focus of her essay on employment in the informal sector, by adopting broader definitions at international and EU/LA level as operational starting points for discussing the most common methods for estimating the size

and the (social cohesion) policy implications of undeclared work. To understand the links between informality and social cohesion is a critical factor for the formulation of suitable policies; therefore, benchmarking social cohesion and undeclared work in concrete terms is crucial. The author, after describing methods used to measure undeclared work, outlines the main EU experiences and, in particular, Italy's case, in order to discuss their potential in LA countries, bearing in mind existing experiences, such as the ECLAC approach. The author presents societal perceptions and trust as additional elements to be included in the measurement of undeclared work in a social cohesion perspective. The last section provides some concluding remarks and orientations for further research.

The concluding Part IV comprises two chapters which return to the intellectual foundation of the EUROsociAL programme and its political challenges for the next future.

In Chapter 15, Florencio Gudiño and Immaculada Zamora make a preliminary assessment of the performance of EUROsociAL and present the evolution of the programme, reviewing its geographic coverage, the institutional mobilisation it has generated and the issues that have been prioritised during its three years of existence. Their working hypothesis is that the activities carried out reflect the Latin American priorities in the field of social cohesion, as well as the understanding of the countries of the region with regard to this issue. An important element emphasized in the text is that the design of the programme itself –with five sectors managed by consortia and specific issues predefined as priorities in each of them– has in some way influenced the prioritization of national demands and the activities carried out as well as the profile of participants (mid- to high-level civil servants). This may have represented a major limitation of the influence of the programme on political decision making. Some conclusions to the analysis have been included in the form of lessons learned from the EUROsociAL experience, which tentatively allows to identify challenges and proposals for the future of Euro-Latin American co-operation in the field of social cohesion.

Chapter 16, written by José Luis Rhi-Sausi, is a perspective paper which tries to bring the strands of the argument together, in order to comment the findings in terms of policy implication for the orientation of the next phase of the EUROsociAL programme.

We do not claim that the results presented are comprehensive or fully representative, most type of works never are. The following chapters represent a synthesis of insights and experiences from numerous scholars applied to current thinking on social cohesion. We hope that these findings will contribute to the scientific converging dialogue in Europe and Latin America on social cohesion and to the search for solutions to the essential economic and social issues facing the two regions. This means suggestions for a Euro-Latin American policy agenda and, implicitly, a research agenda, on social cohesion in the coming years.

The ongoing dramatic changes in the global macro-economic and financial climate are likely to have far reaching repercussions both for the general political economy all over the world and for the provision of social security, that is public and/or private schemes providing people with safeguards against risks. The challenges this crisis poses to various aspects of the European and Latin American attention to social cohesion were not directly addressed by the chapters. All the papers were almost finished around September

2008, coinciding with the period when the crisis hit its most critical stage and prepared a worldwide recession. Nevertheless, we think that the current crisis moves all the ideas and comments on the policies to promote social cohesion to the top of the international agenda. It is precisely in such context of raising unemployment and increasing uncertainties that the priority should be placed on the coordination between the economic and the social policy fields.

PART I



1. “Le charme discret de la cohésion sociale”

MARCO ZUPI

“Take physic, pomp;
Expose thyself to feel what wretches feel,
That thou may’st shake the superflux to them,
And show the heavens more just.”
[William Shakespeare, King Lear, Act III, Scene 4]

1.1. The elusive quest for social cohesion

According to surrealists, a title is never descriptive as it adds an element of arbitrariness to the general sense, in order to clarify the matching of two very different (at least apparently) and distant realities. The *charme* in the Luis Buñuel opus titled *Le charme discret de la bourgeoisie* is the *ubuesque* space of people who love their gilded cage, with a frequent objective intrusion of the real world into the fiction as a Brechtian way to unveil the fact that, beneath any deliberate misinterpretation and discourse, the church, the police and the army are the real pillars of the *bourgeoisie*.

When we talk about social cohesion, undoubtedly we refer to a *charmant* concept that is now firmly embedded in the EU discourse and has been widely used in many official documents, but rarely defined. Its popularity, which is linked to the political appeal of proposing a compromise (cohesion, that is the capacity to live together in harmony) –as opposed to the core Marxian idea of an inevitable conflict between contradictory social and economic forces (capital and labour) as well as being a way to contrast the conservative individualistic discourse of poverty as “otherness” of the inferior bottom poor and dependency culture– also determines its weakness and contradiction. Social cohesion is an ambiguous concept, very flexible, which tries to match competing discourses and is adopted with different meanings and divergent interpretations.

We face a typical problem of a concept used to describe reality, rather than the reality itself: different interpretations exist within the same institutional context (a given country), and even more so, we find competing interpretations in different countries. We should add to this the inevitable differences among sociologists, economists, political scientists and anthropologists’ perspectives in managing this concept, as well as within each discipline according to different schools of thought: the purpose of addressing social cohesion in its complexity and addressing different dimensions and corresponding policies (labour market, education, health, tax regimes, justice administration,...) should recommend innovative holistic or inter-disciplinary perspectives in research and policy, which however are not developed; and at best different disciplines, institutions and policies work in parallel, with their own traditional methods and languages, partial and uncoordinated.

An ambiguous concept amplifies and stresses the variety of meanings if we try to adopt the same term across continents in a universal sense. This is just to say that we should not be surprised to see how preliminary and not structured is a dialogue between European and Latin American experts on such a contentious issue. A theoretical and political dialogue between Europe and Latin America on the basis of such a shadowy concept is not easy, as it necessarily reflects the historical, cultural paradigms aimed to interpret the world and make political decisions. The discourse on social cohesion embraces notions of the means and ends of society, the historical evolution of institutions and policies, interpretations of poverty in terms of rights, equity, justice and social utility, which are the main criteria, in tension among themselves, to assess politics.

The ambition of a European discourse on social cohesion puts another strain on traditionally contrasting approaches in social science. A particular idea of social cohesion is appropriated by methodological nationalism, which emphasises national or local identities, cultural homogeneity, closed communities and what occurs within countries (Denmark is a good example as well as sub-national realities, such as the Californian bio-regionalism movement, or those without any historical, geographical or cultural reality, such as the invention of Padany in the territories of Northern Italy).¹ At the same time, another equivalent idea is appropriated by trans-nationalism, which focuses on border-spanning connections, interactions, on cultural hybridity and multi-cultural identities. Both of them have their narrative of social cohesion in the context of current globalization, a world-financial economy that combines global competitiveness and social disintegration (derived from the corporate delocalization process and the associated risk of deterritorialization, that is the weakening of ties between people and place, society and economy).² Both of them are reactions to the crisis of modernity, with a permanent tension between global and local worlds, excitement for dynamics and movement as well as search for stability, anxiety for weakened and fragile identities (Geertz 1986).

The Nineteenth century European sociologists who introduced the concept of social cohesion placed their emphasis on different aspects and institutions. Auguste Comte stressed the importance of the state, Herbert Spencer that of market relations, Alexis de Tocqueville focused on the important role played by active civil associations, and Emile Durkheim advocated the interaction of intermediary civic associations that stood between the state and the market.

All over the Twentieth century these varied approaches to social cohesion through the state, the market, the Third Sector, the family and the extended households reinforced themselves, while three alternatives on the idea of society and change prevailed politically: individualistic liberals proposed anti-state deregulation and market promotion of atomistic individual freedom to choose; social-democrats supported strong states and public institutions to preserve solidarity and shared values (with social cohesion being mainly a means for both of these visions); Marxist schools of thought and real socialism in the Eastern European countries up to the end of the Eighties idealized the stage of

1. The search for local identities can be interpreted as a new quest for origins, a collective feeling of nostalgia (the combination of two ancient Greek words: *nóstos*: return and *álgos*: grief) that re-proposes *le mythe de l'éternel retour* in a period of uncertainty and threats to historical continuity, in which the mythical origins appear an ideal of harmony, stability, identity and cohesion. See: M. Eliade (1949).

2. The wrong mix to promote liberty, according to Ralf Dahrendorf (1995).

dictatorship of the proletariat as the needed step to take over from capitalist exploitation and prepare a classless and stateless society (with social cohesion being the end). Other heterodox or more eclectic views were at work, such as communitarism, marginalised by the prevailing ideologies. In practice, the debate was paralyzed by the opposition between the state and the market (and the corresponding failures of both), as it was imposed *de facto* by the ideologies prevailing during the bi-polar cold war period.

The Western ideas of society and institutions behind the concept and operational implementation of social cohesion reflected different visions of social change: conservative or progressive. Do individuals or collective solidarity play the pivotal role? Does social order require continuity and stability, or is improvement of social conditions to be attained through equality, redistribution and political rights? Are social conflicts avoidable or are they necessary and useful to guarantee a transformative evolution and social cohesion? What are the necessary institutions for sharing risks and welfare and for creating a sense of common identity? By answering these questions all the theories strengthened the idea that social cohesion is a process rather than an end, and it can be interpreted philosophically in terms of an evolving dialectic triad of thesis, antithesis and synthesis, based on a sequence of oppositions that varied according to preferences, between individuals and society, market and state, order and conflict, permanence and change.

As a consequence, cohesion can be defined and addressed in many ways:

- passive (people are targets of policies, with no ability to change them);
- subaltern (people, whose interests are subaltern to the hegemonic powers, are manipulated in a subtle form, and reduced functionally to the interests of the hegemonic powers);
- active (people take control over decisions, they are autonomous and purposive actors, and direct involvement is seen as a right and not just as a function);
- transformative (all the people are empowered and interests are negotiated through conflicts, with cohesion being both a means and an end in a continuous dynamics).

The variety of institutions, and the relations between them, matters in defining the nature of social cohesion. The specific articulation of social cohesion production, by combining family and household, market, state, communities and Third Sector, results in passive or active forms of participation, depending on the perceived need for transformation, in which social cohesion is used as a cosmetic label for traditional top-down assistance, co-opting practice or an empowering process. The impact of change on all the institutions –families, schools, organizations, communities, corporations, markets, parties, trade unions, governments, bureaucracy– becomes a priority focus of concern. In other terms, social cohesion can be an approach to maintain the political *status quo* or a possible threat to it. To approach social cohesion as a democratic principle, a right, a method and tool raises a variety of theoretical and operational challenges as well as normative and ethical considerations.

The concept of social cohesion is open and can be interpreted differently according to different preferences –desires, aspirations, interactions– and visions. Education is

paradigmatic in this respect. According to the mainstream narrow economic version of social capital, education has an important “value” as promoter of employability and higher labour productivity (with economic growth being the engine of development), but also, according to a broader approach, it contributes to transform the individuals’ prospects and sense of well-being, to build up and maintain social harmony through citizenship education, culture of individual trust, tolerance, close ties and relations of reciprocity, which are embedded in what Robert Putnam (2000) defines as bonding social capital (that is social networks between homogeneous groups of people) rather than bridging one (between heterogeneous groups). Its individualistic notion, focused on small groups and micro level bias, corresponds to the preference of neoclassic economy for methodological individualism focused on agents considered in isolation, but appears inadequate to address the complexities of social cohesion at large. Quite the opposite: according to radical critics of capitalist society and its institutions such as Pierre Bourdieu Bourdieu et Passeron 1970), Ivan Illich (1971 and 1973) and Pier Paolo Pasolini (1976) who focused on the cultural anthropology of social reproduction, dedicated educational institutions are not a necessity and they are practically used to produce or reproduce inequality and uphold the social order and the interests of the members of the middle and upper strata under democratic forms, renovating the direct and indirect discrimination and segmentation across classes through the homologation or normalizing process, imposition of their culture, values and interests³. The post-modern criticism against universalism and its idea of social cohesion through institutionalised education is basically a similar criticism against a false sense of unity and the need to respect differences and diversity. From another heterodox perspective, following Emmanuel Levinas (1974), one could say that the modernity insistent recall to the ideal of social cohesion risks culminating in excluding and denying violently “the Other”, when social cohesion is imprisoned into the primacy of identity and narcissism: the starting point should rather be an ethical relationship of respect and responsibility vis-à-vis the other person (the poor as well as the foreigner) rather than a relationship of mutuality and dialogue, a real recognition of “the Other”, that is a recognition that carries responsibility vis-à-vis what is irreducibly different, the “face of the other”, so much that one can say, quoting Arthur Rimbaud’s famous exclamation, “Je est un autre”.

The open concept of social cohesion can be interpreted as both a means and an end, but it also implies the risk of confusing process and substance. It may encourage the attitude to accept public (or private) services and institutions in place of common values; it may impose hegemonic cultural values through the institutionalization of society or, alternatively, it may be considered the best approach to questioning and changing existing closed hierarchies, stigmas, stratification, discrimination through the “glue” that brings people together in society.

Social cohesion is proposed by the European discourse as an approach to promote sustainable welfare and human development: development and welfare become sustainable in the long run through social cohesion, and the promotion of social cohesion is often

3. It is interesting to note here that, despite the dominant role that institutions and institutional analysis have played in economics and economic history (and, more obviously, in political science) since the time of Adam Smith, institutions play at best a minor direct role in the long-term historical structures over events (the so-called *longue durée*) according to some new challenging economic historians. See: G. Clark (2007).

considered by social and economic policies as a functional objective. In practical terms, the wide spectrum of sectoral social policies in which the promotion of social cohesion is embedded reflects the multi-dimensional nature of development and the need to fight the web of material, subjective and relational deprivations which affect the poor. Thus, the interaction between social cohesion and poverty is inescapable.

1.2. On poverty and social cohesion

Poverty is a subjective and comparative term; it is also moral and evaluative as well as scientifically established.

In general terms, we can start by defining people who live in poverty as those whose wealth (usually understood as income, capital, money: material goods, or resources) or utility (happiness or satisfaction) is so inadequate as to preclude them from having a standard of living considered acceptable in the society in which they live. Because of their poverty they may experience multiple disadvantages through unemployment, low income, poor housing, inadequate health care and barriers to lifelong learning, culture, sport and recreation. They are often excluded and marginalized from participating in activities (economic, social and cultural) that are the norm for other people and their access to fundamental rights may be restricted.

Searching for a shortcut in the literature on poverty, we can accept a broader definition of poverty as a dynamic process rather than a static phenomenon, expressed in terms of pronounced deprivation in well-being.⁴

The concept of deprivation refers to a lack of welfare, often understood in terms of material goods and resources, but also applicable to emotional and psychological factors (how people feel about what they can do and be) as recognised by a fair degree of societal consensus. This concept implies a state of observable disadvantage in relation to the local community or the wider society or nation to which a deprived individual, family, household or group belongs.⁵

Inspired by Sen's concepts of functioning (the achievement of a person: what she or he manages to do or to be), capabilities (the basic capacities which enable people to function, that is the different functioning vectors one is able to achieve: the combination of beings and doings) and entitlements (the ways in which people command resources)⁶ we can describe the web of deprivation as a combination of destitution (chronic absence of resources), distress (the psychological condition of pain and insecurity), disadvantage (lack of command over resources, opportunities and access to distribution of power), disability (impairments as a medical phenomenon and social exclusion as a result of the economic and socio-political conditions) and dependency (the status of subaltern claimants, for those who have no other option than to depend on assistance). Deprivation (as multiple deprivations and patterns of deprivation over time) is a process, which produces increased social disqualification (an accumulation of failures which leads to marginalisation)⁷ and

4. World Bank (2000), and S. M. R. Kanbur (2002).

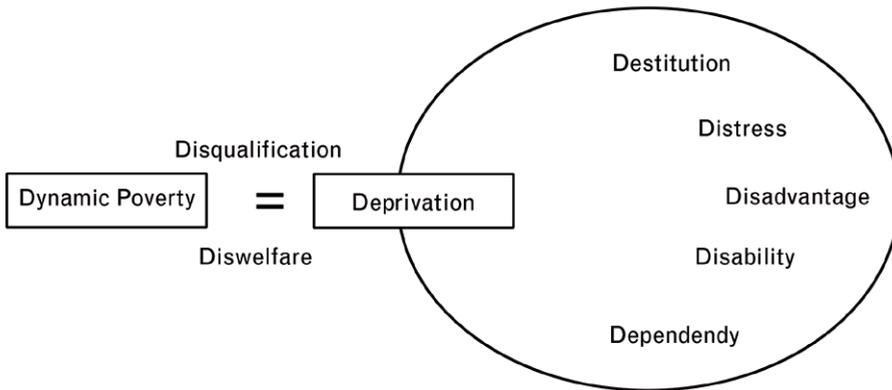
5. D. Gordon, and P. Spicker (eds.) (1999).

6. A. K. Sen (1981).

7. S. Paugam (1993).

diswelfare (the converse of welfare),⁸ tracing a trajectory of disaffiliation, from a condition of economic and social integration through vulnerability or fragility to total isolation and breakdown of social ties. And poor people can be trapped in a vicious circle of deprivation and death.

Figure 1.1. The multi-D-dimensions of poverty



A step forward in the operationalization of capabilities approach was Martha Nussbaum's proposed list of ten central human functional capabilities to provide a practical and systematic list of capabilities: life, bodily health, bodily integrity, sense, imagination and thoughts, emotions, practical reason, affiliation, good relation to other species as well as to environment, play.⁹ Similarly, Len Doyal and Ian Gough (1991) developed the human needs approach, as a way to revise the old basic needs paradigm: human needs are those universal preconditions that enable a successful participation in one's social form of life, so that they are believed to be universalisable rather than an individual's particular preferences. They were grouped into eleven categories: adequate nutritional food and water, adequate housing, non-hazardous work, health, security in childhood, significant primary relationships, physical and economic security, safe birth control and childbearing, basic and cross-cultural education.

In political-oriented terms, the idea of poverty as the lack of welfare mainly refers to the range of services which are provided to integrate and protect people in a number of conditions, and not only to financial assistance to poor people. As the main objectives of modern welfare states are to reduce poverty and to ensure a more equal distribution of wealth, the concept of poverty is very often linked to and confused with distribution too: in the European Union, poverty is also described in terms of "economic distance", that is inequality. However, distribution alone cannot identify the ability to achieve a decent level of living and it must be regarded as an important correlated but different concept. As a general rule, a more equal initial distribution will entail that a given rate of growth will be more pro-poor and it will result in a higher rate of growth, even though it would be wrong

8. R. M. Titmuss (1968).

9. M. Nussbaum (2000).

to conclude that poverty and inequality have a perfect positive correlation. The strong interactions between poverty and inequality demonstrate that the main limitation of the Millennium Development Goals (MDGs) architecture is the idea of measuring absolute poverty and neglecting inequality as a key policy issue.

Not only to set as a goal the halving between 1990 and 2015 of the proportion of people whose income is less than one dollar a day (the core target of the MDGs) is an old approach as it was set in 1973 to be reached in 1990, and never accomplished, but it also risks to be inadequate to face the real problems of poverty. The relationship between economic growth and poverty is asymmetric: on average, economic de-growth in mean income generates a drastic drop in the poverty headcount (so that we can register a clear positive relationship between economic growth and poverty), whereas positive economic growth has different impact on poverty reduction, depending on the level of inequality. Thus, the relatively low effect of economic growth in the mean income of the population on poverty reduction is closely related to rising income inequality in most developing countries since the early 1990s. For instance, poverty in Sub-Saharan Africa has experienced volatile fluctuations in the last period, including an annual decline of 4.6 per cent in Ghana between 1999 and 2006, contrasted by an annual increase of 3.8 per cent in Uganda between 2000 and 2003, despite the two countries having similar rates of per capita GDP growth of about 2.5 per cent. Growth is more effective in reducing poverty where the income and opportunity distribution are more equal than where there are big inequalities. There is also some recent evidence of declining income inequality in some high-inequality countries in Latin America, including Brazil and Chile, which appears to be linked to pro-poor social policies and a stable macro environment. If these declines were sustained and spread to more countries, they would again help to increase the poverty elasticity of growth.

Inequality is crucial even if it is difficult to measure, and distinction between inequality among countries' mean incomes (inter-country inequality), inequality among countries' mean incomes weighted by the countries population (without considering within-country inequality) and inequality between the world's individuals (considering household surveys data on within country inequality) are crucial to understand poverty dynamics. Nowadays, 70 per cent of global inequality is explained by differences in countries' mean income (between countries); in 1870 it was the contrary and the average gross domestic income per capita of the 10 richest countries was 6 times greater than the average of the 10 poorest (now it is 43 times). Indeed, in the period after the Industrial Revolution inequalities within some successful economies decreased, but they increased between societies, in a process now labelled the Great Divergence.¹⁰

The current deepening global recession, rising unemployment, and volatile commodity prices in 2008 and 2009 are seriously affecting progress toward poverty reduction: deteriorating growth prospects in developing countries are expected to throw millions into extreme poverty,¹¹ because of the high level of vulnerability and precariousness of those who live with more than one dollar a day but are at the bottom of highly stratified societies, in terms of the multi-D-dimensions of poverty or in terms of capabilities.

10. K. Pomeranz (2000).

11. The World Bank (2009) estimates that about 55 million more people will live on less than \$1.25 a day (in 2005 purchasing power parity terms) in developing countries this year than it was expected before the crisis.

The dynamic nature of poverty implies the relevance of the process over time. Poverty becomes chronic poverty on the basis of its extended duration.¹² The exact length of time that needs to elapse is somewhat arbitrary. However, chronic (opposed to transient) poor are people who remain poor for most of their life, and who may pass on their poverty to subsequent generations because of their gender, age or social status. The dynamic nature of poverty means that another important dimension of poverty that is given great attention is the movement in and out of poverty, in order to better understand what traps some people in long-term poverty or why some are regularly in and out of poverty while others may only be poor for relatively short periods.

Another correlated and powerful determinant of poverty is the territorial dimension. Poverty –and by extension social cohesion– cannot be understood if not centred on the spatial patterns and location of flows, stocks, exchanges, relations, conflicts, inequalities and deprivations. Development, particularly in the European tradition and perspective, is locally embedded. The prominence of the territorial dimension is not only the consequence of the need to target antipoverty spending more precisely. Many factors reinforce the prominence of a territorial approach to cohesion: the ever-present environmental spatial dimension, to be connected with the economic and social cohesion and sustainable and balanced development; the geographical specificity of a variety of opportunities which can be realised only through adequate policies; the role of local and regional authorities of Europe in the implementation of the principles of sustainability; the aim to contribute also to the sustainable development of its geographical neighbourhood across the borders and at the global level. Direct and clear consequences derive for spatial policy efforts aimed at working towards goals of cohesion, competitiveness, sustainability and fight on poverty at the same time.

Despite diversity and location specificity (that is crucial for political actions), there is a striking commonality of experience across countries, cultures, rural and urban areas, and age and gender divides. The web of deprivation corresponding to poverty (its diagnostics and the specific objectives which should be targeted by any action aimed to combat poverty) can be expressed in terms of some related dimensions:¹³

- material well-being: availability of food, shelter, clothing, a paid job, poor housing and uncertain livelihood sources are critical;
- physical well-being: physical health, strength and appearance are critical as well, as the body is a person's main asset and people are highly vulnerable to becoming weak through sickness, or to permanent disability or death through illness and accidents;
- security and vulnerability: security means peace of mind or confidence in survival, referred not just to livelihood, but also to physical survival in the face of a precarious job, access to finance, crime, violence (particularly important in the new urban insecurity),¹⁴ lack of protection from the police and absence of access to justice, political violence, natural disasters, and the uncertainties of season and climate change;

12. B. Harriss-White (2002).

13. World Bank (2000).

14. The lack of security of the city and the fear of going out of home is a specific form of the crisis of public space and urban order in a stratified society, with gated communities. See A. Giglia (2003).

- freedom of choice and action: the power to control one's life means the power to avoid exploitation and other forms of humiliating treatment so often meted out to the poor by others in society. It also includes the ability to acquire skills, education, loans, information, services and resources, to live in good places, to withstand sudden and seasonal stress and shocks and not slip further into poverty;
- good social relations: good relations within the family and the community as expressed by the relational goods approach, according to which family relationships, friendships or social events provide the affective/expressive, non instrumental side of interpersonal relationships.

Given these interrelated dimensions of deprivation in terms of a range of capabilities in addition to income –education, health, rights– which are important in their own right and in terms of their contribution to economic welfare and well-being enhancement, poverty is capability deprivation rather than lack of commodities and characteristics by themselves. These are just the means through which needs are translated into operative terms, but the capabilities are what determines the standard of living (desires rather than needs, Emmanuel Levinas should say), the same way as the individual specificities in transforming goods into “functionings” are what makes individuals able to lead adequate lives. Translating this approach into political prescriptions means that a sustainable exit from poverty must be based on initiatives in pursuit of the objective of fighting poverty that can vary in nature and whose priorities reflect individual circumstances, but it must be focused on strengthening capacities and facilitating access to resources, rights, goods and services for those exposed to various vulnerabilities. Actions focused on creating economic development and employment (growth), and on strengthening institutional capacity must be linked to the concrete opportunities and advantages for the poor and their capacities, if they are really poverty reduction-oriented.

In such a way, the multidimensional nature of poverty combines absolute and relative forms of deprivation, “objective” facts, society perceptions and self-perceptions. Needs (specific deprivations as a lack of material goods or services that people require in order to live and function in society), standard of living (emphasizing the general experience of living with less than others), limited command over resources (which prevents people from acquiring or consuming the things which they need), lack of basic security (that is vulnerability to various risks), lack of entitlements (and access to essential items) define a cluster of interrelated meanings of poverty dimensions.¹⁵

These dimensions should shape any poverty reduction-oriented action. In the 1980s, the European Commission recognised this multidimensional profile of deprivation and started to use the broader concept of social exclusion, which includes not only economic (as the narrow definition of poverty, focused on the distributional problem of vertical stratification from the bottom poor to the top rich) but also social and political dimensions (the horizontal axis of those who are in or out as referred to the social fabric), being a dynamic concept, which refers both to processes and consequent situations, an appropriate designation for

15. D. Gordon, and P. Spicker (eds.) (1999).

structural changes.¹⁶ What is particularly important is the search for a comprehensive approach to poverty eradication as a “European” paradigm –at least in theory– presented as a valid vision for both external and internal strategies:¹⁷ speaking of cohesion as the way to direct attention away from excluded groups and towards responsibilities of the entire society. While the agents of exclusion can be impersonal institutions, dominant groups, as well as powerful individuals, the excluded must participate in their own inclusion. Policies must provide them with access, participation and “voice” rather than making them passive recipients of material assistance. This European Commission definition of poverty means persons and groups of persons whose resources (material, cultural, social) are so limited as to exclude them from the minimum acceptable way of life in the Member State in which they live.¹⁸ If poverty may be regarded as a characteristic of individuals and households, social exclusion may be conceived as a feature of societies and of individuals’ relations to society.¹⁹ It is important to stress that economic (income and employment) and social dimensions must be combined and they are not two alternative approaches to poverty. Thus pro-poor economic and social policies must be complementary and equally significant components of policies to fight against poverty.

Obviously, there is some arbitrariness in any classification of this type, used for heuristic purposes. In any case, at the same time these different dimensions are discrete (that is logically separable and referred to different areas) and overlapping (linked by family resemblance and clearly inter-linked as the boundaries of each category are fuzzy and permeable). Each and every dimension can be translated into operative terms through some sub-dimensions, having their corresponding sets of indicators of means (access to, availability of), confidence (level of satisfaction) and perception (self-and social). Such a matrix can be coherently translated into political initiatives addressed to poverty reduction.

These debates underline how the issues of poverty and social cohesion are correlated in conceptual and empirical terms, and cannot be divorced from the political use. Following Ruth Lester’s analysis (2004) on poverty and social exclusion, we would argue that social cohesion can usefully be understood and used as a lens that illuminates aspects of poverty, rather than an alternative to it. According to a broad definition of poverty, material needs (related to food, clothing, housing and other physical facilities) are socially and culturally defined (that is associated with family, recreation and education); it follows that both distributional (economic) and relational (social) issues lie at the heart of it, and they are interpreted through symbolic aspects. Beyond the income or capabilities dichotomy, reconciling absolute and relative poverty, the economic, social, political and cultural dimensions interact, even though in changing ways, which depend on the contexts, institutions and policies. The interaction between individual actions (agency) and socio-economic structures and political processes implies that the political citizenship and activism are crucial for every single person. Poverty is also about participation, networks and life chances: it is a structural problem of society passing down from generation to

16. European Commission (1992). It is not by chance that studies of poverty are usually taken up by economists, whereas social exclusion generally comes within the domain of sociology.

17. The alleviation of poverty has been an official concern of the Commission and the member states since the mid-1970s when the first Poverty Programme was adopted.

18. European Commission (1984).

19. R. Berger-Schmitt (2000).

generation, reflecting a strong nexus between economic performance and social justice. The breakdown of the social fabric and the loss of collective values may be seen as the rupture of the social contract in contemporary states, which exacerbates poverty: both individual responsibility and collective responsibility must contribute to fight poverty.

A proper way to interpret the added value of the social cohesion concept within the discourse on poverty is that it facilitates the integration of poverty and social exclusion, highlights the nexus between poverty and inequality: inequality corrodes trust and divides people, and makes vulnerable people more vulnerable, precarious ones more precarious, the poor poorer and poorer. According to Richard Wilkinson and Kate Pickett (2009), inequality is a powerful social divider, community and equality are mutually reinforcing and the causal arrows are likely to run in both directions, as well as income inequality and social mobility are correlated and increased income inequality is responsible for increasing the segregation of the rich and the poor. But social exclusion means the process through which individuals or groups are wholly or partially excluded from full participation in the society in which they live, so that this concept still implies a hierarchical centre (those who are in) and a subaltern periphery (those who are out) to be included, whereas social cohesion aims at being a more balanced and open concept, without a predefined hierarchy. Social cohesion can be a useful concept as it points out the multidimensional character of poverty in that cohesion can have various causes and, second, it focuses on processes, that is on the policies, mechanisms and institutions that create cohesion.

A multidimensional profile of poverty and the combination of individual and collective responsibility defined an international consensus on policies to fight poverty, beyond the European experience. A resulting three-tiered strategy was sponsored by the World Bank, defined the “new poverty agenda”,²⁰ similar to the EU strategy and focused on: (1) the promotion of economic opportunities for the poor, (2) investment in human capital, (3) provision of safety nets to protect livelihood. The interactions between the EU strategies to fight against poverty internally, policies aimed to export the European vision of development in developing countries, and national strategies on poverty reduction in developing countries need to be investigated in order to address a policy-oriented view of social cohesion.

1.3. On the prevailing economic theories' discourses in the context of global recession

When we move to economic theoretical analyses on the social and economic systems of capital accumulation, two conflicting schools of thought emerge as the main opponents to describe the world and to prescribe policy recommendations. Also here we find two very different and distant (at least apparently) images of realities, with a rude intrusion of the real world through regular financial crises, recession, unemployment, wars and increasing environmental degradation.

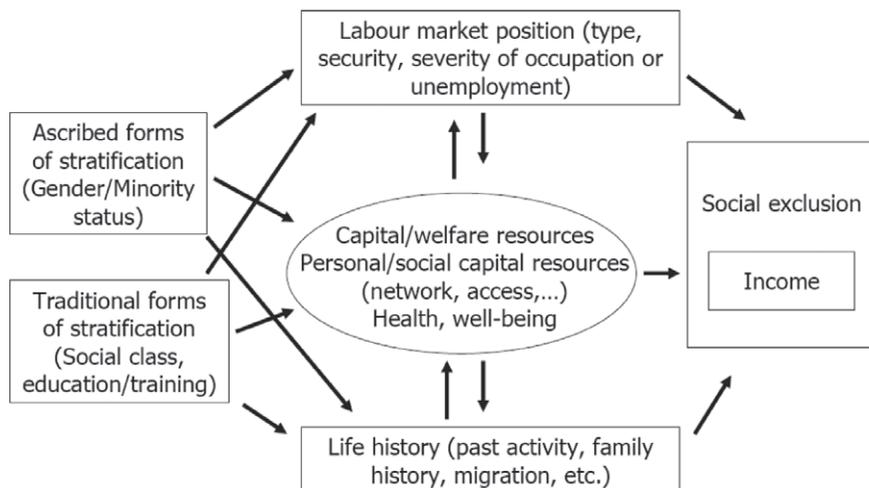
20. M. Lipton and S. Maxwell (1992).

And we find also two apparently different discourses on poverty reduction/eradication and on social cohesion, both of them now obliged to face an uncontrolled intrusion of inequality and common contexts.

On one side, poverty eradication and –more modestly (or realistically?)– poverty reduction have been confined to developing countries for several years, assuming that the political priority need is just to fight poverty, in a situation in which there is chronic poverty and lack of economic welfare. An authoritarian or paternalist discourse and public policy to protect the poor implied to identify and target them as the specific (at the beginning, passive; later on, empowered) beneficiaries of state interventions. Therefore, even if not explicitly, the poor become isolated and segregated, addressed by “different” policies because they are different, more vulnerable (unemployed, illiterate, chronically ill or physically or mentally handicapped), particularly if minorities or indigenous people, women, children, elderly. Thus, poor people have had very few opportunities to influence and affect decision making within the political system, even in a democracy, and they have had no access to the important centres of power. A dichotomous concept of poverty is adopted so that a clear distinction is made between the poor and the non-poor: according to the MDGs, a person is considered poor if his/her living-standard is below a certain threshold (one dollar a day) and he/she is considered not poor if his/her living standard is above that line.

On another side, assuming an implicit classification of development as a certain number of stages, the rich Western economies proceed further and, as they are presumed to have successfully reduced poverty, their critical challenge has been the promotion of greater social integration and the creation of cohesion among different segment of the existing pyramidal society. During the last decades, the welfare state has been the institutionalized mechanism to de-commodificate relations and to promote such a cohesion, through social-insurance programmes (pensions, unemployment and sick pay) and rules of participation for the active population, and systems of social security (transfers, incentives, special benefits) for the poor. Employment –together with its pre-conditions represented by education and health– had to play a pivotal role to promote sustainable inclusion, whereas income transfer by itself has been considered a safety net for recovery from temporary shocks. The incomes of those at risk of exclusion or poverty, that is those who are negatively affected by the current capitalist dynamics that combines the two principal analytical axes of economic, social, political and cultural stratification –the vertical axis (the rich and the poor: top and down) and the horizontal axis (included and excluded: in and out)– are not negotiated in the market. Therefore, an explicit social policy has been considered as necessary to address their needs. Redistribution of employment and income opportunities, the fight on exclusion have been the main instruments and, rather than producing segregation, the main task was basically social integration.

Figure 1.2. The European logic of intervention against poverty and social exclusion



Where both the traditional poverty reduction and the social cohesion discourses converge is in their subaltern nature to the main pillar of capitalist development, i. e. economic growth. In fact, any top priority to a social policy agenda is condemned to be drastically downsized in case of economic crisis: the history of the 2000 Lisbon strategy launched by the European Commission demonstrates that the welfare state crisis has been exposed to a fiscal crisis, a crisis of efficiency and a crisis of affection.²¹ In periods of crisis, the prevailing discourse is: economic growth comes first, whereas the social agenda as well as environmental sustainability follow, because the possibilities of extending social security and investing in the environment depend on the growth capacity of the economic system. And this is true in developing countries as well as in rich economies (or the self-called advanced industrial democracies). The rude intrusion of economic crisis has always condemned poverty reduction and social cohesion discourses to somehow give in to the need for growth (no matter how related to pyramidal stratification, which means no matter how related to its sustainability). The same phenomenon seemed to occur in Europe in mid-2008 for what concerns environmental sustainability and equity issues; the story, however, may be somewhat different now, due to the fact that, beyond the immediate impacts and uncertainty of the current dramatic recession at the global level, “business as usual” is unlikely to continue.

The logic of postponement has always been contentious, but never more so than in the current period, when existing “mantras” on the crucial role played by the free-market, individual responsibility and the inevitable trade-off between economic efficiency and social equity, that is the ideology of neo-liberalism and neo-conservatism, have combined with a world-wide dramatic financial and economic crisis.

21. F. Archibugi (2000).

If it is true that, according to a recent assessment (Laeven and Valencia, 2008), there have been at least 124 systemic financial crises since 1970, however the magnitude of the present crisis and the fact that its epicentre is in the US and in other OECD (Organisation for Economic Co-operation and Development) countries make it different from many of the previous crises. This credit crisis has paved the way for economic recession across the world, and it has brought out a plethora of ideas for reforming the orthodox ideology on development, including a revision of the nexus between economic growth, social development and environmental sustainability.

From a methodological point of view, this unbalanced growth-biased perspective on the interaction among these three pillars of development can be reversed simply by looking at things from different points of view, that is through multiple strategies, rather than relying upon a single perspective such as the orthodox economic thinking or “economicism”. This alternative method is triangulation, and it is interesting to see how the problems change by changing the perspectives and how some changes have recently happened on this matter. For example, ecological footprint analyses show that people in rich economies are living far beyond their ecological means. Whilst the average biologically productive area available to each citizen of the world (assuming equal distribution) in 2003 was 1.8 hectares, the footprint of US citizens was 9.6 hectares, that of EU citizens was 4.8 hectares and that of developing countries 0.8 hectares.²² From such a perspective, it is precisely economic growth that needs to be questioned, rather than being the solution. Correlated to it, an upside-down perspective and logic may represent a very useful and complementary contribution: rather than insisting on investigating only the “otherness” of poor households, it is the “otherness” of the rich that deserves greater attention, that is those who are less exposed to environmental, political, social vulnerabilities (i. e. those with less probabilities to face deprivations). And, even more ambitious, an agenda of social cohesion focused on the “harmony” within the same society of all the citizens or at least emphasizing what holds them together, can make a difference, escaping from the need to erect (material or immaterial) barriers to fence out the poor and from the social distancing of “them” from “us”, on the basis of a real recognition of the “face of the other”.

When we move to the international social agenda perspective, things are changing as well. Poverty reduction is not exactly the same as social cohesion, but at the same time they both reflect more and more common challenges and new theoretical contributions, and mutual influences are prevailing. In fact, in the current context of global recession, in the recent right-based approach to poverty reduction that substitutes the conventional basic needs approach and discourse in several international organisations, we find many similarities to the social cohesion approach and discourse related to the welfare state systems. Poverty situations are described not simply in terms of needs or requirements (despite the frequent usage in practice of Project Cycle Management and Logical Framework methodologies, still anchored to such an obsolete perspective), but in terms of society’s obligations to respond to the inalienable rights of individuals, empowering people to demand justice as a right not a charity, abolishing the development enterprise as a neo-colonial programme of correction administered by the rich to the poor, in order to

22. Global Footprint Network (2006).

enhance the freedom of choice of poor women and men by supporting their empowerment, through their active participation and representation in processes of political, social and economic change. Development of effective poverty reduction strategies requires a good understanding of existing power structures and the agency of the poor is crucial.

Is the time finally ripe for a common understanding and setting of a social agenda across rich and poor economies? And is it possible to create better economic welfare, social protection and integration, and environmental sustainability in rich and poor societies, by disavowing any market fundamentalism? In sum, are the most important issues now on the table of social agenda policies in the North and South of the world more divergent or convergent? After all, this is just another way –adopting the triangulation method– to check whether the convergence process (fate or worry for many economic theories) is occurring among different regions in the world.

A hypothesis is that through globalization –in terms of accelerated trade, capital, human and knowledge mobility– economic and social convergence has not been limited to the countries within the OECD aggregation, as it was until the 1980s. The last phase of globalization represented a train to convergence which was successfully exploited by the emergent economies (Brazil, Russia, India, China and South Africa, or BRICS, above all) through the usage of agglomeration economies and delocalization. Nowadays, processes of convergence and divergence are spread between and within different regions all over the world. And unfortunately, the “bottom billion” people (mainly located in Sub-Saharan Africa and Asia) seem to have lost the train of globalization. If this hypothesis is true, then a strong separation of agendas between refocusing development discourse (in the South) and reforming the welfare state (in the North) is no more appropriate. A mutual learning process based on interlinked exchanges of lessons learnt is feasible and recommendable. Motivations for trilateral dialogue and co-operation between Europe, Southern regions, and the emergent BRICS abound. And Europe and Latin America are the best candidate to test such an hypothesis for a good number of reasons, starting from the advanced political relationship of respect and responsibility and commitment on this matter.

In this era of global uncertainties, it may be useful to recall some key elements of the two very different (at least apparently) economic theoretical analyses on the Western social and economic systems and to add an example of alternative and heterodox ways of thinking about it. This quick exploration of the roots of the debate reminds us that current interest in poverty and social cohesion is not at all new and some combinations and variations of these ideas can unleash a flood of new ideas and many new creative avenues.

1.3.1. The mainstream perspective

The mainstream view, the so called neoclassical or marginalist school as well as the more recent perspectives represented by both the monetarist and neo-keynesian schools (including also those “liberals” who criticize from inside some specific points of the mainstream), is based on the idea of rational actions made by individuals, who interact and have exchange relations through the institutional means of markets. Assuming a natural equilibrium determined by demand and supply forces, individuals and the market are considered the engine of a well functioning economy, with the market, in absence

of external or monopolistic positions, being able to guarantee its equilibrium, without instability, fluctuation, or structural unemployment. Deliberately, this school ignores any concept of class, social group and even financial powers, by emphasizing the centrality of individuals, the harmony and mutual benefits among individual interests and actions. As a consequence, if reforms are needed they must be oriented to promote individual freedom and market promotion. Carrying this to the extreme, financial markets are enthusiastically exalted (but for belated complaints during financial crises), efficiency is prioritised and modern corporate techniques, such as management and marketing, are praised. The mainstream is obviously widespread, prized, improved, it is inherently optimistic and it tends to be comprehensive and technically sophisticated (Graziani, 1997).

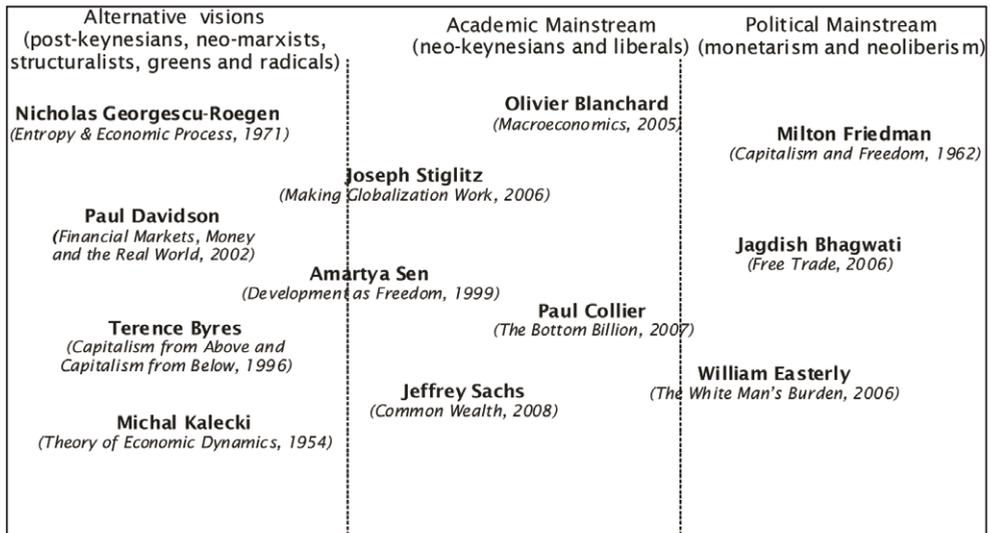
The US have been often cited as the benchmark, for many reasons. According to Pierre Bourdieu (1999), there is a clear splitting of the state in the US. On one side, a provider of social welfare for those who are “in”, the privileged (that is those who have enough means to provide guarantees) and, on the other side, a repressive and police state for those “out” of the welfare regime, the excluded. Since 1994, in California –a state long considered, among French social scientists, as a model of freedom – the budget devoted to prisons has been much higher than that earmarked for to all the Universities. And black people in Chicago ghettos know the state just because of policemen, courts, jailers, parole officers who implement a sentence; this is a sort of implementation of the ruling class’ dream, a state just focused, as analysed by Loïc Wacquant, on inquisitorial and police state.

1.3.2. The alternative perspectives

From an opposite perspective, an alternative school embraces those who focus on the importance of class and conflict concepts, analyzing the behaviour of social groups rather than individuals. From David Ricardo, passing to Karl Marx, some points of Joseph Alois Schumpeter and John Maynard Keynes, Michał Kalecki, Nicholas Georgescu Roegen and the post-keynesian school, culminated in the Sraffian heritage: there is a puzzle of different and not necessarily convergent “radical” positions, unified by the idea that capitalism is a system based on unequal powers, with selfishness coexisting with short-sightedness and speculation, producing instability and inequality. World is dominated by uncertainty and the capitalist economy is basically irrational (according to Max Weber) as its aim is not to satisfy all needs, but just those related to exchange value. As shown by Marx and Keynes –who show similarity on this specific point– the capitalist economy is a non-cooperative system: in fact, rather than being based on actions to exchange goods with money to get other goods (the famous good–money–good process), it is a monetary economy led by a social class whose aim is to exchange money with goods to increase money (the money–goods–money process), that is to make profit rather than satisfy consumers’ needs. The firm belief that embraces different economists is that production is not oriented to the usage (that is to satisfy needs) but to make profit. The conflict of interest in the social product distribution among *rentiers* (mainly financial *rentiers* nowadays), capitalists and workers prevents society from a harmonic dynamics of income distribution. As a consequence, in a real money economic system of production based on capital accumulation to increase profit, when

the real paying demand is lower than existing productive capacity, then the paradox of affluent society and mass poverty, structural unemployment and overproduction of goods, unsatisfied social needs related to education, culture, individual and social framework care occurs. In his metaphor on giraffes and aim in life, Keynes clarifies that, based on a specific *weltanschauung*, there is plenty of choice between equity (giving priority to the improvement of life conditions of the poor) and efficiency (supporting the needs and interests of those who are better-off). And Keynes, adopting the theoretical premises clarified by Dobb and Sraffa, opts for equity and identifies full employment of workers and redistribution of income (through higher taxes on profits) as top priorities in the political agenda, due to the fact that a policy to increase wages is not feasible. From this point of view, redistribution is an economic agenda top priority, rather than being confined to the subaltern agenda of social policy. The unjustified power of rentiers who restrain capital accumulation, hinder increase of employment, distort consumption patterns, as well as the volatile animal spirits of capitalists, produce unequal distribution of income and wealth. Thus, access to work and control over income generated by work are the main prerequisites to guarantee full citizenship and power against the interests of rentiers and capitalists (Lunghini, 1995).

Figure 1.3. Map of economic policy theories orientation on global development



1.3.3. The heterodox communitarian embryo

Schematically, the mainstream approach trusts the free market, whereas the alternative schools adopt different mechanisms and institutions to manage the economy. In theory, Market and Dictator can be considered two extreme types of management of economic systems: from an economic theoretical point of view they are very similar, as both produce commodification of relations among people. And what is clearly supported by facts is that mass unemployment and massively unsatisfied social needs can neither be solved by

market itself nor by dictators. This is why Keynes, in his “The end of laissez faire”,²³ calls for an intermediate level of government, between individuals and the state, by evoking the concept of community. Both the mainstream and most of the alternative schools have marginalised this concept, considered as a pre-modern and reactionary idea. However, there is a historical anarchic and libertarian tradition focussed on communitarian economy as a practical application of emancipation of individuals as free persons and a space of concrete, authentic system of human relationships based on reciprocity and on living together rather than on abstract market-based exchanges, fighting more hierarchy (and hierarchical thinking) than classes, more domination than exploitation, powerful institutions rather than states. From this point of view, the anarchic schools of thought represent, together with liberalism and socialism, a specific result of the secularization process derived by Enlightenment, the industrial and French revolutions. Liberalism gives top priority to the idea of freedom and the supremacy of individuals over society, and democracy is the founding value and concrete experience to implement it. Differently, the Marxist socialist tradition emphasizes the importance of equality and the supremacy of society over individuals, and power redistribution has to be implemented through a new state imposed by revolution. Classical anarchism is searching for an original and revolutionary synthesis between these two extremes, combining in a syncretic way freedom and equality, solidarity and diversity, individuals and society through the concept of community. Individual freedom can be fully realized only through social equality, which in turns requires individual freedom. By criticising any form of authority, religious and secular, and by setting any power to zero, the anarchic revolutionary nature consists basically in adopting an ethical position over any political logic.²⁴ From the classical authors, Pierre-Joseph Proudhon, Michail Bakunin and Pëtr Kropotkin, to the more recent scholars, such as Paul Goodman, Murray Bookchin and Cornelius Castoriadis, the tension between individualistic and communitarian anarchism cannot hide the fact that when priority is given to an eco-communitarian economy it represents an original “radical” alternative to the mainstream and opposite views on welfare, exploring the relationship between society and nature, their regeneration as well as re-empowerment of communities and people, by emphasizing political decentralization and the return to the local level of the resources and potential for development within society and for participatory and genuine citizenship.²⁵ According to this place-based perspective, specific bioregions, defined in terms of continuous geographic and economic natural places (in whatever form, be it cross-border, interregional or even sub-national), where people should attempt to live in harmony in a sustainable way with their place of residence, become a cultural idea and a political practice of sustainable economic, social and territorial cohesion. This approach is provocative for a nation state-based thinking, but also traditional administrative boundaries at sub-national level are no longer sufficient to ensure the sustainability of cohesion, and regional organisations, such as the European Union, are not the proper levels. Inevitably, the concept of community contains the same ambiguity, reflecting different visions of social change (conservative or progressive), than social cohesion. The interaction and integration between local and regional levels remain

23. J. M. Keynes (1926).

24. G. N. Berti (1994).

25. M. Bookchin (1982), and A. Light (ed.) (1998).

a key challenge for cohesion policy to face up to the forthcoming global processes and patterns of the coming years.

Nevertheless, this concept of social and territorial cohesion has not been wholly ignored in Europe, a region that lacks very large agglomerations compared to other areas; quite the contrary. The full ramifications of European policy developments and funding instruments are realised in places and the development of European macro regions (i. e. macro regional approach) is expected to be utilised when preparing cohesion policy for the period post 2013. The European Commission's recent identification of the three Cs of Concentration, Connectivity and Cooperation related to its territorial cohesion policy, implies the idea to promote a polycentric model of development, by enhancing development potentials of territories to be inter-connected and cooperative as well as based on multilevel governance (which is defined as "subsidiarity of tasks"), to ensure a sustainable and harmonious development of European territories, in the context of the challenges of the 21st century.²⁶ At the same time, following the 1992 Maastricht Treaty, it is clear that the European Union's development cooperation policies and actions should be driven by the so-called 3Cs principles of Complementarity, Coherence and Coordination.²⁷

What is interesting is how interconnected and reconciled will be the two agendas of the 3Cs: the first one for a reformed cohesion policy, and the second one regarding the promotion abroad of the European model, through development cooperation policies.

1.4. Evolution of the European discourse, regimes and policies on poverty and social cohesion

It is not by chance that the concept of social cohesion emerged in Europe in the Nineteenth century: a legitimate state and a pervasive labour market emerged as the basic institutions to face the problems of insecurity and uncertainty of welfare conditions in a capitalist market regime. The fact that a self-regulating market, without social and political constraints, was unable to promote negotiated industrial relations and to guarantee social protection determined the need for the welfare state. In practice, during the second half of the Twentieth century, the European discourse on welfare has been very often centred on the right/duty to work: unemployment, and in particular long-term unemployment, was explicitly identified as the fundamental causal process. An implicit trickle-down theory, based on the sequence economic growth-employment-quality of life prevailed, and even in 2000, the Lisbon European Council set the EU a ten-years target to become the most competitive and dynamic knowledge-based economy in the world, capable of sustained economic growth with more and better jobs and greater social cohesion. As a consequence, economic policies should be aimed at ensuring employment opportunities for all, as well as human and social entitlement to enable wider civic participation.

However, a number of important historical events occurred over the years. The trend of the European economies during the last sixty years can be divided into two phases, with direct implications on economic policies and, as a consequence, on the social model and, within it, on the fight against poverty. From the Fifties to 1973, during the so called

26. F. Barca (2009 and 2009b).

27. SIDA (2008).

economic boom, Europe experienced a period of rapid economic growth, with an annual per capita economic growth rate between 3.5 and 6.3 per cent. Europe declined into economic crisis after 1973, with low income growth and productivity, and increased unemployment and inflation rates. The crisis derived from the 1973 world oil shock made the European and the US economic trends similar, whereas the European mean economic growth during the Nineties was significantly lower than the US growth. With the inflation rate drastically reduced in both areas, Europe did not succeed in reversing the persisting and high unemployment rate (the average unemployment rate was 9.9 per cent in Europe, compared to 4 per cent in the US).

At the beginning of the 2000s, under the promising expectations linked to the “new economy” and a growing labour productivity rate, the US showed many elements of dangerous macroeconomic vulnerability: the employment growth rate decreased (the unemployment rate exceeded 6 per cent in 2002), despite the usage of expansionary monetary and fiscal policy.²⁸ The high cost of the US recovery in terms of economic growth (more than 4 per cent in real terms) was felt on domestic debt (both the private –families and firms– and the public sector) and external debt, as well as in terms of very highly concentrated financial resources. Europe was not able to avoid the recession and the structural nature of the crisis, and registered low annual economic growth rates (around 1 per cent in real terms, after 2000) together with high unemployment rates.²⁹

In the meantime, the increase of net income inequality and poverty were not the consequences of the negative economic cycle by itself: rather, they were the result of precise decisions of economic, fiscal and social policies, which worsened income distribution between real and financial capital on one side and labour on the other side. Tax progressivity was reduced, and social expenditure was limited and concentrated on direct interventions to support the poor.

Therefore, the context changed dramatically. At the end of the Second World War, Western Europe appeared damaged by the conflict and needed a new social contract, to be centred on the protection of risk groups and on the recognition of the political power of the most influential categories of labour at that time (miners, heavy industries, metal and mechanical workers, farmers) as well as of those co-opted in order to uphold consensus and the social order (in Italy, for example, through the enrolment of the public sector). The European political and economic integration was led by the attempt to create the conditions to guarantee a stable economic growth and social cohesion on the basis of a stable context of international trade, European cooperation, needed to compensate for the partial loss of national sovereignty. The new social contract was based on the norm of full time paid employment for men primarily, understood as the “breadwinner” and the heads of the household, and on social protection for those at risk of exclusion. This was the main basis to create the European model of the welfare state. At the beginning, the industrialization process and correlated conflicts between the opposite classes motivated the specific policies of welfare state. With the neo-liberal consensus, globalization and a post-industrial society, since the 1980s new poverty profiles have emerged, not anchored to the

28. The administration of George W. Bush eroded the budget surplus –equal to 2,5 per cent of GDP– recorded in 2000 at the end of the Clinton administration, by reducing tax and increasing public expenditures, particularly in the military sector, with a fiscal deficit of US\$ 415 billion in 2004, equal to 3.6 per cent of GDP.

29. L. Pennacchi (2003).

traditional poor, with job precariousness, social polarization and fragmentation, long-term exclusion, the weakening of communitarian and family networks, increasing risks of poverty and long term unemployment for the middle class.

The success of the European welfare state models represented a direct reaction to the fear and concrete risk among the middle-class to become poor and it became a national insurance scheme to benefit all, in particular the middle class, which was particularly active in politics through the high level of voter participation. The welfare state does not imply any system of solidarity focused on chronic poverty, that is a system to support the poor. Rather, it is a social security and insurance system for all citizens, particularly those who vote and participate actively, as confirmed by the low level of social mobility between the poor and the “others”. A mix of social assistance to the poor and a sort of mutual insurance among the families of those who work characterized the different models of European welfare state.

Initially, the European social model was conceived as a way to cover the risk of international competition: it is what Kohli and Novak (2002), citing Rieger and Leibfried, defined the European “welfare mercantilism”. In other words, the welfare state was needed, in functional terms, to make free exchange socially sustainable against protectionism: a system of social protection to facilitate trade openness, by reducing the negative externalities on the most vulnerable people.

Thus, three inter-related components originated the process of material construction of the European integration: the promotion of free trade as the main engine for growth,³⁰ political support to assist the key industries for promoting competitiveness and the set up of a welfare state system to protect people, including the vulnerable ones.

The process of consolidation of the nation-states increased the level of homogeneity within countries but also the heterogeneity between countries. However, in Europe the economic boom and a similar process of modernization across countries made nations more similar and, somehow, legitimized the idea of a European social model. In other terms, a partial convergence occurred in Europe, in terms of welfare state, work and life-cycle organisation, despite the significant and well known differences at national and regional level. The successful process of European integration, combining the narratives of masculinity and breadwinning full employment with that of a redistributive welfare state, contributed to the economic growth and political stability in Europe, with a higher degree of trade integration. Thus, the European process has moved from 6 to 27 countries and still attracts many neighbouring ones. The economic crisis in the second half of the Seventies, rather than discouraging the European integration process, reinforced it as the precondition for economic growth and prosperity.

Nowadays, in the post-9/11 world, with social order and security being perceived as severely threatened in the context of a globalization process, the advancing crisis of the welfare state can be interpreted as a crisis of social integration and cohesion, with mounting xenophobia as a dramatic epiphenomenon, because of the structural changes occurred in Europe: the ageing society (with changing pension-related replacement rate in the future), the changes in production structures and the labour market after the advent of a tertiary society (with increased precariousness that questions job as the main source of

30. Partially, and despite the liberal nature of the Community law and the dynamics of the institutional integration.

full citizenship), the high levels of unemployment and under-employment (with a gender-bias and changes in the family), the prevalence of financial economy and concentration have directly hit the pillars of the European social model. Among the three inter-related components that originated the process, the idea that free trade is the engine of development is the only one to resist, with permanent support from the right and the left. The idea of key industries has changed,³¹ and the general idea behind the EU is no more the need to react to the market failures but it seems that the promotion of a “single market” to remove all the obstacles to the free movement of goods and capital is the end by itself. And without any fiscal harmonization, the consequence is tax competition within Europe, with negative effects on poverty, inequality and cohesion.

Despite the crisis of the systems of social protection in Europe, the need for the idea of welfare state is still important in political terms: the persistence of old and new forms of poverty (including the so called working-poor), increased inequality and vulnerability, the need for a balance between the market and the state are important factors to be considered. And the role played by this idea of welfare state in promoting the European model abroad as a “different” model of development and capitalism cannot be underestimated. More than the general discourse on the European political and economic system, it is the specific discourse on social cohesion, poverty and inequality, free access to education and health, that attracts many immigrants. At the same time, immigrants are the providers of new forms of “private” welfare services to families (as domestic helpers, baby sitters, disabled or elderly carers) acting as a mixed (as private, family, Third and public actors somehow interact) response to the inadequacy of public welfare services. Immigrants are also the most vulnerable groups of new geographical segregation from the affluent cities (the isolated French *banlieues* are a clear example), producing enclave cultures and parallel economies, social fragmentation and bonding or within-groups solidarity rather than bridging or between-groups solidarity.

Moreover, an increased demand of welfare state, which was firstly adopted as the mechanism to integrate the poor regions in Europe –through the Structural Funds and the Cohesion Fund as the main financial instruments– arrived later to make the enlargement process operative.

Conversely, on the supply side, the new conceptualization of poverty and social exclusion, based on the French literature of the Sixties³² proved more adequate at the European level to face the new forms of poverty and vulnerability linked to globalization, but was countered by a generalized attack to the redistributive state and requests for lowering taxation and a welfare state retrenchment, an argument provided in economics by the Laffer curve idea, according to which tax cuts would actually increase revenues. As a consequence, between 1980 and 2000 the UK, Belgium, Denmark, Finland, France, Germany, Norway, and Sweden cut their top rates of personal income tax. Correlated to

31. The Common Agricultural Policy (CAP), which still absorbs almost half the EU's budget through the system of agricultural subsidies and programs, is under attack, as well as the mining and iron industries in the UK during the Eighties. The narrative of the “Lisbon strategy” developed in the year 2000 by the Commission, with the explicit goal of balancing economic growth and competitiveness, full employment with social cohesion and environmental sustainability, is based on the role of the information and communication technology, and the innovation and learning economy.

32. R. Lenoir (1970).

it, the idea of *welfare state* met with criticism because its provision is costly, inefficient and ineffective, requiring extremely high taxation, creating dependency and crowding out social capital (networks, trust and norms), private expenditure and investment. Differentiated in terms of timing and strategies for implementation, the key words of privatization, deregulation, liberalization, reduction of fiscal deficit, support to the “animal spirits”, competitiveness have dominated most of the old European parties rhetoric, even though this ideology was labelled as the Washington consensus.

The European rhetoric on complementarity rather than conflict between equity and efficiency, clearly proposed by the Jacques Delors White Book on growth, competitiveness and employment in 1993, was then practically translated in terms of sequence from growth and competitiveness as the first step and priority to employment and social cohesion as the second (and subaltern) priority. The discourse of the 2000 Lisbon strategy was an attempt to re-launch the complementarity between equity and efficiency but again the rethinking of the welfare state has been then interpreted as subaltern to the mantra of competitiveness.

A comparison across Europe of the real commitment to reduce poverty is not easy. Public expenditure on health, education and housing directly targeted to reduce poverty, progressive taxation and adequate mechanisms of labour and good markets regulation are typical instruments of the fight against poverty. But the comparison of public expenditure, fiscal systems and market regulations is complex: social expenditures tend to produce different redistributive effects of wealth among the poor and the rich depending on the specific nature of programmes and interventions; it is not the amount of public expenditure that defines the characteristics of a welfare state and poverty reduction model. Economic transfers to the poorest families and individuals, programmes targeted to vulnerable groups (immigrants, children, elderly, women, disabled, homeless, prisoners, drug addicts), wage subsidies for disabled workers and the unemployed, interventions for public health, public housing, social pensions, education, imply lower and lower levels of progressivity of social spending, which means lower redistribution benefiting the poor.

At the same time, all these areas of intervention affect directly the fight against poverty. Unfortunately, the comparison of fiscal systems in Europe is difficult by itself, given the differences in terms of taxation of transfers, insurances and different systems of tax deductions.³³ And, in terms of general impact on poverty reduction, the fiscal instrument tends to be less effective than social expenditures, as the poor who have an income below the no-tax threshold earn no benefit from a marginal tax system reform.

Referring to market regulation, in theory job protection and minimum wage laws, working conditions and labour laws, unemployment subsidies, as well as public services' price and tariffs control measures are aimed at protecting the poorest workers and consumers. But the presence of the working poor and precarious workers as a structural component of the labour market creates a new segmentation within the workers, with some of them marginalised and excluded from any protection, such as the workers in informal sectors. One should consider the presence and the nature of these new forms of poverty and exclusion in order to understand the real profile of social cohesion in different regimes.

33. T. Ferrarini and K. Nelson (2002).

However, in general terms and based on different comparisons, poverty and inequality are lower in the Nordic countries than in any other European region,³⁴ even though significant differences occur within the same country, due to the importance of territories, sub-national governments and policies.³⁵ These stylized facts have been used to emphasize the specificity of the Nordic and Scandinavian universalistic model, with global programmes preferred to selective ones: free or cheap education and health care for all in publicly owned educational institutions with a standard sufficiently high to discourage the demand for private schooling; child allowances for all families with children rather than income-tested aid for poor mothers; universal old-age pensions, including pension rights for housewives and others who have not been in gainful employment; general housing policies rather than “public housing”. This model is associated with some kind of equity and redistribution, being based on progressive taxation and on the universalisation of citizens’ relationships rather than being linked to some particular group memberships (such as the workers).

On the opposite side we find the liberal, selective or residual regimes, as in the UK system based on means-testing criteria for the public sector provision of basic social services, with the state being considered as the provider of last resort. Investigations and discretionary evaluations determine the eligibility of the applicants and the “truly deserving”, with an individual-based system of protection through market mechanisms as the main source of insurance against risks. The population in its entirety does not receive social benefits as a basic right. In terms of social cohesion, the means-tested methods tend to produce negative externalities, as they create stigma, increase self-exclusion and administrative costs, induce a qualitative segmentation of the provision of services.³⁶

Despite this classification, what is important to underline is that during the last twenty years a process of partial convergence in terms of social and economic policies occurred all over Europe. Differences in poverty and inequality are still relevant and institutional path dependence does matter, but the war on deficit spending, the pressure to reduce taxes, the promotion of activation policies and the attack on labour market sclerosis, flexibility-oriented changes, the usage of means-testing criteria have characterized the new trend everywhere in Europe. The new terms of left-wing neoliberalism referred to by the New Labour in the UK³⁷ or neo-liberalization of social democracy³⁸ in Sweden confirm these converging trends. Referring to poverty in particular, rethinking the welfare state in Europe has meant to reduce its size, and the UK regime has represented the ideal bridge for disseminating in Europe the US New Deal ideas linked to the Washington Consensus on the “welfare-to-work” and “welfare-in-work” as the only actions against poverty, that is just based on the individual responsibility to participate in the labour market. A transition from the welfare to the workfare, with a shift from status to contract of social citizenship, has been recommended as a way to close the European productivity gap and to become more competitive. Three steps facilitated this trend and cultural predominance in Europe: the neo-liberal counter-revolution inspired by Margaret Thatcher at the

34. R. Berthoud (2004); and K. Nelson (2004).

35. B. Maître, B. Nolan and C.T. Whelan (2005).

36. A. Atkinson (2005).

37. A. Giddens (1998); A. Daguerre e P. Taylor-Gooby (2004).

38. Ibidem.

end of the Seventies (with her slogan that “there is no such thing as community”), the cultural hegemony during the new phases of financial globalization of the Washington Consensus during the Eighties and the Nineties with their key-words of liberalization and privatization and the risk of “a race to the bottom” in the EU member states’ social policy as a consequence of the enlargement process during the last decade. On one side, the idea of poverty and social cohesion as a problem of an emerging “underclass” and of security; on the other side, the focus on neoliberal policies for labour market integration have been actively sponsored by the OECD and the European Commission in the last years as a way to modernise social protection for more and better jobs.

The European Commission revival of the Lisbon strategy in 2005³⁹ confirmed this trend, as well as the subsequent communications and documents.⁴⁰ However, what we stressed in general terms in the prevailing economic theories’ discourses in the context of global recession, is particularly true in Europe. The current dramatic economic and financial crisis is the unexpected phenomenon that opens up new opportunities and prompts a reconsideration of welfare dismantling. The very rapid increase in unemployment shows all the limitations of two decades of deregulation and rising inequality in Europe, with social benefits and public sector intervention that re-gain momentum. A first question is: will the crisis change radically the main trends experienced in Europe over the last twenty years on poverty reduction and social cohesion policies? Another question is: will this change immediately affect European policies abroad, that is the approach to development cooperation? How decoupled the latter policies are from the evolution of the European discourse, regimes and policies on poverty and social cohesion is the subject of the next paragraph.

1.5. Evolution of international aid policies to fight against poverty

During the last century, the welfare state became one of the dominant political projects in all the advanced countries, particularly in Europe and, through the “Westernisation” of the world, this project had an indirect influence on developing countries, too.⁴¹ Colonialism, two world wars and the depression during the 1930s induced the emergence of a Western culture, both at government and civil society level, on the human, social and political costs of unsatisfied social welfare needs.

Welfare is an ambiguous term, referring at the same time to well-being, to the range of services which are provided to protect and integrate people in a number of conditions, and to financial assistance to poor people. The main objectives of modern welfare states are to reduce poverty, to ensure a more equal distribution of wealth, to provide insurance against various risks that the private insurance market does not cover adequately, and to grant social services that correct market inefficiencies. Esping-Andersen (1990) has described three main types of welfare régimes: corporatist régimes (work-oriented and based on individual contribution), social democratic régimes (which favour universalistic values) and liberal régimes (which tend to be residualist). Leninist and Stalinist Marxists, Socialists, Social

39. European Commission (2005).

40. European Commission (2005b); European Commission (2005c).

41. A. Hoogvelt (1997).

democrats, Christian-democrats and more reluctantly Liberals participated, in different ways, to the building up and strengthening of the welfare state, as their own vision of an ideal society.⁴² Different historical experiences in terms of state organisation have produced different models of welfare state: the extensive and institutional welfare states –such as the Swedish, Danish and German ones– are different from residualist welfare states –such as in the US, the UK and Australia. But in general terms the European vision of social cohesion (that is the French and Scandinavian tradition of welfarism) has represented an attempt to move from charity and paternalism (aid) to solidarity and social integration (cooperation). As a consequence, this paradigm should have pervaded international aid (that is Official Development Assistance, ODA), too.

Implications for social and economic policy are the main target of current conceptualization on poverty reduction and social cohesion: a process which ensures that those who are poor or at risk of poverty and social exclusion gain the opportunities and resources necessary to participate fully in the economic, social and cultural life and to enjoy a standard of living and well-being that is considered normal in the society in which they live. It ensures that they have greater participation in decision-making, which affects their lives and access to their fundamental rights.⁴³ The notion of welfare state implies a state commitment to modify the play of market forces in order to ensure a minimum real income for all, reduce insecurity due to income loss crises and provide a range of social services to ensure that all citizens have the best standards available, reducing their precariousness, vulnerability, disqualification and insecurity.

In principle, the criteria used to identify the clusters of welfare states can be modified, producing additional and different models of welfare states: the determinants of different systems –historical roots, political and constitutional regimes, party systems, electoral behaviour, state organisation and social movements characters– could provide us with numerous types of clusters, but it would probably make it more difficult to apply social research methods based on the definition of models and to proceed in a systematic way. To analyse historical patterns and trends of welfare and developmental states in the many Least Developed Countries (LDCs) a useful step is to look at development and welfare in the South.⁴⁴ Following Esping-Andersen types, corporatist and conservative regimes prevailed in good number of East Asia and Latin American countries, before the 1980s, with social insurance schemes being addressed to a limited group of citizens (soldiers and public servants above all), in the context of authoritarian and developmental states (East Asia) and populist and corporatist states (Latin America). The important role played by trade unions in Latin America induced the extension of social insurance to a broader group of citizens (all the workers in the formal sector), with an increasing share of welfare expenditures as a GDP ratio compared to the Asian situation. However,

42. J. P. Dixon (2002).

43. J. Peck (2001).

44. We should take into account the fact that focusing on the official data of welfare expenditure to identify the “type” of welfare state, there is a misleading effect due to the lack of reliability and comparability of these data. In fact, they are roughly estimates and can be easily manipulated: this is true in the case of Western societies (where some 30 per cent of welfare expenditures are estimates rather than factual data) and all the more so in the case of LDCs. In East Asia, official data include environmental protection expenditures, military expenses such as soldiers lodging, administrative costs of the central government, and propaganda expenditures. That is why a more useful comparison must be focused on basic education, basic health, town planning for the poor, social insurance and net of administrative costs. See: C. Aspalter (2001).

from the end of the 1980s, in very general terms, the adoption of neo-liberal policies in Latin America produced a shift to liberal welfare states, based on market mechanisms and schemes of welfare provision, with state intervention limited to the most vulnerable groups of population; whereas East Asia combined liberal ideas with social insurance universalism.⁴⁵

A different situation occurred in the poorest African countries, where developmentalism and welfarism simply meant a focus on the development of social expenditures and policies, rather than massive redistribution from the richer to the poorer income segments of the population. This was also a consequence of the crucial dimension of mass poverty in many poor African nations based on the tendency of men and women to submit to an equilibrium of rural poverty and on the fact that unequal distribution was not perceived as the main problem.⁴⁶ Moreover, given the weakness of nation-state institutions inherited by colonialism, African bureaucratic states were not completely invested with the Keynesian role, and development was confined to state interactions with international aid, with social protection –never translated into social integration– of the poor becoming the main target and core of policies in a charitable and paternalistic perspective.⁴⁷

During the 1950s and 1960s, postcolonial conditions of developing countries begun with the idea that international development cooperation, that is capital transfers with a high concessional or grant element from the rich to the poor countries, was the basic engine for promoting poverty reduction.

In particular, US President Harry Truman's Point IV inauguration speech on January 20, 1949, marked the beginning of a "developmental" era: it replaced the binary relationship of 'colonizer' and 'colonized' with that of 'developed' and 'underdeveloped'. The new developmental era represented an important shift from a world where the "colonizers" and the "colonized" were assumed not to belong to the same family and the rich feared (and aided) the poor, to a new world where "developed" and "underdeveloped" corresponded to the UN Universal Declaration of Human Rights and to the idea that the entire humanity became comparable and placed on a single continuum. Notions of progress and growth were thus embedded into international relations and developed nations were called upon to assist underdeveloped nations in developing to become 'like them' and to fight against mass poverty.⁴⁸ This new foreign policy was the fourth component of a wider strategy, based on: 1) unfaltering support for the United Nations; 2) programs for world economic recovery including the European Recovery Program and tariff reduction; 3) defense pacts such as NATO; and 4) making the benefits of scientific and industrial progress available for the improvement and growth of underdeveloped areas through ODA and technical assistance.

From this perspective, ODA was presented as a part of a foreign policy oriented to promote four factors: a multilateral political process to support peace and democracy

45. K. Usami (ed.) (2003).

46. J. K. Galbraith (1979).

47. Obviously, this quick overview of some characteristics of social policy and welfare regimes in different regions is merely a very partial highlighting of a few tendencies; however we consider them important in approaching the triangulation among the European social policy, social policy in development contexts and the promotion of the European model abroad through ODA policies. Some books are highly recommended to those who want to know how social policy operates in the poorer regions of the world. In particular, see: I. Gough and G. Wood (eds.) (2004).

48. G. Rist (1997).

(through the UN system), a Western and progressively global economic alliance (through the Marshall Plan and trade liberalization), a military coalition (through NATO) and development of poor countries (through ODA). Western countries that accepted this approach had to support a process of transformation in developing countries from the initial primitive state towards something more developed. Decolonization was inevitable as the previously powerful European countries (Britain, France, Belgium and the Netherlands) became unable to continue to exercise their rule and the United States and the Soviet Union rose as the two new superpowers. Through ODA it was possible to minimize the disruptive effects of decolonization. As well as the other three pillars, the new fight against hunger, misery, and despair through ODA reflected the importance of the Cold War: for the US and the Western bloc, war on poverty in developing countries had to be waged in order to limit the area of Soviet influence; on the contrary, the East tried to provide ODA so that the poor countries would choose the Communist notion of progress. Thus even though the term ODA is commonly applied when the capital transfer is for developmental and not military purposes, international aid is rarely based on disinterested motivations and is linked to a considerable extent to the national (commercial, political and security) interests of the donors.

After recovering from the Second World War, European countries played an increasingly significant role and shared important responsibilities with the US in shaping the new publicly funded experiment of the development cooperation agenda. An agenda where the specific poverty focus was diluted in and subordinated to the main priorities (geo-political, military, economic) of foreign external interests.

As the international context was dominated by the Cold War and the main priority for the Western bloc was to fight Communism, from the 1950s to the 1980s ODA policy had a clear rationale that prevailed over all the other motivations, that is the security/strategic interest to limit Soviet expansion. Acceptable or not as the main priority, this security/strategic concern legitimated ODA policy as part of a foreign policy interested in promoting peace and security and provided it with a strong commitment. As a consequence of this strong political commitment, poverty reduction was one of the objectives of concrete projects and programs aimed to implement ODA initiatives.

From a neo-marxist perspective, this period corresponded to a transfer of economic surplus extracted from peripheral developing countries through the instrument of developmentalism, which had a specific function at the service of capital accumulation at the centre of the world and with most of the countries that openly pursued the capitalist path being considered neo-colonial and so tied to foreign interests. Neo-Marxists epithets to describe the pathological condition of the African state included “the petty bourgeois state”, “the neo-colonial state” and “the dependent state”. From this perspective, developmentalism was considered a legitimating discourse for a form of political monopoly (Marxist Leninist critics had the same opinion with regard to the Social-Democratic welfare state model of Scandinavia, accused of being largely reformist and strongly parliament-oriented). Also an opposite liberal perspective, based on a neoclassical economic view of politics, questioned the presence of a developmental state, however justifiable on the grounds of social welfare, as leading to free-market’s distortions (Lal, 1987).

The ruling idea became the view that development was equal to growth in per capita GDP and capital accumulation was the key to prosperity, and this would be brought about through industrialization, based on a combination of increased saving (domestic and international saving, through ODA and external debt) to be transformed into productive investment through the transfer of Western finance, science and technology, and economic management by governments. Thus, accelerating economic growth was the basic engine to overcome poverty. This corresponds, at the international level, to the logic of equity and social development being subordinate to the priority of economic growth and competitiveness, that was described with reference to the European model.

The importance of foreign finance for development was related to the pioneering Harrod-Domar (1939 and 1946) model. In the prevailing neoclassical interpretations of this model, growth is a supply-side process and saving automatically creates investment: with financial inflows from the outside, a poor country can increase savings and translate these flows into investment and output.

Beginning with the growth model originally proposed by Robert Solow in 1956, the dominant economic theory claimed that the mechanisms of a competitive market automatically guaranteed that long-term growth would follow the path of continuous full employment.

On the basis of an aggregated production function which depends on the amount of capital for each worker, in the long term an economic system would tend to converge towards a condition of stability at the level of capital and production (the so called “steady-state”): the flexibility of real salaries (which in a competitive market equals to the marginal productivity of work) would be enough to ensure full employment, through the flexibility of the capital-work relationship. All the main subsequent developments of the neo-classical growth theory concentrated on the introduction of technical progress: initially exogenous (Solow, 1957), then linked to “learning-by-doing” (Arrow, 1962), to the introduction of increasing returns (Romer, 1986), to the investments in human capital (Lucas, 1988), to the endogenous production of new technology (Romer, 1990).

Bilateral and multilateral organizations translated this simple and easily understandable idea into an ODA focused on physical investment (machinery, equipment and other intermediate good imports) as well as big infrastructure projects (dams, roads, railways etc).

Both the Western and the Eastern blocs with their rivalling ideologies, in the contingent situation of the overcoming of the colonial regime and the creation of national states, considered developmental states as the main modernising actors. Such a state establishes, as its principle of legitimacy, its ability to promote sustained economic development, in terms of steady high rates of economic growth and structural change in the productive system, both domestically and in its relationship with the international economy (Castells, 1992). The main force behind this developmental ideology was nationalism, inducing nations to try to catch up with countries considered as more developed, to defend national identity (within which social cohesion had to be interpreted). The economy of developing countries was clearly internationalised, but this coexisted with political systems that continued to be compartmentalised into separate nation-states. Contrarily to the Marxist idea of five-year planning, government ownership and control of strategic industries, the state-nation hegemony offered the Western liberals the historically necessary phase to create the

preconditions for completing the triumph of capitalism and the free market, to cut down the state size and role, to stabilize and privatise the economy, to engage in good governance, to democratise themselves and society, to create an enabling environment for the private sector. In the modernization school, Rostow in his famous anti-Communist manifesto recommended a crucial role for the state in initiating or accelerating the growth process, increasing savings rate, through aid schemes and development planning. During these years, Import Substitution Industrialisation (ISI) policies, regulation of the labour market and state controls over the flows of saving and investment prevailed all over the world.

Keynesian forms of demand management and a distorted model of welfarism characterised this period in most of the poorest countries. In many developing countries welfarism (that is to say, the tendency in favour of maintaining and extending the welfare state) was basically interpreted as a way to orient development in favour of the urban areas and to guarantee political consensus to the regimes (Becker, Hamer, Morrison 1994). Urbanization was equated with modernization and growth; the “urban-bias” theory became one of the cornerstones of development policies in the South, generating a “parasitic process” (Lipton, 1987). Neither post-colonial history nor the practice engaged in by successful developmental states ruled out the possibility of developmental states being capable of playing a more dynamic role, particularly in the welfare provision context, which was confined to aid responsibilities (Evans, 1979). International development cooperation had a crucial role to play in providing welfare. This did differ from the original concept of the welfare state as applied in Europe, closely tied to the ideas of citizenship and of citizens’ entitlements. The European welfare state embodies the entitlement of a citizen to socio-economic rights in addition to civil and political ones: the origins of this welfare state and of related concepts of citizenship lie in social movements, especially the workers’ movement with its demands for employment, and related to this is the funding of the welfare state by citizens, with social entitlements paid for by taxes. Social services, taxes, and citizenship are therefore essential and interrelated components of the welfare state. The idea of employment as a right still underlies part of the thinking on the welfare state. Differently, in poor countries, welfare state only partially reflected the Keynesianism hegemony, badly converging with the developmental state notions of liberal modernisation theories. External aid was considered a crucial source of welfare provision. But the main economic rationale of foreign aid in the 1950s and 1960s was to provide the necessary capital resource transfer to allow poor countries to achieve a high enough savings rate to propel them into growth, paying only an indirect attention to welfare issues. Thereafter, progressively a greater focus was placed on investing in human capital and raising the standard of living of the poor through increased employment opportunities. In the 1970s, a greater ODA focus on poverty meant a greater emphasis on direct interventions to benefit the poor – projects in agriculture, rural development, and social services including housing, education and health – as a way directly targeted to promote people’s welfare in general (Thorbecke, 2000). In the 1970s, substantial progress was made in improving the reach of health care services in many poor countries. Through aid, most developing countries’ governments increased spending on the health sector during this period. They endeavoured to extend primary health care and to emphasize the development of a public health system aimed to redress the inequalities of the colonial era.

In the late 1970s and early 1980s the situation changed dramatically. The colonial state legacy decanted into a patrimonial autocracy which decayed into crisis by the 1980s, bringing on external and internal pressures for economic and political state reconfiguration. Among developing countries, as well as in the rest of the world, there were strong exogenous and endogenous elements at play to force a process of radical social and economic transformation, involving not only production technology and the organisation of economic life, but also the complex of institutions and norms that affect individual agents and social groups' behaviour. Part of the cause of worsening poverty were the imbalances and external debt (and the source of these imbalances, such as sizeable budget deficits) and acute foreign exchange crises that led to the adjustments. The international financial institutions tended to place the blame on domestic policy mistakes, but exogenous events played a role as well, with the fall in commodity prices, a distorted structure of economic relations between poor and rich countries and the high interest rates imposed on debt service payments. Irrespective of the causes, those countries had no alternative but to adjust; and the debt crisis of the 1980s severely limited their room for manoeuvre in negotiations with international organisations. From an embedded liberalism, with its Keynesian acceptance of state intervention in the rich economies and the corresponding (total or partial) developmentalist state notion of the modernisation theory, there was a shift to a clearly unembedded liberalism.

The final demise of the development ideology and practice was highly facilitated by the global ascendancy of the Washington Consensus that dominated the development theory and policy during the 1980s and the first half of the 1990s (Chang, 2003). The term coined by John Williamson to define the solutions proposed by the financial institutions based in Washington (IMF, World Bank and the United States Treasury), with reference to the Latin-American situation in particular, described a neo-liberal macroeconomic manifesto, summed up by the three keywords of liberalisation, deregulation and privatisation and by the so-called "market-friendly approach to development" (Williamson, 1990). The term implied a series of measures that were presumed to lead developing countries to a rapid and greater growth. Drastic neo-liberal stabilization and economic restructuring became a conditionality for structural adjustment lending to developing indebted poor countries, typically as a condition for debt rescheduling under the Paris or London rules. Repayment of loans to foreign creditors took precedence over the social costs of removal of subsidies or the political risks of drastic economic disruption. New neo-liberal policies came on the scene: demand restraint, with emphasis on public expenditure reductions, credit control and real wage restraint; switching policies, especially emphasising exchange rate reform and devaluation; and long-term supply policies including financial reform and trade liberalisation.⁴⁹ These policies implied the erosion of social welfare provision, with declining health and education expenditures and intensified poverty, and generated a wide range of social problems. Part of the international ODA became the only (and no more

49. In Williamson's version the Washington Consensus included fiscal regulation, redirection of public expenditure (reduction of benefits), tax reform, deregulation of the internal financial system (and the end of the so called financial repression), introduction of competitive exchange rates (by standardizing the official exchange market and eliminating the black market), commercial liberalization, opening towards FDIs, privatization, deregulation, strengthening of rule of law and of rights of ownership. However, Williamson never mentioned the complete liberalization of the financial system and maintained a pragmatic approach on the issue of exchange rate systems –without taking a stand in the querelle concerning fully flexible or crawling peg exchange rates. (Lal and Myint, 1996).

additional) way to support poorly planned welfare expenditures, as aid was designed to support general investments and current public expenditures. But in the 1980s, the primary purpose of aid changed radically compared to the emphasis on welfare of the 1970s: in the context of the new pro-market and anti-state rhetoric, aid came back to represent –as in the early 1950s and 1960s– a basic inflows to fill financial gaps (and to allow poor countries to service their external debt), but also to support the implementation of the Structural Adjustment Programmes (SAPs) through conditionalities, with an increased recourse to the private sector and NGOs as a effort to privatise aid (Thorbecke, 2000).

Most of the theoretical and empirical literature on the links between domestic financial development and economic growth reduced the problems of developing countries to the so-called “financial repression” imposed by widespread government intervention in credit markets (through interest rate ceilings and credit controls). Even though the evidence suggests an enormous heterogeneity across countries, regions, financial factors, and directions of causality in terms of associations between domestic financial development and economic growth,⁵⁰ the 1980s aid policies pushed the discussion back into the rigid direction initially advocated by McKinnon (1973) and Shaw (1973). The basic recommendation was to use international financial resources as additional inflows from abroad to promote financial liberalization. Such policies, it was argued, would correct government failures and distortions, which could possibly induce some form of “poverty trap” because of the likely existence of multiple steady state equilibria, while a more liberalized financial system would induce an increase in saving and investment and therefore promote economic development. The level of financial development was considered a good predictor of economic growth and the lack of financial development (due to financial repression) was defined one of the main obstacles to progress.

In the context of ODA policies this extreme approach, which would have probably led to criticise the idea of ODA policies as a distorting mechanism in a free-market regime, was mitigated by the so-called new-Keynesian approach, mainly based on the economics of the Neoclassical Synthesis⁵¹ and its general equilibrium framework. Notwithstanding some important differences from the “McKinnon-Shaw” hypothesis, they have a common underlying thread; that is, the efficient utilization of resources enhances economic growth and long-term equilibrium solutions will dominate based on the economic financial “fundamentals”. This is achieved via a highly organized, developed and liberated financial system, but some microeconomic imperfections, which are linked to some “market failures” (negative externalities, transaction costs, asymmetric information, adverse selection, moral hazard), must be adequately faced in the short-run through economic policies and a micro-foundation approach to most of the national problems of developing countries. From this perspective, international aid could be focused on ameliorating institutions and norms,

50. During the last decades, a lot of competing and partial explanations of economic development and growth have been discussed in mainstream literature. Among the most cited are: the roles of institutions (Easterly and Levine, 2003), the importance of geography, culture and history (Acemoglu, Simon and Robinson, 2001) and the quality of macroeconomic policies (Berg and Krueger, 2003).

51. The Neoclassical-Keynesian Synthesis refers to the Keynesian Revolution as interpreted and formalized by a largely North-American group of economists in the early post-war period. The centrepiece of the Neoclassical-Keynesian Synthesis (or the Neo-Keynesian system) was the famous IS-LM Model first introduced by John Hicks (1937) and then expanded upon by Franco Modigliani (1944). The IS-LM model purported to represent the core of John Maynard Keynes’s General Theory (1936) in the form of a system of simultaneous equations and as a special case (that is the short-run or imperfectly working IS-LM system without full employment) of a general equilibrium context.

in order to get a more favourable market-oriented environment, and economic policies and governments as well as other public institutions and financial institutions as well can play a relevant role in the short-term. In particular, the financial sector –by identifying creditworthy firms, pooling risks, mobilizing savings, reallocating capital without loss via moral hazard, adverse selection or transactions costs– is important for the economic development of an economy.

However this “soft” market-friendly approach did not reduce the strong intellectual influence by the more radical neo-liberal orientation, which gathered momentum as a consequence of a sustained increase of inflation and unemployment in the OECD countries that did not seem to be compatible with the predictions of the Neo-Keynesian system.⁵² Moreover both the “soft” and “hard” market-friendly approaches to ODA policies acted as a common orthodoxy that confined real alternative visions⁵³ in academic niches, Non-Governmental Organizations (NGOs) laboratories and activists’ practices.

During the 1980s, the Washington Consensus determined a period of radical changes in the cycles of state interventionism in the South of the world, starting to leave its mark in particular in Latin America where, after the depression of the Thirties, governments promoted those forms of industrialisation policies based on the substitution of imports –on the basis of which the market growth rate should have been based mainly on the increase of internal demand– (Câmara Neto, Vernengo, 2004). A market-friendly approach to development, another expression of the conservative revolution started by the Reagan and Thatcher governments in the North of the world, spread from Latin America to all developing countries. With hindsight, the Eighties were wrongly viewed as a lost decade for development, whereas they actually witnessed a radical change in the paradigm of development. A change that brought about a strong ideology and propaganda apparatus: for example, the economic success of Asian countries was presented as the result of international openness policies, in spite of the strong burden of state interventionism; or the import substitution protectionist policies were judged as a complete failure and cause of inefficiency, parasitism, scarce competitiveness, whereas –as Dani Rodrik (1999) wrote– import substitution policies (in Latin America concentrated mainly in the Fifties and Sixties) were not inefficient, if measured quantitatively in terms of productivity trends, debt accumulation, economic growth.

In practice, since the 1980s the shift from universalistic social policies to targeting occurred in both developed and developing worlds on the basis of similar arguments (basically the technical and exogenous ones: budget constraints, inefficiency and distortions, globalization pressure) and the imposition, through the SAPs, of cost-recovery systems, user-fees principles, public and private partnership, means testing. The ideological attack to the welfare state in Europe was translated in terms of attack to the developmentalist

52. The rival Monetarist School, inspired by Milton Friedman, proposed an alternative hypothesis, much more radical in pursuing economic liberalisation that was formalized and used by Robert E. Lucas and Thomas Sargent as the basis of a “New Classical” macroeconomic theory.

53. In particular, the Post-Keynesian school (based on the refusal of the IS-LM system and on a dynamic extension of the principal propositions of Keynes’s theory, through the relevant contributions of Hyman Minsky and Paul Davidson on the inherent structural fragility of the international financial system and its negative consequences for developing countries), the Marxist school (with a class antagonistic vision of development, based on analyses at national and international levels) and the Post-Development schools (based, among others, on Foucault’s theoretical departure points on power, radical critique of the mainstream development paradigm, locally- and communitarian-founded sustainable livelihood identities, Georgescu-Reogen ecological Economics paradigm).

state in the South, and the role played by the OECD and the European Commission vision in Europe was mirrored by the International Financial Institutions policies in the South. With the aggravating circumstance in the South that many nationalist experiences failed to provide social and economic welfare in their countries while, at the same time, the effect of trade liberalization in the South hit dramatically the main source of tax earnings (taxes on imports). And equity was removed from any discourse on development cooperation

1.6. Current legacy of international development cooperation policies

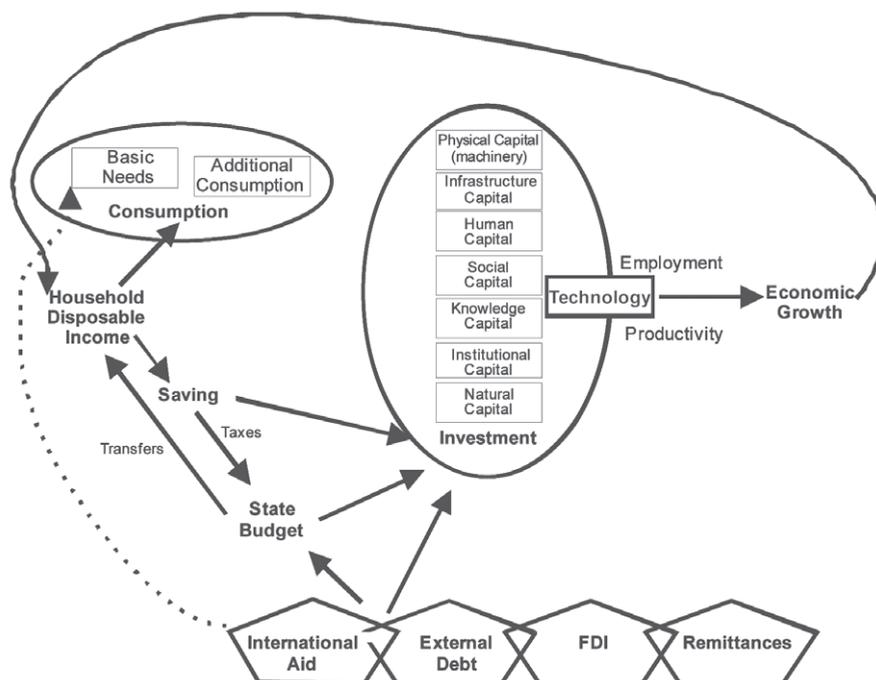
Thus, through the past decades the inspiring vision of economic growth and capital accumulation has never changed, though little to no progress has been made with the global development agenda (poverty has not been eradicated while income inequality has indeed increased between as well as within North and South). Most importantly, some additional and heterogeneous dimensions of capital have been included in the process of capital accumulation in order to describe in detail, with scientific precision, the process of economic growth. And this vision has been used to prove the necessity of aid for poor countries.

Figure 4 provides a graphical representation of this vision. Capital accumulation has been considered the key to prosperity, and this would be brought about through industrialization, based on a combination of increased saving (domestic and international saving, through international aid, external debt, Foreign Direct Investment and workers' remittances) to be transformed into productive investment. Growth, as based on a financial injection to support productive investment in physical and infrastructure capital, was additionally helped by investment (through financial support) in:

- Human capital (education, health, research and development as a way to increase skills, improve labor productivity and induce technological innovations);
- Social capital (institutions, social norms of trust and reciprocity among different actors, formal and informal relational goods, which can create a favorable environment to make investment more productive and efficient through a direct support to the private sector and NGOs);
- Knowledge capital (in particular, with reference to the Information and Communication Technology and the need to become – as mentioned in the EU Lisbon strategy as well as in many documents of the World Bank– a dynamic and competitive knowledge-based economy);
- Institutional capital (given that institutions do matter a lot, the purpose is to promote a democratization process, the rule of law, war on corruption, decentralization of political power and administration, high quality and managerial skills of organizations and public administration, capacity development and institution building);
- and Natural capital (assuming environment as a cross-cutting dimension or a mainstream in development process, which can only be adequately assessed in the inter-generational perspective of the so-called sustainable development).⁵⁴

54. A vague term described in the UN Commission Report on sustainable development chaired by Gro Harlem Brundtland in 1987, during the Rio Summit in 1992 and the Earth Summit 2002 in Johannesburg.

Figure 1.4. The role of ODA in the process of capital accumulation



During the last sixty years, international ODA has been funding infrastructure projects, social expenditures (particularly, basic health and education), training activities (with technical assistance), private sector development, good governance, and sustainable development projects. Clearly this approach has represented a more flexible and indirect “pro-poor” strategy, based on a trickle-down effect, rather than a policy directly focused on addressing the need identified by the web of deprivation.

No specific instrument or purpose of ODA was completely supplanted by new instruments and aims; rather, a proliferation of objectives emerged as a structural characteristic of ODA together with plenty of different instruments and different approaches (sometimes representing different visions on development). Project aid and Programme aid, Commodity Aid and Balance of Payments support, Technical Assistance, NGOs’ activities, Sector Programme and Sector Wide Approach, Budget Aid and Decentralised Cooperation coexist together, giving raise to difficulties and problems of coherence, because they can represent different visions and they are not simple instruments.

From this perspective, Budget Support (BS) may represent a strategic innovative instrument as rather than doing projects, donors provide aid funds to support the government’s budget. Donor funds are not earmarked for specific purposes, and the government spends BS funds on its own development programs using its own allocation, procurement, and accounting systems. Under BS, conditionality focuses on improving

government planning, management and the effectiveness of the overall budget process, and governments should do a better job of reducing poverty through social spending if they have a well-designed, analytically sound plan and an appropriate policy framework to promote equitable growth.

Decentralised cooperation can also represent an innovative approach, where all the various social and economic groups of local stakeholders (local administrators, private sector, NGOs and associations, citizens...) can play a greater role on development strategy and policy both in the donor and the recipient country, because they are directly involved in the decision-making process and its management and they have direct access to the funds. This approach can represent a substantial reversal from the traditional top-down approach to ODA (led by central governments and international organisations) to a bottom-up process (led by economic and social actors linked to specific, local and territorial needs and interests that become the main motivation to identify mutual interests between two or more areas located in donor and recipient countries). Such an innovative potential, as well as those of the NGOs approach to poverty reduction, cannot be adequately exploited if this approach is considered merely as one of a number of different instruments and approaches to ODA.

In 1996, the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD) adopted a policy document entitled *Shaping the 21st Century: the Contribution of Development Cooperation* that reflected a shared commitment to poverty eradication following a decade of rising absolute levels of poverty. The proposal, translated into the Millennium Development Goals (MDGs) in the UN Millennium Summit in New York (September 2000), embodied the idea of forming a global development partnership around a limited set of measurable goals through which the development community may measure its effectiveness, with the overarching objective of reducing the world absolute poverty by half by 2015.

The current consensus on the MDGs still reflects the same vision of capital accumulation as the basic engine, together with international trade liberalization, to fight poverty, and its additional juxtapositions. They basically reflect the idea that the most urgent action is to solve pressing social problems, rather than creating economic development and employment, abandoning the project of treating the causes of poverty and inequality (which is a term carefully omitted from the list of the MDGs), and instead concentrating on an effort that, to a great extent, attacks the symptoms of poverty and offers (reduced) welfarist safety nets (Reinert, 2005) in a traditional Nation-State perspective. No emphasis is placed on the territorial and local (sub-national as well as cross-border) clusters of poverty and inequality as pivotal dimensions to be attacked. At the same time, despite their sectoral nature, the MDGs are presented as a way to allow donors to translate into operative terms the multifaceted dimension of poverty that cuts across a vast array of interlinked issues – ranging from gender equality through health and education to the environment, from material well-being to security, freedom of choice and action, good social relations. The eight MDGs refer to investment in education, health, environmental protection, that is human, social, natural and institutional capital to be funded through a global partnership for development, i. e. through the mobilization of additional international saving to break the poverty trap. However, if the MDGs are not translated into a rights-based approach they represent what Schumpeter called “the pedestrian view” that it is capital *per se* that

propels the capitalist engine, i. e. development driven by the accumulation of capital, physical or human, without intervening for a pro-poor and less-unequal profile change in the productive structure that would create a demand for the skills acquired by the poor. From this point of view, the approach to the MDGs attainment presents a bifurcation: it can be a direct evolution of the traditional vision of additional juxtapositions of capital as a way to promote poverty reduction, with the risk of ghettoizing the poor and targeting those who are nearest the poverty line, rather than the poorest, as those who can most easily be lifted out of poverty (as a consequence of the so called results-based management of aid effectiveness, which encourages “easy” initiatives rather than risky ones with high probabilities of failures). Alternatively, it might represent—at least based on the wishful and alternative interpretation—the way to transform the EU ideology of poverty eradication and social cohesion into a concrete and original policy of transformation, based on a rights-based bottom-up approach to capabilities.

On the other hand, this cumulative approach to ODA as a sum of different, often rival but never contradictory dimensions of capital to be funded internationally in order to create a favourable context to address the needs of the poor, is confirmed by looking at the evolution of conditionality, a specific aid “instrument” designed to improve the impact of aid.

In the new Millennium, after the implementation of the enhanced Heavily Indebted Poor Countries (HIPC) initiative to reduce external debt, and in accordance with Western donor countries, the IMF and the World Bank introduced a new generation of conditionalities. For the first time, the so-called Poverty Reduction Strategies (PRS) introduce a direct poor-oriented conditionality, focused on health, education, water and food security that represents the new framework to govern the lending, ODA and debt relief programmes. PRSs are supposed to reinforce national “ownership” (national accountability for development programmes), focus on social sectors and civil society participation (through an involvement limited to the preparation of public policies in social affairs). A conditionality that must prove to be able to attack the causes of the problem (looking at both economic and social rights) rather than the symptoms. A conditionality that should shape economic and social policies in pro-poor and less-unequal terms, rather than being reduced to palliative social safety nets; an inclusive policy rather than one of containment.

In this regards, the Poverty Reduction Strategy Papers (PRSP) process, as well as the MDGs architecture, seem to reflect the idea that international aid and social policies represent a sort of cluster of interventions with a human face aimed to mitigate the social consequences of globalization and adjustment policies, in terms of safety-nets of social services provided to the vulnerable. The state, the NGOs and the private sector are the providers of services targeted to the poor, directly through projects or indirectly through support to sectors oriented to the poor (Mkandawire, 2007).

The emergence and expansion of targeted intervention programmes in Latin America, in particular, since the 1990s, which were also guided by principles of positive discrimination in favour of the poor, were directly or indirectly inspired by the assumptions of the same global MDGs and PRSP agenda. The *Oportunidades* programme in Mexico (first called *Progresa*) or the *Bolsa Escola* programme in Brazil, are examples of demand-

side intervention, which concentrate their efforts on poor families by offering conditioned cash transfers linked to the regular school attendance of their children. The importance and success of these national experiences in terms of improved living condition of the families and increased school attendance of students can not be underestimated. In fact, these programmes have been replicated in several Latin American countries, and they have generated numerous debates on the advantages and disadvantages of selective action compared to other more universal types of interventions. Moreover, the limits and weaknesses of the centralised model of social services provided directly by the government was evident in Latin America, where the reality of what was presented as universalism was a stratified universalism linked to the power and privileges of limited groups (state functionaries, military, urban and industrial sectors) on the basis of which the nation-building process was developed. At the same time, as argued by Amartya Sen (1955), “benefits meant exclusively for the poor often end up being poor benefits”, and targeted programmes can only influence inequalities in access to education, but not in the remaining dimensions of educational inequality and, more broadly speaking, of deprivations. School access and attendance are important, but the right to a quality school is even more important in terms of inequality, so that targeting may lead to more segmentation, if a dual structure in the social services—education or health—is created: one, funded by the state and of scarce quality, aimed at the poor and another aimed at the non-poor, provided by the private sector. This type of segmentation and dual structure may have a territorial dimension as well.

The historical relevance of these new trends cannot be denied, and the dichotomy between purely universal and purely targeted regimes is misleading as many dichotomous simplifications. The new Latin American demand-side intervention in education is very interesting; nevertheless the risk of downsizing development and shifting to poverty reduction in a very narrow sense through these approaches may imply that these measures are not sustainable in the long term, if policies on the supply-side are not implemented as well as measures in other areas of deprivation. The mix of basic elements of universalism and some targeting within the same regime are the norm in the best practices, such as the Nordic countries, together with a specific focus on inequality. What is more important, historically poverty, inequality, environmental sustainability, citizenship, social cohesion, economic growth, conflict solution interact and are mutually conditioned. On this basis, Europe developed the ambition of the welfare state to address a whole range of developmental issues, rather than targeting just the poor and poverty.

From a theoretical perspective, the ambiguity of econometric results in the growth and pro-poor development relation is still there and there is little evidence that economic growth will lead, by itself, to improvements in social indicators, economic freedom, governance, or political and civil liberty. Further analysis and empirical work is needed to investigate the relationship between each and every type of capital accumulation and the changing conditions of the poorest members of society, as well as between inclusive public policies and redistributive policies (reducing inequality through redistributive policies is not a main ODA objective),⁵⁵ but most international agencies still promise that combinations

55. E. Helpman (2004).

of transfer of technology, free-market capital accumulation and sound economic and political management by governments are the bulk of any pro-poor strategy. From a perspective based on the web of deprivations and the importance of a related capacity as leading principles to orient any poverty reduction strategy, these combinations of capital can represent a favourable environment at best, which is not necessarily directed to the poorest and to inequality. What is more important is the concrete involvement of the poor—who cannot be reduced to passive targets if we accept a perspective guided by our multi-D-dimensions of poverty—in the socio-economic definition and implementation of ODA activities, that is the recognition of the importance of bottom-up approaches.

More importantly, the current context of global recession appears very different from ten years ago, when the MDGs were launched, in a period of relative stability, high economic growth, optimism on increasing aid budgets and enthusiasm for the opportunities offered by the ICT (the same feeling guided the Lisbon strategy in the same year). Rather than being the starting point to the New Millennium, the MDGs' logic appears the concluding manifesto of the preceding era, an attempt to synthesize a decade of UN summits and define a new core mission of development cooperation after the collapse of the Soviet bloc and the fall of the Berlin wall. International terrorism in the post-9/11 world, climate change and demographic transition are the new global priorities, with the BRICS as new global players. There is a clear need for rethinking aid policies, and the economic crisis forces us to focus immediately on the post-MDGs architecture, where the prefix "post" has to be taken in both chronological and logical sense. On the basis of what we have just described, our idea is that the new focus has to be on the triangulation to reconcile poverty, inequality and environmental sustainability: the poorest are those with less adaptation and mitigation capacity to minimize the risks and the complex interactions among poverty, inequality and environmental distress, under the pressure of economic crisis, may produce dramatic consequences for social and political stability as well. Furthermore, global and climate changes have an impact on the livelihood of people, also prompting the more vulnerable groups of the population to move in search of less hostile environmental conditions that might allow their livelihood. Migration phenomena, as well as ecosystems and climate change, are thoroughly studied but generally considered at the international level as separate disciplines; the inter-linkages between climate change and human migration are still underestimated in the international agenda, despite the increasing claims by the scientific community regarding the relevance of these linkages.

To be able to face new challenges, social and territorial cohesion policies must converge. Poor people are at the heart of a web of inter-related factors that affect the way they create a livelihood for themselves: climate and natural resources, technologies, social and economic systems, capabilities, institutions and policies. International development cooperation must be innovative.

From a historical point of view, despite the over-proliferation of ODA missions (in terms of types of capital to be provided) and the growing consensus among donors on the importance of poverty reduction, the aid fatigue period after the end of the Cold War has produced a stagnant net flow of ODA at international level. When the main security/strategic motivations ran out, ODA policy lost its main rationale and political commitment behind prevailing rhetoric on the moral, political and financial support to poor countries'

development. This financial fatigue is still there and has become chronic, as a consequence of the crisis of the conventional fiscal systems (directly affecting the sustainability of the welfare state in Europe) and the specific crisis of lack of ODA core mission, after the collapse of the Soviet bloc.

Ironically, in a period of still increasing objectives and instruments (and conditionalities) of aid, the quantity of aid declines. Jan Tinbergen, the Dutch economist and 1969 Nobel laureate, argued that a separate tool or instrument is needed to achieve each individual economic objective. Two goals cannot be achieved effectively with the same policy tool. When applied to the field of development cooperation, the Tinbergen rule suggests that one needs a separate programme for each objective if one wants to achieve multiple goals. As strong emphasis needs to be placed on improving social indicators and meeting the basic human needs of the poorest, due to the main focus on poverty reduction, it should be clear that there is little evidence that improvements in these areas will necessarily lead to increased economic growth. These fields are interrelated and corresponding policies must be coherent, but this does not imply an overlapping agenda and combination of conditionalities. Balancing the costs of achieving these various goals is one of the great challenges that developing countries face today: to maintain or increase the expenditures for programmes targeting social goals, to maintain and improve the infrastructures and capital facilities and to avoid macroeconomic instability through cautious monetary, fiscal and foreign exchange policies, to promote sustainability, to reduce vulnerability and to improve the resilience to climate change. A direct consequence must be a coherent political framework for development, linking the LDCs' sub-national and national social and economic policies with international support to the interests of the poorest (through ODA), to bilateral, regional or multilateral economic integration (through trade, FDI and economic agreements) and to political dialogue to address poverty, inequality and sustainability.

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2. Social cohesion, welfare recalibration and the European Union

ANTON HEMERIJCK

2.1. Social cohesion and the European welfare state

There is a renewed concern about issues of social cohesion across Europe. To a large extent, this reflects a looming anxiety about the sources of social integration, economic security and political-institutional stability in rich democracies. In late 2005, burning cars in Paris dramatised the cultural failure to integrate the young from minority communities. In late 2008, riots in Athens epitomised the deep-rooted distrust against the Greek political class, again especially on the part of youngsters. Today, in the face of the prospect of a deep economic recession, as a consequence of the brutal 2008 crisis in the international financial system, in anticipation of rising unemployment, increasing poverty, growing inequality and strained social budgets, the issue of social cohesion has taken on an unexpected new meaning, impossible to fathom just a few years ago. Not only are we likely to experience a repositioning of state in the political economy, I would also anticipate a rehabilitation of social policy as a legitimate form of public policy in the years to come.

To be sure, concern about social cohesion tends to surface during periods of rapid social and economic. In the first decade of the 21st century, European polities seem to be living through such a period profound structural change. The revival of interest in issues of social cohesion across Europe is largely driven by a sense of unease, a feeling that the social cement that holds people together in rich democracies is eroding. Opinion surveys reveal considerable pessimism about the future among European citizens. Prospects for the next generation are thought to be worsening, despite high levels of life satisfaction in the present. Social pessimism reflects job insecurity, associated with economic globalisation and hostility to immigration and the loss of traditional national identities resulting from multiculturalism. Popular discontent, moreover, seems to seriously undermine the legitimacy of the European Union, as the EU is epitomised as a scapegoat for market liberalisation, unpopular structural reforms and excessive immigration.

Any discussion about social cohesion in the rich democracies of the European Union inevitably involves a debate about the welfare state. By international standards, the “continental” and “Nordic” European versions of the post-war welfare state are far more comprehensive than the more modest forms of social protection in the United States, Canada, Australia and New Zealand. But can we speak of European social model, or a particular European perspective on issues of economic progress and social cohesion (Aiginger and Guger, 2006). The concept of a “European social model”, it is my contention, has thus far provoked more misunderstanding and ideological strife than coherent policy

articulation. The aim of the European welfare state has always been to manage structural change in such a way that would maximise and equalise the social benefits of change and minimise its social costs (Wilensky, 2002; 2006). Perhaps as a consequence of the strong commitment towards comprehensive welfare provision, the European public debate today about economic internationalisation is often couched in terms of the question: is globalisation an enemy of the welfare state? Similarly, the theme of ethnic diversity is sometimes premised on the idea that increased immigration undermines support for the redistributive welfare state, that organised solidarity becomes increasingly difficult to sustain as populations become increasingly diverse. Will large scale immigration trigger a downward spiral of “social tourism” and “social dumping”? These are all important questions which bear on the intimate connection between social cohesion and European welfare state structures.

Next to the welfare state, a second key feature of the European context concerns the European Union, which over the course of the past twenty years has become increasingly active policy maker in European economies, politics and societies. At the outset, it is important to mark that the objective of social cohesion is written into the Treaty and is seen by the European Community (EC) as one of the most important vehicles for integration of the peoples and territories of the European Union. Article 158 (ex Article 130a) of the Treaty states that “in order to promote its overall harmonious development, the Community shall develop and pursue its actions leading to the strengthening of its economic and social cohesion”. In the year 2000, the EU embraced an explicit political strategy, the Lisbon Agenda the EU, to become a competitive knowledge-based economy with better jobs and “greater social cohesion”. In October 2007, the Council of Europe published the report of the High-Level Task Force on Social Cohesion in the 21st Century, entitled *Towards an Active, Fair and Socially Cohesive Europe*. The Council of Europe defines as “the capacity of a society to ensure the well-being of all its members, minimising disparities and avoiding marginalisation”. In addition, the Task Force, attaches great value to a “society’s capacity to manage differences and divisions and ensure the means of achieving welfare for all members”. Social cohesion hereby is not merely viewed upon as a quality of society or the quality of living together, but more so as a competence of guaranteeing welfare and wellbeing and mitigating social inequality under conditions of diversity. The Task Force, however, also emphasises that issues of social cohesion cannot be reduced to “material or objective resources” (e.g. economic situation, social protection), but also includes “more subjective dimensions” (such as feelings of belonging, security and recognition).

With the view that all EU citizens should all reap the benefits of economic integration and economic growth and that the EU cannot be successful if significant groups are left behind as prosperity rises, social cohesion, covering various dimensions, ranging from fighting poverty, encouraging engagement in the labour force, respect for diversity, and guaranteeing access to good education and health care is central to the European project. Yet, there is an inherent tension between the genuine EU concern with social cohesion and the predominant institutional *modus operandi* of the EU. Throughout the post-war era there has always been an implicit division of labour between European and national institutions. European institutions concentrate on liberalisation measures while national institutions concentrate on redistribution and welfare. The question is whether this

implicit division of labour is still tenable as Community legislation is increasingly affecting everyday life chances of European citizens. According to Maurizio Ferrera, domestic welfare state development and European (economic) integration are practically based on opposite logics. Whereas national welfare state expansion has hinged on a logic “closure” of clearly demarcated and cohesive citizenship communities and post war nation-building, the logic of European (economic) integration hinges on “opening”, on the weakening of barriers and closure practices that European nation states have built to protect their citizens from economic contingencies, in favour of free movement, free (undistorted) competition and non-discrimination (Ferrera, 2005). As a consequence, European integration, as it is programmatically geared towards the expansion of individual options and choices, very much challenges the conditions of social bonding, policy closure and social cohesion that sustain coherent national welfare states.

As a “sensitising” concept, any discussion about social cohesion will inevitably involve political beliefs and normative orientations. As a consequence, the contribution of an ambiguous concept like social cohesion to public policy extends beyond problem diagnosis about cause and effect but lies to a significant extent in the added value that the concept of social cohesion can provide for “framing” policy discussions and thereby enabling policy-makers to place complex relationships between economic dynamism, social justice and cultural diversity and integration into a broader perspective for articulating public policy. There is a real need to recognise the close connections between seeming single-issue policies in areas such as poverty alleviation, neighborhood safety, the breakdown of trust between citizens and governments, growing inequality, and the faltering integration of immigrant groups in rich democracies, which are all in fact multidimensional. As an integrative concept, social cohesion can give significance to reflections on the complexity of a wide range of contemporary social and economic policy problems (Pahl, 1991; Jenson, 1998 and 2002).

Following this introduction, the rest of the chapter proceeds in six sections. The next section deals with the issue of structural change and its impact on the welfare state. I distinguish between four sets of social, economic and political challenges impending on European welfare states: (1) economic globalisation; (2) post-industrial social change; (3) fiscal austerity; and (4) intensified European integration, all of which interact to confront contemporary policy-makers, challenging them to recast the welfare state, redesign institutions and to elaborate on new principles of social cohesion. Section 2.3 is conceptual and explores four core interdisciplinary perspectives on social cohesion in the international academic literature, all of which command attention for understanding the intimate ties of social cohesion and the welfare state in the European context. Section 2.4 then tries to conceptually capture the recent efforts to recast the welfare state in the face of structural in terms of the multidimensional concept of welfare recalibration, which allows us, heuristically, to analyse contemporary welfare state change along four (functional, distributive, normative, and institutional) key dimensions of social cohesion. Next, section 2.5 examines welfare performance in terms employment, redistribution, and educational attainment, across different and makes an inventory of a number of substantive changes in the make up of Europe’s mature welfare states over the final quarter of the 20th century, which cumulatively adds up to a fundamental recalibration of traditional post-war welfare

systems. Section 2.6 highlights the constraints and opportunities for EU engagement in ongoing processes of recalibrating Europe's now "semi-sovereign" welfare states and EU policy agenda setting on the issue of social cohesion. In particular, I will discuss the contribution that the EU has made and can still make—under the banner of social cohesion—to processes of reform in highly diverse national systems of labour market regulation and social security. To conclude, Section 2.7 articulates a capability-oriented social cohesion agenda for early 21st century Europe. The critical challenge lies in mobilising the broad public support for the traditional welfare state across most EU Member States in the direction of a fundamental re-assessment of welfare provision and social cohesion, so as to meet the new challenges of the international economy and post-industrial society in a period of relative austerity.

2.2. Structural change and the European social model(s)

The European welfare state was perhaps the most powerful instrument to legitimise capitalism in the second half of the 20th century, but are European welfare states fit for 21st century global capitalism? This question has haunted European policy-makers already for at least more than two decades. Today, amidst the turmoil of the international credit crisis, the issue of the future of the welfare state has taken on an unexpected new "positive" meaning, impossible to fathom just a few years ago. In the early 2000s, slow economic growth and elusive job creation, culminated in a fierce ideological battle between different socio-economic "models". The 2005 French referendum campaign over the new Constitutional Treaty of the European Union revealed two polarise positions. The "French" social model, supposedly offering a high degree of social protection, was pitted against a false stereotype of the "Anglo-Saxon" model of capitalism, allegedly a "free market without a safety net", producing high levels of poverty and inequality. The fundamental dilemma of the so-called European social model came to be portrayed as trade-off between welfare and employment, feeding a popular view that efficiency and equality, growth and redistribution, competitiveness and solidarity can only thrive at each other's expense.

In the wake of the financial crash of 2008, knowledgeable commentators and academic experts have cautiously begun to extol the relative merits of the European welfare state. As Anglo-Saxon financial capitalism has taken a severe blow, the continental and Nordic social market economies with their free market tempered by patient capital regulation, generous welfare provision, high quality social care and services, stable industrial relations and comprehensive vocational training and education systems, may prove to be far more resilient and responses to the economic challenges of today than policy pundits dared to imagine barely three years ago. But as practically all European economies are sliding into a recession, there is really is no room for *Schadenfreude* about the imbalanced Anglo-Saxon model of *laissez faire* capitalism, also because this belies, on the one hand, the extent to which Europe's social market economies are integrated and part and parcel of the global Anglophone financial system, and, on the other hand, that many of the difficulties various European economies on the continent face emanate from their, sometime outdated, welfare systems.

However I anticipate the policy debate about competing "models", ranging from Anglo-Saxon, Rhineland social market economic, capitalism *à la française*, and new statist

Chinese capitalism, to reach new levels of intensity in coming years. It is my firm contention that couching policy responses to the current crisis conditions in terms of a battle between warring alternatives, easily triggers ideological strife, separating antagonistic advocacy coalitions, rather than moving the policy discussion, political debate and comparative analysis towards a better understanding of the current crisis. Models, moreover, come and go. In the second half of the 1980s, it was already fashionable to argue that the US “liberal market economy” needed to recast its political economy along the lines of the model of Europe’s “co-ordinated market economies”. And although European welfare states share a number of features that set them apart from other geo-political regions in the world, like North-America and South-East Asia, it is important at the outset to make two reservations against couching policy analysis in terms of “warring models” in general and more in particular against the underspecified use of the notion of “European social model” in the policy debate. The notion of a distinct European social model, first of all, suggests a large degree of “uniformity” transcending national boundaries, which surely cannot be sustained empirically in an EU of 27 Member States.

There are immense differences in development, policy design, eligibility criteria, modes of financing and institutional make-up across Europe (Esping-Andersen, 1990 and 1999; Ferrera, Hemerijck, Rhodes, 2000). Hence, it would be a mistake to over-generalise the nature of welfare state change in such a way that obscures these national distinctions and their diverse trajectories. If Europe does have models, they are definitely plural rather than singular (Hemerijck, Keune, Rhodes, 2006). More problematic, is that every conception of a European social “model” is inherently “static”. While the architects of the post-war welfare state, John Maynard Keynes and William Beveridge, could assume stable male-breadwinner families and expanding industrial labour markets, this picture of economy and society no longer holds. Since the late 1970s, consecutive changes in the world economy, European politics (most spectacularly the demise of communism in Eastern Europe), labour markets, and family structures, have disturbed the once sovereign and stable social and economic policy repertoires. As a consequence, most Member States of the European Union have been recasting the basic policy mix upon which their national systems of social protection were built (Hemerijck, Schludi, 2000). In the process, we have seen the rise and fall, respectively, of the Swedish model macroeconomic management of the 1970s and the German model of diversified quality production of the 1980s. In the 1990s, the Dutch employment miracle played a prominent role in discussions about the possibilities for a new “capitalism with a social face” in an age of global competition, industrial restructuring and ageing populations. And while today the Celtic Tiger, the Danish “flexicurity”, and the Finnish knowledge-economy, figure as model countries to emulate, nothing can guarantee they will prove effective in responding to the next phase of socioeconomic change. The current credit crisis in American financial markets disqualifies recent US economic triumphalism (Eichengreen, 2006).

Finally, the notion of distinct economic models wrongly suggest a lot of virtue on the part of successful policy-makers, which also gives the faulty impression that best practices can easily be transported from one country to the next. Many reform initiatives taken in recent years across the OECD area were expedient responses to impending economic crisis and political contingencies. Moreover, incubation periods of reform are extremely

long, before they start to pay off in terms of growth, jobs and poverty reduction. Usually, it is incoming governments that reap the benefits of painful reforms enacted by their predecessors. The success of New Labour in Britain was in part built on the foundation laid by Margaret Thatcher. In short, there are no models of eternal bliss to copy.

Up until the mid-1970s, the expansion of European welfare states took place under highly favourable circumstances of high levels of economic growth, stable nuclear families, large industrial sectors, and with the support of broad coalitions of working and middle class groups in otherwise fairly homogenous societies (Taylor-Gooby, 2004). At the level of the international political economy, the objectives of full employment and social protection were supported by what John Ruggie has described as a regime of “embedded liberalism” (Ruggie, 1983, 1994). On the one hand, governments encouraged the liberalisation of the economy through deregulation and successive rounds of the GATT, slowly breaking down the regulatory regimes and barriers to trade that were put in place during the Depression and the Second World War. On the other hand, the expansion of social programs compensated for the risks inherent in economic liberalisation. In Ruggie’s (1994, p. 4-5) words: “governments asked their publics to embrace the change and dislocation that comes with liberalisation in return for the promise of help in containing and socializing the adjustment costs”. It is perhaps not surprising in this context that smaller European countries with comparatively more open economies tended to develop more expansive social programs as a means of cushioning workers and their domestic society more generally from economic shocks originating outside their borders, than larger states (Cameron, 1978; Katzenstein, 1985; Rodrik, 1997). The Bretton Woods monetary system of stable exchange rates was central to the regime of embedded liberalism, as it gave national policy-makers a substantial degree of freedom to pursue relatively independent social and employment policies without undermining (social and political) and international (economic) stability. Embedded liberalism was thus tailored to a world in which international competition was limited and foreign investment was regulated.

The regime of “embedded liberalism” gave national policy-makers in most countries a substantial degree of freedom to pursue relatively independent economic and social policies without undermining domestic and international stability (Scharpf and Schmidt, 2000). During the Golden Age of economic growth between 1945 and the early-1970s, most advanced industrial societies developed their own country-specific brands of welfare capitalism. The various models of welfare capitalism were built upon relatively coherent policy mixes of macroeconomic policy, wage policy, taxation, industrial policy, social policy, and labour market regulation. For much of the second half of the 20th century the main concern of public policy in Western economies was containment of the inflationary tendencies of Keynesian demand management. Wider social policy played a subsidiary role. Industrial relations and social policy came together again in a limited way during the inflationary crises of the 1970s. Governments’ turn to monetary as opposed to demand management policies in response created new environments in both policy areas. Beyond inflation management, European welfare states, with their low levels of job turnover and strong job protection, were a source of competitive strength as they enhanced the economy’s capacity to deliver high-quality manufactured goods, stable employment, incremental innovation, and an equitable distribution of income.

The steady expansion of large stable industrial sectors allowed full employment to become the central social policy objective of the post war era. Full employment, or “freedom from idleness” in the words of Beveridge, came to be defined in terms of the achievement of full-time jobs for male workers only; 48 hours a week, with 48 working-weeks in a year, for a period of 48 years. Beveridge’s conception of full employment assumed women, as housewives, to care for young children, frail elderly, and other dependent groups. As result, the policy menu of the post war welfare state remained relatively simple. Modern social policy came to be founded on the idea of guaranteeing security to the working population, as well as those outside the labour force on grounds of old age, disability, inability to find work, or motherhood. As such, post-war welfare state innovation very much consolidated traditional gender-relationship of male bread-winners and female housewives. Professional social services only came into play at the beginning (education) of individual life cycles, with only rare and brief intermittent periods of dependence on social security and state-sponsored assistance. While social services indeed were no longer the exclusive domain of the church, the neighbourhood, or the extended family, the male breadwinner job security with dedicated housewives at home allowed welfare state responsibilities could be kept at bay (Esping-Andersen, 1993).

Cohesive coalitions of working and middle class groups pressed for the provision and universalisation of comprehensive social insurance, particularly those related to old age, sickness, disability and unemployment. One of the most prominent perspective of the expansion of the post-war welfare state is based on the notion that modern social policy is the outcome of, and arena for, conflicts between class-related socio-economic interest groups and political parties (Korpi, 1983; Esping-Andersen, 1985; Van Kersbergen, 1995). The hegemony of social democracy in the Scandinavian countries provided a propitious ideological base for corporatist governance and welfare expansion. The predominance of Christian democracy in Austria, Belgium, Germany and the Netherlands was also favourable to stable corporatist political exchange and welfare expansion across mainland Western Europe. Trade unions’ strategies all over Europe were largely defined in terms of industrial employment for (semi-) skilled, full-time and male employment in the industrial sector, very much excluding women.

The post-war welfare state was founded on the idea of job security and income guarantees supported by government demand management directed towards male full employment. The basic form, modern social policy assumed was one of “social insurance”, the universal pooling of modern social risks of unemployment, sickness, old age and motherhood. Social risk management was conceived as a kind of mutual insurance for the risk of loss of income for families, closely linked to the employment situation of male breadwinner. A relatively homogenous society presupposed the equality of individuals with regard to various social risks, hinging on John Rawls’s concept of a “veil of ignorance”, from which common rules and arrangements for vast numbers in a common position seemed fair and efficient (Rawls, 1973). In Rawls’s theory of justice, the “principle of difference” (inequalities are acceptable only if they are beneficial to the most disadvantaged) seemed particularly fair because it correctly assumed that male breadwinner and other nuclear family members conjectured that they could potentially among the most disadvantaged (Rosanvallon, 2000). Today this picture of economy, politics and society no longer holds.

The final quarter of the 20th century has often been captured as the epoch of the crisis of the welfare state. The guarantees of the welfare state, long-term growth and affluence, it was argued, had led to a permissiveness, overburdened democracy and inflationary tendencies associated with Keynesian demand management. Since the 1980s keywords in the political debate became “vulnerability”, “fiscal overload”, “ungovernability” and “unsustainability”. In the 1990s, with levels of unemployment hovering around ten percent in a majority of European political economies, the “prospect for survival” of the welfare state was recognised as poor.

Four sets of challenges confront policy-makers with the imperative to redirect the welfare effort. First, “from outside”, international competition is challenging the redistributive scope of the national welfare state (Scharpf and Schmidt, 2000). The virtuous Keynesian interplay between social and economic regulations was suddenly brought to an end by the breakup of the Bretton Woods system in 1971 and the OPEC oil price increase of 1973. In the wake of the multifold recessions that followed, it became increasingly more difficult for advanced welfare states to deliver on their Keynesian core commitments of full employment and social protection. Three important changes in the international political economy have been held accountable for employment and social policy adjustment (Scharpf 2000; Huber and Stephens, 2001; Begg et al, 2008). First, the increase in cross-border competition in the markets for labour, goods and services has substantially reduced the room for manoeuvre of national welfare states. Greater trade openness exposes generous welfare states to competition and permits capital to move to countries with the lowest payroll taxes for social security. Second, internationalisation of production, most notably the creation of a single European market, is held to increase dangers of lower tax revenue, since countries need to compete for investment by making concessions on taxes on payrolls and corporate profits. Finally, since the mid-1980s the liberalisation of capital markets in general and the European Monetary Union (EMU) in particular undermined the capacity of national policy-makers to use macroeconomic policy instruments to achieve full employment. This further extended the need for austerity in social and employment policy.

In the wake of the second oil crisis of 1979, the international economic situation further worsened and real interest rates rose to unprecedented levels. This pushed up unemployment to levels not seen since the Great Depression. Low growth, rising social expenditures, and recurrent external disequilibria led to fiscal crises in many of the European countries. Since the mid-1980s, the liberalisation and deregulation of capital and product markets (most notably the creation of a single European market), have further constrained national fiscal and monetary policy and exacerbated pressures in favour of austerity in social and employment policy. The internationalisation of production is argued to result in lower tax revenues, since countries need to compete for investment by making concessions on taxes on payrolls and corporate profits. Tax competition may not be the main cause of the financing problems of the welfare state, but it has constrained policy responses by making some forms of revenue-raising more costly at a time when pressures for increased spending abound (Clayton and Pontusson 1997; Genschel 2004).

Furthermore, the European macro-economy has changed significantly since the late 1980s. Although the international macroeconomic environment of the end of the 1980s

was relatively favourable and thus helped many countries to bring inflation and public deficits under control. In Europe, the German unification prevented a soft landing in most countries. Because the Bundesbank feared that monetary unification and sharply rising budget deficits might endanger price stability, it switched to a very restrictive monetary policy in 1991-92. Pegged to the D-mark, in part via the European Monetary System (EMS), the other European economies had to follow suit. However, some countries were not able to credibly abide by the constraints on monetary policy imposed by the EMS. As a consequence Italy, Sweden and the United Kingdom had to devalue their currencies substantially. Partly as a result of the currency crisis, most European countries went into recession in the early 1990s, marking another rise in unemployment. As a result of high interest payments on the public debt and rising unemployment, public debt rose considerably in the majority of countries. If countries were to reduce their debt and the corresponding debt service in line with the European Monetary Union (EMU) convergence criteria, some of the countries, especially Belgium and Italy, would have to run primary budgets of over 5 percent for several years. This translated into savings in all areas of public expenditure, including the social services.

Increased economic internationalisation went along with a transformation of the political environment.

Manifold policy failures to manage the crises of the 1970s and 1980s produced a distinct shift in the balance of political power from the left to the right, while powerful interests have used the opportunities provided by capital market and trade liberalisation to strengthen their ideological opposition to generous systems of social and employment protection –which we can refer to (following Swank, 2002) as the “political logic” of globalisation. In other words, the rhetoric of globalisation may in many instances be more important than the reality. Thus, increased international financial integration is said to have strengthened the social and political power of capital –in particular capitalists with mobile or diversified assets. The evidence shows that the bulk of FDI continues to go relatively high-wage and high-tax countries. Nevertheless, the relocation threat –a major manifestation of the political logic on globalisation– can exert a powerful influence on domestic policy and institutional arrangements, as shown in certain high regulation European countries where large firms have used it to weaken the power of unions and force concession bargaining.

There are however good reasons for believing that the overall impact of globalisation has been exaggerated, as have its potentially adverse consequences for employment and social standards. There no compelling evidence that economic globalisation is necessarily leading to a “race to the bottom” in social policy. Though income inequalities have been rising somewhat in many European countries since the mid-1980s, there is no (or only weak) evidence that this development has been spurred by globalisation. Neither did intensified economic internationalisation to put a lid on aggregate social spending. Where inequality is rising, it can be attributed, beyond globalisation, to explicit political choices or inappropriate responses to more fundamental endogenous process of social change (Begg et al, 2008). Various types of institutional settings and forms of social security and labour market policy are equally compatible with competitiveness. In fact, since the pressures of economic internationalisation affect different welfare states in varying ways

and to differing degrees at different points of time, a blunt juxtaposition of a “race to the bottom” versus a generous welfare state is not particularly useful. It fails to capture the full complexities of the economics and politics of national processes of policy adjustment and provides little basis for genuine comparative analysis or policy prescriptions.

From within, ageing populations, declining birth rates, changing gender roles, individualisation, the shift from an industrial to a service economy, increased migration, and new technologies in the organisation of work present new endogenous challenges to the welfare state. Perhaps the most important reason why the existing systems of social care have become overstretched stems from the weakening of labour markets and traditional family units as the default providers of welfare (Esping-Andersen, 1999). In most European countries, the reduction of employment in industry and the rise of the service sector began in the 1960s. The move towards a knowledge-based society is likely to exacerbate and increase the risks of social exclusion. This affects low skill groups in particular who have not or cannot acquire the skills to succeed in the knowledge-based economy. Highly educated workers, on the other hand, are the winners; their jobs have become more secure and/or better rewarded as a consequence of increased international trade and the advancement of information technology. Job losses continue to be concentrated among people who have not completed at least secondary education or who lack formal vocational qualifications, including some ethnic minorities, young adults, women and elderly workers. The average unemployment rate of low skilled groups is two to three times as high as that of skilled workers. Spells of unemployment for the low skilled have increased in frequency and duration. Almost half the unemployed the European Union has been without a job for more than a year. Long-term unemployment leads to a further erosion of skill levels. Moreover, the long-term unemployed are stigmatised by employers; once they have been out of the labour market for more than a year, they are perceived to be “unfit” for work. Whereas the primary risk of widespread poverty in the post war era was in old age, child poverty is now the bigger problem, together with early school leaving. The first choice of a college, career or job may not work out. Jobs may be lost in mid-career with the consequence of permanent inactivity and growing inequality, with the steady erosion of semi-skilled jobs. These are all so-called “new” social risks (Bonoli, 2006).

At the same time, with the steady increase of women’s labour force participation, traditional breadwinner social insurance is gradually becoming dysfunctional. The immediate impact of the growing number of dual-earner families is the combined pressure of paid and unpaid working time, especially among women. Women have entered the labour market in great numbers since the late 1960s, exactly at the moment when male employment in industry was falling. Apart from emancipatory reasons, it has virtually become an economic necessity for women to seek paid work as two earners are most likely to maintain a decent family income. At the same time, women continue to provide most domestic care. This responsibility limits the number of hours available for paid work. Accordingly, poverty rates are particularly high among lone mothers (Taylor-Gooby, 2004). Moreover, traditional care patterns also impact on fertility rates. Women seeking paid work generate a demand for provision from men, the private sector and the state. The lack of such provisions has been argued to be an important reason why fertility rates in Scandinavia are amongst the highest in Europe (Esping-Andersen and Sarasa, 2002).

Gøsta Esping-Andersen (1999, p. 3) has even posed that population ageing is primarily an issue of drops in fertility. There is potential mismatch between labour supply and care demand in the social service sector. Demand is rising. Ageing societies raise the number of “oldest of the old”. Demand for early childhood education will also rise as more mothers taking up paid employment seek high quality non-parental childcare. Supply is shrinking, reduced both by rising female employment rates that limit the supply of informal care and because formal care work typically offers poor working conditions, little security and low pay.

In the context of new social risks and flexible careers, full employment has come to mean a far more differentiated inclusion in the labour market over the life course, access to resources and capabilities that ensure employability at critical moments of transition and the ability to participate fully in other relevant spheres of social life (Schmid, 2008). The emergence of new social risks, the multifaceted and differentiated weakening of the labour markets and traditional familyhood, with increasing professional precariousness and difficulties to reconcile career and family life, including elderly care, the greater visibility of the “winners” and “losers” has somehow lifted Rawls “veil of ignorance”, which allowed the post war welfare state to function as an insurance society on presupposition of a fairly homogenous social risk. Today, the welfare state must try to mitigate new social risks for groups and individuals in their own specific situations, i. e. to respond to hazards outside the scope of the traditional social insurance model. The perspective of social citizenship rights in terms of income compensation for temporary social problems (illness, short-term unemployment), although still significant, has become insufficient.

In addition, immigration is becoming a key feature of most globalised political economies. The varied ethnic, linguistic and religious features of new immigrant groups bring about important benefits to European societies, but immigration is also associated with costs and with the risk of segregation between groups. With respect to the welfare state, a growing body of research from a variety of settings point to ethnic diversity in explaining for instance the discrepancy between US and European welfare state development (Alesina and Glaeser, 2004). And there is also evidence that describes the link between increased immigration and decreased support for social welfare in Western Europe (Banting and Kymlicka, 2006).

However, as policy-makers must find new ways to manage the new social risks associated with changing gender roles, de-industrialization, demographic ageing, increased immigration and economic internationalisation, their endeavour to recast the welfare state is constrained, “from the past”, by long-standing social policy commitments in the areas of the “old social risks” of unemployment insurance, disability benefits and especially pensions. In a period of “relative austerity” and lower economic growth, welfare entitlements, i. e. policies addressing the social risks associated with the post-war industrial era, now seem to crowd out the space for new social policy initiatives (Pierson, 1998 and 2001). In comparison to welfare’s golden age, economic growth has slowed down while unemployment has risen. This has seriously reduced the room for manoeuvre in a variety of ways. Whereas an upsurge of unemployment spurs demands on the welfare state and reduces people’s contributions, the overall decline in economic growth reduces tax incomes and makes it more difficult to raise taxes for welfare state expenditures. Furthermore,

advanced welfare states have “grown to limits” (Flora, 1986). Rising health care costs and pension provisions have contributed massively to welfare budgets and fiscal strains.

The spectre of economic austerity is likely to intensify in the face of population ageing. Despite the uncertainty involved in assessing ageing (due to the difficulties in predicting fertility rates), virtually all policy-makers and academics agree that action is needed in order to mitigate the potentially adverse consequences of ageing societies. Eurostat suggests that the EU will experience major changes in its population size over the next forty years, going from positive to negative population growth, while the older members of the population are gradually outnumbering the young. According to Eurostat estimates, by 2050, almost one third of Europeans will be over 65 years old –compared one tenth in 1960s. To a considerable extent the ageing predicament has been reinforced by generous early exit schemes and employment crises in the 1990s and early 2000s. Fiscal sustainability surely requires new ways to finance health and pensions amidst growing cost pressures, as well to change the incidence of the cost burden via changes to taxation or social insurance systems. The maturation of governmental commitments and population ageing demand reforms to health care provision and old age pensions (in 1992 these accounted for 80 percent of all social protection outlays in the European Union) if costs are not to escalate and employment creation stymied by higher direct taxation and/or payroll taxes. Yet such policies are constrained by the popularity of generous welfare programmes and the commitment of a range of political and vested interests and beneficiaries to defending them.

As an intervening variable in the process, issues of work and welfare have become ever more entwined with processes of European integration, especially since the 1980s. It is fair to say that in the EU we have entered an era of “semi-sovereign welfare states” (Leibfried and Pierson, 2000). European (economic) integration is fundamentally recasting the boundaries of national systems of social protection, both constraining the autonomy for domestic policy options but also opening opportunities for EU social policy agenda setting (Ferrera, 2005; Zeitlin, 2005). Since the 1980s, the division of labour between EU economic and social policy co-ordination and national welfare states has become increasingly untenable: advances in economic integration prompted the introduction of direct or indirect constraints on national social policy. The Maastricht Treaty of 1992 made such constraints very explicit by agreeing upon the establishment of the EMU and the Stability and Growth Pact (SGP), constraining governments’ macroeconomic room for manoeuvre. Even those Member States not committed to becoming EMU members and those outside the EU were constrained by global capital markets to adhere to the austerity policies of the (future) EMU members (Huber and Stephens, 2001, p. 234).

Europeanisation has unleashed a restructuring of domestic social citizenship regimes along two dimensions of social and economic policy co-ordination. First, there is the relevance of cross-border risk pooling through binding legislation against unruly competition through the well-known “Community Method”. Examples include directives and rulings of the European Court of Justice (ECJ). The role of Europe in this regard has obviously increased over time due to the combined effect of earlier and recently legislated European laws, serving to open up national welfare states to competition. This trend is intensified by the shift from public schemes towards multi-pillar systems in the field of

pensions and health care in particular, since private and voluntary arrangements are subject to legislation on the internal market. By contrast, however, many of the ECJ's rulings have also been devoted to employment protection, gender equality, and to the extension of rights to social assistance and other non-contributory benefits to EU citizens (Hemerijck, 2004).

Second, and equally important, the EU can serve as an external agenda setter, catalyst and facilitator of domestic reform, rather than a law maker. For instance, the European Employment Strategy, launched in 1997, was deliberately designed to favour a gradual re-orientation towards activation, the avoidance of early retirement, the promotion of part-time work, lifelong learning, gender mainstreaming, balancing flexibility with security and reconciling work and family life. Such a reorientation perhaps is of a similar magnitude as the macroeconomic paradigm shift from Keynesianism to monetarism of the early 1980s. As EU economic regulation has ushered in a period of regime competition, this has opened a window for agenda setting and policy transfer of experience and institutional “borrowing” taking place from outside domestic policy systems, via the intermediation of other boundary spanning international organizations like the OECD, IMF, the World Bank and the ILO, encouraging domestic redirection of social and employment policy. Rather than requiring strict adherence, these forms of governance are aimed at promoting a certain degree of cognitive and normative harmonisation in the areas of employment policy, pension, health care and social inclusion policies.

In short, four sets of socio-economic challenges – economic internationalisation, post-industrial social change, fiscal austerity and intensified European integration – invalidate the family and labour market assumptions on which the post war welfare state was based. Moreover, these challenges have major implications for the structure of coalitions behind or against profound welfare reform. As the distribution of new social risks varies by skills, gender, age and sector, just to mention a few, this sharply contrasts with the less diversified coalitions of working and middle class groups behind the post-war expansion of the welfare state during the golden age. Today, cleavage conflicts over issues like childcare and leave arrangements, employment protection legislation and active ageing, are being fought out within mainstream social democratic and Christian democratic parties, rather than between left and right (Stiller, 2007; Korthouwer, forthcoming). While the support for the welfare state remains high amongst European publics practically everywhere, social anxiety with respect to feelings of job insecurity as a consequence of globalisation, is now turning against the European Union, which is increasingly perceived of an agent of market liberalisation, threatening to undermine long-standing and deeply held European Christian Democratic and Social Democratic values of social cohesion.

2.3. Theorizing social cohesion

The renewed concern about social cohesion surely has its roots in Europe's increasingly diverse societies, ageing populations and globalised political economies. Historically, concern about social cohesion tends to surface during periods of rapid social change, reflecting anxiety about the sources of social order. Social cohesion was the central theme of Émile Durkheim, one of the founding fathers of sociology (Durkheim, 1973 and 1983).

He was in any case the first person to examine the concept of cohesion. He too wrote during a period, at the end of the 19th century, when Europe was confronted with major changes arising from the processes of industrialisation, urbanisation, immigration and emigration and growing social conflict. Durkheim's principal fear was that if economic liberalism was taken too far this could negatively affect the proper functioning of society. Durkheim insisted that the core question facing the emerging discipline of sociology was, "What are the bonds which united men one with another?". According to Durkheim, a solution for social disintegration or anomie due to increased social interdependence lay in reinforcing loyalties shared by citizens themselves and by citizens and the government. Issues of social cohesion (the cement of society) and processes of inclusion and exclusion all relate to various forms of loyalty in Durkheimian sociology. Cohesive norms and values were very important. He also stressed the vital role of "intermediary structures" between government and the general public in a modern society. For him, what was needed in the 20th century was to institutionalise a corporative organisation of work to promote "social" integration, alongside a political system based on representative democracy.

There are several theoretical alternatives that could conceivably provide an answer to contemporary problems of social exclusion, economic inequality, cultural marginalisation, and political dissatisfaction. Different views of social order have been developed throughout the history of Western society with clearly distinguishable contemporary descendents. These include, (i) Durkheim's late-19th-century sociological functionalism; (ii) classical, more market-oriented, liberalism of the 18th century; (iii) the institutional pluralism or civic republicanism of the early 19th century, and (iv) social citizenship welfare interventionism of the mid-20th century. All four intellectual perspectives have retained their value and their contemporary manifestations are important reference points for today's discussion about the relationship between social cohesion and the welfare state.

2.3.1. Cultural belonging

The Durkheimian perspective sees social cohesion as being rooted fundamentally in a common body of norms and shared values, or what Durkheim himself called a conscience collective. From this perspective, a society cannot endure without a common body of norms adhered to by most people, and this collective conscience is especially critical when members of a society are called upon to make sacrifices for the common good. Hereby the focus often shifts to notions of national identity. The essential question is "Who are we?". The contemporary Durkheimian perspective on social cohesion continues to view social integration primarily in terms norms and values. From the perspective of norms and values, a socially cohesive society is one in which the members share common norms and values that enable them to identify and articulate common goals and have shared normative principles and codes for how they will work together. In this approach, social cohesion consists mainly of a sense of belonging: to the family, the social group, the neighbourhood, a working environment and the nation state. A norms and values perspective of social cohesion almost inevitably leads to a diagnosis that cohesion is lacking due to the fragmentation and erosion of common values and to a strategy of intervention

aimed at refinement (targeted at non-conformist behaviour) designed to bolster and restore common values.

Across Europe, the renewed interest in norms and values today is largely associated with multiculturalism. The majority of EU Member States today are immigration societies. Since the 9/11 attacks on Twin Twin Towers in New York we seem to be witnessing a retreat from multiculturalism and increased uncertainty about the compatibility of Western and non-Western values. Critics of multiculturalism insist that illiberal and intolerant strands within some minority communities are going unchallenged, weakening commitments to such values as gender equality and tolerance for sexual preferences. The worry is that an emphasis on multiculturalism and respect for diversity has unintentionally created space for radical religious and political movements on attacking the liberal-democratic order. Beneath the surface, an undertow of populist discontent is mobilised against immigration and multiculturalism. With respect to welfare states, various commentators have wondered whether relatively diverse societies are less likely than relatively homogeneous ones to invest in redistributive and social insurance programs. A growing body of evidence from a variety of settings points in this direction. For example, analysts have pointed to different levels of social diversity in explaining differences between US and European social welfare programs (Alesina and Glaeser, 2004). Recent cohort of immigrants have fared less well in the labour market, despite having higher levels of education and training than their predecessors. Evidence of greater residential segregation is emerging in large metropolis. There is also growing body of literature that describes the link between increased immigration and decreased support for social welfare in Western Europe (Banting and Kymlicka, 2006).

At the same time, European citizens increasingly see life a biography they write for themselves to fulfil their own ambitions, rather than being type casted by parental background, class, and religion. The growth of this multiformity of values has been accompanied by a surge in prosperity, which has facilitated personal autonomy, particularly in one's outlook on life and choice of lifestyle (Giddens, 1991). People nowadays increasingly make their own selections from the wider variety of values and persuasions available to them. As a result, traditional bonds of solidarity and collective identity have weakened. This is not to say that European citizens have become out and out individualists. Most remain deeply conscious of the obligations that they owe each other. Many believe that human beings can only be fulfilled through the quality of their relationship with others. Nonetheless, there is a distinct break with the more collectivist values that underpin the post war welfare state. This brings us to the (neo-)liberal critique of the welfare state and the problem of public order.

2.3.2. Markets against welfare state failures

In 18th century classical liberalism, personal freedom and individual autonomy came first. This view refers back to the 17th century political pamphlets of John Locke and the 18th century economic theory of Adam Smith. Social order is interpreted here as a relational contract of horizontal relationships, based on trust between individual citizens and with respect for personal property. In his *Second Treatise of Government*, Locke described

man as being by nature rational and not belligerent (Locke, 1988). Locke's conception of the liberal rule of law, or "civil society", was based on individual freedom and private property. It was the economic independence of "freemen" which prompted them to draw up a social contract. This contract encompassed a constitutional separation between the private domain of citizens and the public domain of the state. Citizens could count on legal protection of their private domain. Within the private sphere, the citizen could live his life – "the pursuit of life, liberty and estate" – undisturbed – without state intervention. Classical economists after Locke, including the "founding father" of the academic discipline of economics, Adam Smith, increasingly came to see social order as an unintentional but highly positive effect of economic markets and other individual exchanges (Smith, 1976). The mutual respect for individual rights, guaranteed by the rule of law, as well as social actions in pursuit of one's own self-interest is conducive to a prosperous social life as a result of the unintended positive effects of the effective operation of market forces. To optimise the efficiency-enhancing effect of market forces, almost all neo-classical economists after Smith, including Hayek and Friedman, attached enormous value to negative freedoms, particularly protection of property, freedom of contract and an independent judiciary. Classical liberalism considered these civil freedoms to be very important for the effective functioning of the economy and society. By comparison with Durkheim's view of social cohesion as an extra-economic form of internal cohesion in a society characterised by the intensification of the division of labour, classical liberalism preferred to see social cohesion as the unintended positive side-effect of a properly functioning market economy, and hence not really problematic as long as the government allows the free market to operate without constraint. The attraction of the free market is that the consumer's actions are direct and individual. In the model of a perfect market economy without government, it is assumed that producers and consumers take decisions on the basis of the direct effect of their conduct on themselves and therefore take no account of the consequences of their behaviour for others. In contrast to Durkheimian functional communitarianism, the market-liberal conception of public order does not recognise any strong ties of collective shared responsibility among the individuals that make up the community. There is, so to speak, nothing between individual consumers and producers and the state, neither institutionally, nor normatively.

In the 1980s, the rise of supply-side economics, coupled with the political ideologies of neo-liberalism and neo-conservatism, signified a re-definition of the relationship between economic efficiency, social protection and social cohesion. Social problems were increasingly framed in terms of a "culture of welfare dependency" and a lack of "individual responsibility. From a (neo-)liberal perspective, comprehensive welfare provision and economic security undermines the efficiency enhancing logic of market. Beginning in the 1980s and gathering momentum in the 1990s, neoliberal doctrines called for a fundamental deregulation, privatisation and marketisation of welfare provision from regulatory constraints and celebrated a culture of greater individual responsibility for meeting social needs. Welfare dependency should be reduced. At the international level, the pervasiveness of these ideas was led by the OECD, especially through its *Jobs Study* and the stream of successor documents (OECD 1994a, 1994b, 1994c, 1995, 1996, 1999a). In the early 1990s, the OECD received a mandate to examine the labour market performance

of its member countries. The OECD Jobs Strategy, published in 1994, launched a critical attack on the “dark side” of double-digit unemployment of many of its European OECD members. Hovering around ten percent with little signs of improvement (OECD, 1994) unemployment rates in the large economies of France, Germany, and Italy were twice as high as in the USA. The employment rate was about twelve points below the USA. The OECD economists argued that Europe’s generous welfare states, with their over-protective job security, high minimum wages and generous unemployment insurance, heavy taxation, and their overriding emphasis on co-ordinated wage bargaining and social dialogue, had raised the costs of labour above market clearing levels. Moreover, strong “insider-outsider” cleavages with unfavorable employment chances for the young, women, the old and the unskilled, prevented the rigid European labour markets from producing employment rates, on a par with the US, the UK or New Zealand. The OECD thus portrayed the fundamental dilemma of Europe’s mature welfare states in terms of a trade-off between welfare equity and employment efficiency. The policy recommendations that naturally followed from this analysis included retrenchment of unemployment compensation, deregulation of job protection legislation, reduction of minimum wages, decentralisation of wage bargaining, and lower taxation. The OECD Jobs Strategy shocked the welfare-friendly mainland European policy elites, social-democratic and Christian democratic parties and trade unions of different political colors. In the course of the 1990s, the slow, fragmentary and half-hearted implementation of the recommendations of the OECD Jobs Strategy came to be attributed to political deadlock and opposition and trade union protest. It was argued that serious reform in mature welfare states proved politically unrewarding because losses are concentrated and resisted by vested interests, while the gains are spread out only thinly. As a result, deadlock prevailed in spite of unsatisfactory employment performance and mounting social and political discontent. The European welfare state, as Paul Pierson put it, proved to be an “unmovable object” (Pierson, 1998).

2.3.3. Participatory decision-making

Durkheim’s compatriot Alexis de Tocqueville provides a more pluralistic and political view of the importance of “voluntary associations”. In De Tocqueville’s writings in the first half of the 19th century, the public domain of voluntary associations plays the role of an active political buffer or “countervailing power” against the constant threat of “despotism” of the democratic state. De Tocqueville puts forward a wide range of groups; not only professional organisations in trade and industry, but also religious, political and scientific associations. For De Tocqueville, it was not Durkheim’s division of labour but democratisation that was the “prime mover” of modern history (Tocqueville, 1945). De Tocqueville feared not only that democracy conjured up the risk of the “tyranny of the majority” but that the increasing equality of living conditions also prompted a far-reaching centralisation of government power. He regarded the expansion and centralisation of government power as the downside of democratic equality. According to De Tocqueville, “voluntary associations” offered the possibility of combining and safeguarding equality and freedom. In his *De la Démocratie en Amérique*, published

in two volumes in 1835 and 1840, De Tocqueville adopts a pre-eminently institutional argument for retaining freedom and equality in a democracy. Democracy is essentially a procedure of public debate, discussion and dialogue, in which those engaged in the discussion are responsive to each other's views and are willing to correct their viewpoints in the light of existing information and the quality of the arguments. The political rights of association, assembly and universal suffrage are essential institutional conditions for "voice" as a *modus operandi* of political expression. In the United States in the first half of the 19th century, De Tocqueville discovered that the Americans were encouraged to participate in public life by "enlightened self-interest" and not by a belief in the public cause. In this respect, De Tocqueville's views leave far more scope for calculation, give and take and the creation of coalitions of social organisations in the public domain than Durkheim's functionalistic solution of a limited number of strong corporative identities. Voting is the most elementary form of political engagement in a democratic society. But for De Tocqueville this is not enough. The pluralistic political market forces citizens to organise themselves into voluntary associations in order to defend their public and private interests. Like Founding Fathers such as Hamilton and Madison, and again in agreement with Montesquieu, De Tocqueville attaches special value to representative structures and "checks and balances" to mitigate the risk of despotism and the hold of the state on citizens. De Tocqueville also saw the free press and the independent judiciary as important buffers between citizens and the state. The fundamental Tocquevillian question is not "Who are we?" but rather "How can we live together?" For De Tocqueville, a polity can function perfectly adequately as long as there is a general consensus on the institutions and procedures through which tensions can be mediated and conflicts adjudicated. In democratic countries, this essential minimum centres on the institutions of liberal democracy and the political values on which they rest. The key to social cohesion is the active engagement of diverse groups in a society and in debates, through civic organisation, about that society's future.

A very popular modern strand of De Tocquevillian social thought is associated with the work on social capital and trust of Robert Putnam (1993; 2000). In this approach to social cohesion, it is assumed that a cohesive society is characterised by a higher degree of political participation by the public and interaction in communities and public and private networks. Putnam equates social cohesion with social capital, represented by social networks and norms of trust. Interpersonal trust fosters cooperation among people and facilitates collective action, with powerful implications for economic prosperity, cultural integration and political stability. Participation in social networks is a form of engagement highlighted in the social capital literature that is seen as playing a potentially important role in the bridging of different communities. Moreover, trust is an asset that grows with use, and participation in associations builds interpersonal trust because it encourages interaction (1993; 2000).

Neither De Tocqueville nor Putnam regarded the relationship between organised groups and the government as purely a question of a sense of community. Interest groups constantly follow the logic of "something-for-something". We therefore agree with Robert Putnam (1993) when he says that socially responsible collective action is reinforced by a norm of reciprocity, or:

(...) a continuing relationship of exchange, that is at any given time unrequited or unbalanced, but that involves mutual expectations that a benefit granted now should be repaid in the future (Putnam, 1993, p. 172).

According to Putnam, to keep such a norm of reciprocity alive actors must be able to participate in “networks of civic engagement” which enable them to meet regularly, make agreements and repeatedly endorse the promises that have been made. In Putnam’s words: the tighter the networks of civic engagement, the greater the chance of trust and socially responsible collective action. The reasons for this are obvious. Networks of civic engagement increase the costs of unilateral defection, they nurture robust norms of reciprocity, they make communication easier and they promote the exchange of reliable information and important knowledge. Finally, networks of civic engagement embody earlier successes of socially responsible cooperation, thereby raising the threshold for future conflicts (Putnam, 1993, p. 173-4).

Central to Putnam’s work on the United States is the erosion of the public middle-ground of intermediary institutions between the citizen and the government. Francis Fukuyama also calls for the restoration of “trust” in American society (Fukuyama, 1995). Fukuyama realises that a trust-based revitalisation of the American inner cities will be particularly difficult because of the veritable institutional clear-out on the back of a generalised distrust of anything to do with the government. Trust has to be built from the bottom up. According to the logic of Albert Hirschman’s trio of *Exit, Voice, and Loyalty*, it is then a question of capitalising on that trust in institutions that conserve “loyalty” and activate “voice” (Hirschman, 1970). The analysis here is that processes of individualisation and the large-scale commercialisation of organisations have created a wider gap between citizens and politicians. Trusted civic organisations such as churches, unions, political parties, voluntary organisations and the neighbourhood have lost a lot of their strength in the process.

2.3.4. Welfare Interventionism and Social Citizenship

Welfare interventionism makes up the fourth perspective on social cohesion. This view originated in European countries, in the wake of the Great Depression and World War II, where social-democratic and Christian-democratic ideological traditions were strong. Countries with a social-democratic and Christian-democratic background proved most capable of translating a sense of crisis and international economic dependency into solidaristic policy during the 20th century. In the Netherlands, Belgium and Germany, the origins of the post-war welfare state lay in Christian social ideology. In the Scandinavian countries, social democracy laid the basis for the social contract. In this view a number of vital, but never exclusive, economic responsibilities for the social order are delegated to collectively chosen democratic institutions. As with De Tocqueville, in this view the legitimacy of democratic institutions is the key to the enforcement of social order, but its adherents go much further in terms of the political responsibility for social protection and economic security. In his first report, *Social Insurance and Allied Services*, Lord William Beveridge saw “freedom from want” to be the pivotal objective of the welfare state (Beveridge, 1942). The fundamental purpose of the post war welfare state was economic security.

Modern social policy represents a key component in Europe's advanced political economies. The European welfare state, in the shape and form in which it developed in the second half of the twentieth century, represents a unique historical achievement. Never before in history, as Fritz Scharpf puts it, "has democratic politics been so effectively used to promote civil liberty, economic growth, social solidarity and public well-being" (Scharpf, 2003). The defining feature of the post war welfare state is that social protection came to be firmly anchored on the explicit normative commitment to grant social rights to citizens in areas of human need (Esping-Andersen, 1994, p. 712). This implied the expansion of mass education as an instrument for equal opportunities, access to high quality health-care for everyone, together with the introduction of a universal right to real income, in the words of the British sociologist T. H. Marshall's seminal work, *Citizenship and Social Class* (1992), "not proportionate to the market value of the claimant" (Marshall, 1992, p. 110). Marshall regarded the institutionalisation of social rights, following the guarantee of civil liberties, such as ownership rights and freedom of contract, in the 18th century and the introduction of political rights, including universal suffrage, in the 19th century, as the culmination of modern citizenship. Marshall describes social rights as:

(...) the whole range from the right to a modicum of economic welfare and security to share to the full in the social heritage and to live the life of a civilized being according to the standard prevailing in society (ibidem, p. 74).

The institutionalisation of social rights in the post-war welfare state involved more than simply the expansion, enrichment and equalisation of "opportunities", according to Marshall. Social rights were above all a source of solidarity, cohesion and loyalty:

Social citizenship is inspired by and in turn can strengthen a (...) direct sense of community based on a loyalty of free men endowed with rights and protected by a common law. Its growth is stimulated both by the struggle to win those rights and by their enjoyment when won (Marshall, 1963, p. 96).

Social citizenship held out a promise of the enlargement, enrichment and equalisation of people's "life chances" (Marshall, 1992, p. 107). Social policy, Marshall thus defined as the use of democratic "political power to supersede, supplement or modify operations of the economic system in order to achieve results which the economic system would not achieve of his own" (ibidem, p. 15).

In his 1945 *Full Employment in a Free Society*, William Beveridge came to view employment, active participation or inclusion in productive work as a key function of being an accepted part of a larger collective identity (Beveridge, 1945). In Beveridge's participatory view on full employment, social citizenship went beyond the right to a decent income and social protection, to include the right to live from labour, to combine their income with the recognition of a social function. Jobs benefit people by giving them enhanced opportunities for self-actualisation, personal identity and self-esteem and the feeling of belonging to a community. Inclusion through the labour market remains a key cornerstone of every policy strategy of social inclusion. Participating in the labour market is today the most important form of social interaction and, as such, is an indispensable element in achieving social cohesion. In the words of Guenther Schmid: "Not being wanted is worse than being poor" (Schmid, 2008, p. 3). An impressive set of social programs was built on the foundation of full employment. A rapidly growing education system would

expand equity of opportunity, and comprehensive health insurance would spread the benefits of health care to the population as a whole. And a full range of income transfer programs –unemployment insurance, workers’ compensation, disability benefits, old age pensions, survivors’benefits, children’s allowances, and social assistance– would protect citizens for the economic risks associated with modern life. These risks, it is important to note, were considered to confront virtually the entire population, not just a specific groups labelled “the poor”. The priority was predictability and security for the entire population. Vertical distribution from the rich to the poor was a secondary goal. If anything, the post war paradigm represented a shift away from vertical redistribution as a primary goal of social policy. The universal programs put in place from the 1940s and 1970s shifted redistribution primarily in a horizontal direction: from the employed to the unemployed, from the health to the sick, from the young to the elderly, from the childless to families with children, and so on. As secondary aim, universal programs financed through progressive taxation did have a mildly redistributive impact between the rich and the poor. However, not as the primary aim.

With the expansion of the welfare state after the Second World War politics not only began to play a key role on issues relating to the development and distribution of individual and collective prosperity in society, but also with respect to individual and collective welfare in the policy areas of health and social care. This trend was accompanied by an enormous expansion of the public sector, both in terms of staff numbers and in terms of the share of the national “operating result” spent on public services. Coinciding with the intensification of government intervention, the judgement of the public at elections was increasingly coloured by the success or failure of economic policy and the results of the policy of distribution of the national welfare state. The post-war welfare state undeniably made a significant contribution to economic prosperity, social cohesion and democratic legitimacy in Western Europe. Among the successes of the national welfare state –a creation of the second half of the 20th century– are a high standard of living, universal access to education and health care and a right to an income for those who are elderly, ill, disabled, unemployed and poor.

In response to the neo-liberal critique of the “perverse incentives”, “fiscal overload”, and “ungovernability” of the welfare state in the 1980s, from the mid-1990s onwards, an increasing number of academic observers now advocate a new welfare repertoire based on consistent normative principles, coherent causal understandings, (re-)distributive concerns, and institutional practices. This new welfare repertoire would be roughly comparable, in scope and reach, to the male-breadwinner Keynesian welfare state model of the post-1945 era. While acknowledging that the traditional welfare state played a key role in Europe’s post World War II and later served to pave the way for the transformation from an industrial to a knowledge-based economy, a more modern welfare state must place more emphasis on investment, activation, and integration throughout the life cycle. The aim of this more “preventive” or “developmental” welfare state is to safeguard economic security, political participation and social empowerment. A vibrant society requires equal opportunities and social progress. What remains in this new approach is that structural unemployment, widening income inequality and permanent social exclusion of poorly-educated groups in a period of economic globalisation and the information society pose

enormous threats to social cohesion and solidarity. The debate shifted from the demand to the supply side, reinforced by economic globalisation, technological change, and the emergence of a knowledge-based economy, factors which place a premium on flexibility in labour markets and effective adjustment to new forms of production. Security no longer means protection from disruption inherent in the market. Such security in the contemporary world is seen as flowing from the capacity to participate in the market and to adapt to a changing global economy. The transition is from security as protection from change, to security as the capacity to change. At the level of policy design, the challenge is to transform social policy programs, not per se by trimming historic protections, but by strengthening incentives to adjust, and equipping citizens to cope more effectively with economic transitions. Perhaps one of the more popular conception of a new welfare edifice is central to the work on “Third Way” by Anthony Giddens, who goes as far as to suggest that welfare expenditures should remain as European rather than American levels, but should be switched as far as possible from income distribution to investment in human capital, replacing the traditional welfare state with a “social investment state” (Giddens, 1998 and 2000).

By adopting a life course perspective, this new conception of “preventive” and “developmental” welfare allows policy-makers to highlight the inter-connectedness of social risks and needs over time; to underscore the developmental character of key social policies. The notion of the “preventive” or “developmental” welfare state provides a common language for a policy agenda that prioritizes high levels of employment for both men and women as the key policy objective, while combining elements of flexibility and security. The new social investment model should facilitate women, in particular, and men to accommodate work and family life, managed by new forms of governance and based on subtle combinations of public, private, and individual efforts and resources (Esping-Andersen et al, 2002; Esping-Andersen, 2005; Jenson and Saint-Martin, 2003; Taylor-Gooby, 2004). A key feature of the “preventive” welfare state is the focus on life cycles. A lack of opportunity in early in life might permanently impair a future employability and learning opportunities. There should be not be one single intervention, but an integrated and coherent approach and an entire package. Education, early childhood development and lifelong learning are crucial in the life course, for it is training and skills that determines life chances and social participation. Education empowers people to participate in society on the basis of self-determination and opens up opportunities for them to identify and define their personal interests and needs and play and active and effective role in society and political affairs. In many countries across Europe, however, there is extreme inequality in access to educational opportunities. An effective democracy requires knowledgeable and competent citizens so as to engage critically with political and social affairs of the community. Education and training are the real source of security in a technological economy. The low skilled are likely to face declining real incomes, precarious employment, and an uncertain future. As a result, a country’s learning systems are critical to both economic competitiveness and social equity. Education, therefore, is far more than simply the imparting of knowledge and skill for future careers. A successful strategy of investing in human capital cannot be divorced from a continuing concern for child poverty. Policy attention should focus in particular on children, to ensure that they have a rich

learning environment, especially in the early childhood years. Evidence from the United States suggests that early childhood education can be highly effective, especially when targeted at disadvantaged children (Heckman, 2000; Heckman, 2004). Learning should be lifelong as citizens should continuously upgrade their skills. But there is also a more deeply rooted challenge. Most important is the inescapable fact that educational attainments and life chances of children are shaped by the social and family context into which they are born. Moreover, drop-out rates are still high: one out of six youngsters leave the education system prematurely. There is a clear correlation between the level of income inequality in a country and the extent of inequality in literacy in its adult population: societies with high levels of income inequality tend to have high levels of dispersion in literacy levels. The cross-national relationship between economic and educational inequality suggests that a successful strategy of investing in human capital cannot be divorced from a continuing concern about inequality and poverty, especially child poverty.

The “preventive” welfare state also attaches great importance to the transition of making retirement more flexible in order to empower older people to play an active, productive and creative role in the life of society and the economy. In the “preventive” welfare state, the Keynesian emphasis on “effective demand” management seems to give way to a policy emphasis on “effective supply”, with the implication of taking out social barriers for labour market entry, discouraging early exit, making labour market transitions less precarious, and providing gender equality and equality of opportunity throughout the life cycle in response to the drastic changes of the world of work and welfare (OECD, 1999; Giddens, 1999 and 2001; Ferrera, Hemerijck, Rhodes, 2000; Esping-Andersen et al., 2002; Esping-Andersen, 2008; Kenworthy, 2004 and 2008; NESO, 2005; IFFS, 2006; WRR, 2006). In other words, economic and social factors are regarded as far more important than sub-cultural problems of integration. A solution lies in channelling and accommodating new risks, particularly in relation to the labour market, income inequality and geographic economic problems. In terms of social cohesion, traditional welfare interventionist concerns with greater equality of outcomes give way to a discourse focused on social inclusion. The new paradigm places less emphasis on a more equal distribution of income as such. The new discourse is not equality/inequality, but social inclusion/exclusion. Giddens agrees that the new politics defines equality as inclusion and inequality as exclusion. The spotlight is thus trained on special barriers confronting vulnerable groups such as single parents. Moreover, the new paradigm assumes that inclusion is achieved through movement into the paid labour force, and that growing inequality among paid workers is of secondary interest.

As can be noted from the intellectual survey above, the concept of social cohesion invokes multiple perspectives, and much depends on the diagnosis of particular social problems. To be sure, the decision to research one particular social problem has consequences not only for the analytical and methodological framework but also significant consequences for the articulation of policy solutions for the social deficits that are studied. From our perspective, there is no reason to choose between these different perspectives. The various perspectives highlight different dimensions of social cohesion.

2.4. Understanding welfare recalibration

At first sight, mature European welfare states indeed seem remarkably stable. From the early 1990s to 2003, total social spending as a proportion of GDP has generally hovered between 27 and 28 percent (Begg et al, 2008; Castles, 2004; see also OECD, 2008). Despite the “irresistible forces” urging for reform, ranging from the new rules of global competition, intensified European economic integration, the new shape of working life, the predicament of demographic ageing, and changing family structures, the European welfare state proved to be pretty resilient. Notwithstanding the dire predictions of breakdown, the welfare state survived the recession-prone 1970s and 1980s. But does this suggest that social security and employment protection legislation are unsusceptible to reforms? Is this image of a “frozen welfare status quo” in the face of a severe employment crisis truly correct? Are European welfare states really that ossified and resilient, unable to improve their employment record? I think not. If we interpret the welfare state more broadly than aggregate social spending, a finer grained qualitative analysis of long-term policy evolution allows us to paint a broad process of profound, yet gradual transformation of European welfare states across at least five closely related policy shifts in macroeconomic policy, wage bargaining, labour market policy, social security, pensions and social services (Hemerijck and Schludi, 2000; see also Boeri et al., 2005; Brandt et al., 2005).

IN MACROECONOMIC POLICY, up to the late 1970s, Keynesian macroeconomic policy priorities, geared toward full employment as a principal goal of economic management, prevailed. In the face of stagflation –i. e. the combination of high inflation and rising unemployment– the Keynesian order gave way to a stricter macroeconomic policy framework centred on economic stability, hard currencies, low inflation, sound budgets, and debt reduction, culminating in the introduction of the (EMU). Building on two decades of monetary integration, EMU has transferred monetary policy, a core function of the modern welfare state, to an independent central bank (ECB) and it has significantly constrained Member States’ fiscal policy discretion (Dyson and Featherstone, 1999; Martin and Ross, 2004).

With the supply side revolution in macroeconomic policy in the 1980s, the responsibility for employment shifted away from macroeconomic policy towards adjacent areas of social and economic regulation.

In the field of WAGE POLICY, a reorientation took place in favour of market-based wage restraint in the face of intensified economic internationalisation and structural unemployment. Since the early 1980s, wage restraint resumed importance as a requirement for successful adjustment by facilitating competitiveness, profitability, and –as a second-order effect– employment. Strategies of wage moderation have been pursued in many countries through a new generation of social pacts in Europe, linked with wider packages of negotiated reform, including labour market regulation and social protection. The rediscovery of a jobs-intensive growth path in Denmark, Finland, Ireland and the Netherlands, by way of a first generation of new social pacts, has also allowed the social partners to strike deals over productivity, training, and job opportunities for less productive workers. In the 1990s, the EMU entrance exam played a critical role for a second generation of national social pacts in Southern Europe. Policy-makers and the social partners in the so-called hard-currency latecomer countries, like Greece, Italy

and Portugal were stimulated to rekindle co-operative, positive sum solutions to the predicament of economic adjustment, i. e. by making taxation, social protection, pension and labour market regulation more “employment friendly”, in part, at the expense of privileged groups (Levy, 1999; Visser and Hemerijck, 1997; Hemerijck and Visser, 2003).

In the area of **LABOUR MARKET POLICY**, in the 1990s, the new objective became maximising employment rather than inducing labour market exit. The main policy trend here is a shift from passive, financial transfers for those participating in the labour market towards activating measures in order to reduce dependency rates and increase the tax base. In the process, we witness notable increases in spending on active labour market policies, mobilising women, youths, older workers, less productive workers, based on early intervention, case management and conditional benefits (Clasen and Clegg, 2006). Furthermore, Public Employment Services (PES) in many countries have been pushed towards “modern service provision”, capable of effectively and efficiently delivering specialized services to an ever-growing clientele in outward-looking fashion. The most important elements of the new PES “service model” include the following: the use of management-by-objectives and advances towards decentralization; rigorous, independent, and comprehensive labour market policy evaluations and the merging of—or at least closer collaboration between—regimes for social assistance and unemployment benefits; active promotion of new local partnerships; competitive tendering for service provision; and removal of restrictions of private employment service agencies (Weishaupt, 2008).

With respect to **LABOUR MARKET REGULATION**, more narrowly understood, empirical evidence from Denmark and the Netherlands suggests that these countries have moved towards greater acceptance of flexible labour markets on the condition of strong matching social guarantees. The objective of “flexicurity” implies the development of a new balance between flexibility and security so as to provide an alternative to a “deregulation-only” policy perspective, as well as an alternative to the continuation of rigid regulation in the areas of labour law and social policy. While systems combining restrictive dismissal protection with meagre unemployment benefits essentially cater to the interests of insiders, so called “flexicure” systems based on minimal job protection but offering decent standards of social protection for the unemployed are best able to bridge the gap between insiders and outsiders in mature welfare states. Flexible hiring and firing and generous social security do not automatically lead to low unemployment, as the Danish case reveals. In the 1990s, the Danes critically strengthened job search and creation with a series of active labour market policy measures. Central to flexicurity policies is that they not only take the conditions under which companies operate into consideration, but also bring a life course perspective of workers into the equation. From this, it follows that “flexicurity” is not merely a topic of labour market policy and regulation, but also for family policy, insofar as family policy interacts with labour market conditions, allowing for more flexible family models and individual life courses (Schmid, 2008).

Within the sphere of **SOCIAL INSURANCE**, we can observe how benefit generosity has been curtailed; eligibility has become more conditional, and increasingly targeted at lower income groups in the majority of European welfare states (Ferrera and Hemerijck, 2003; Van Gerven, 2008). Like in the case of labour market policy, perhaps most profound was the shift from passive policy priorities aimed at income maintenance towards a greater

emphasis on activation and reintegration of vulnerable groups. In the process, the function of social security changed from the passive compensation of social risks to corrective attempt to change behavioural incentives of claimants and employers together with a strong emphasis on weeding out adverse selection and moral hazard. This is also captured by the shift from out-of-work benefits to in-work-benefits. Different policy strategies materialised in different welfare states. In Great Britain, where income guarantees and unemployment benefits are modest, individual tax credits to support low-wage workers and their families are very popular. In Continental Europe, the main problem is that heavy social contributions price less productive workers out of the market. In the face of the relative weakening of traditional male breadwinner social insurance programs, policy-makers in these countries have turned towards strengthening minimum income protection functions of the welfare state, coupled with strong activation and reintegration measures. Many European welfare states seem to be evolving towards a dual social protection model, combining both Bismarckian social insurance and Beveridgian minimum income protection tiers. In this respect, the French and Belgian welfare states have increased social assistance protection for the neediest, using targeted benefits instead of universal benefits, financed through taxation and general revenues (Palier, 2008). The 2005 Hartz IV reforms in Germany stand out as a case in point. The most controversial elements of the Hartz IV reform involved a drastic shortening duration of benefits, tighter requirements to accept suitable jobs, simplification of insurance regulations, wage insurance for elderly unemployed, and the merger of unemployment assistance and social assistance.

In the area of old-age pensions, the most important trend is the development of multi-pillar systems, combining PAYG and fully funded methods with a tight (actuarial) link between pension benefits and contributions. Virtually all European countries have also introduced fiscal incentives to encourage people to take up private pension insurance. In the 1990s, a number of countries, notably Belgium, France, Ireland, the Netherlands and Portugal, have started to build up reserve funds in order to maintain adequate pension provision when the baby-boom generation retires. Also changes in indexation rules have helped to reduce future pension reliabilities. In Austria, Germany, Italy and Spain, restrictions have gone hand in hand with attempts to upgrade minimum pension benefits. Measures to combine work and retirement via partial pension benefits have been introduced in Austria, Belgium, Denmark and Germany. In Western Europe, one of the most profound reforms was undertaken by Sweden in the mid-1990s, which introduced a small mandatory funded element and transferred an important part of the risk associated with ageing to retirees. The latter was done by indexing future benefits to the life expectancy of the retiring cohort and by linking future benefits to net wages. Benefits will be lower if life expectancy continues to increase and net wages continue to grow slow. But there was also a strong element of redistribution within generations as the reform ensured a universal guaranteed pension for low-income pensioners (Palme, 2005). The Swedish legislation has heavily influenced reforms in other countries, like Italy, Latvia and Poland (Ferrera and Gualmini, 2004; Fultz and Ruck 2001). Finland has developed policy approaches to improve occupational health, work ability and well-being of ageing workers, in order to keep older workers in the workforce as long as possible (Clark and Whiteside, 2003; Immergut et al., 2007).

SOCIAL SERVICES have experienced a comeback lately. Spending on childcare, education, health, elderly care, training and employment services, has increased practically everywhere in Western Europe over the past decade. Almost a fifth of all jobs created in the EU between 1995 and 2001 occurred in the health and social services sector. In particular, ageing and longevity make demands on professional care that working families can no longer meet. In the process, all European welfare states are moving away from the breadwinner/caregiver model, under which mothers are enabled to stay home with children, to a dual earner norm, under which mothers are enabled to enter the labour force. In Scandinavia, the expansion of services to families began in the 1970s in tandem with the rise in female labour supply. It was in large part this policy of “de-familialisation” of caring responsibilities that catalysed the dual-earner norm. In most other European countries, female employment growth came much later (Daly, 2000a; 2000b; Lewis, 2006). In Southern Europe it is only during the past decade that we have seen a sharp rise. Throughout the EU, leave arrangements for working parents have also been expanded, both in terms of time and in the scope of coverage, to include care for the frail elderly and sick children. Last but not least, since the early 1990s childcare has been expanded in countries with a strong breadwinner/caregiver tradition like Austria, Germany, Great Britain and the Netherlands. Here, governments have pushed for increased spending and more flexible opening hours in order to spur the number of available and affordable childcare places (Orloff, 2006).

Over the past two decades, many European welfare states have – with varying success, but also failure – taken measures in order to redirect economic restructuring and structural social by pushing through adjustments in macroeconomic policy, industrial relations, social security, labour market policy, employment protection legislation, pensions and social services. In the process, the policy areas that make up the welfare state have been brought into a new relationship with each other. The character of the relationship between macroeconomic policy, wage policy, labour market regulation, social insurance, pensions and services transformed from loosely coupled policy responsibilities in the shadow of Keynesian macroeconomic policy, to one of tightly coupled interdependencies between employment and social policy repertoires under more austere macroeconomic conditions. In terms of performance, it became evident that active service-oriented welfare states were in a stronger position than passive, transfer-oriented systems to achieve employment growth. In the process towards activation, the avoidance of early retirement, the promotion of part-time work, lifelong learning, gender mainstreaming, balancing flexibility with security and reconciling work and family life, practically all European welfare states are moving away from the breadwinner/caregiver model, under which mothers are enabled to stay home with children, to a dual earner norm, encouraging mothers to enter the labour force.

Moreover, most welfare reform endeavours have remained deeply embedded in normative notions of equity and solidarity, shared cognitive understandings of the efficiency-enhancing effects of well-designed social and labour market policies. And while many reforms were unpopular, it is very important to highlight that a fair amount occurred with the consent of parties in opposition, trade unions and employer organizations. Moreover, the overall, the gradual, evolutionary, pace and the negotiated character of profound reform in many countries, unfolding over lengthy periods of time, contradicts

the sharp divide between periods of institutional stability and episodic path-breaking state-led policy change portrayed by mainstream comparative welfare state studies. Actually, welfare reform offers an example of path-dependent policy change: it is difficult, but this does not preclude profound social policy transformation (Bonoli and Palier, 2007). From this perspective, the welfare state is best understood as an “evolutionary” system, whose goals, aims, functions, institutions change over time, however slowly and imperfectly. The substantive extent of welfare in most European political economies adds up to a momentum of system transformation that also goes far beyond the popular concepts of “retrenchment”, “roll-back”, “retreat” and “demise”. Welfare state futures are not preordained. Neither the doomsday scenario of the demise of the European welfare state, predicted by neo-liberal economists in the 1980s, nor the prevalent image of a “frozen welfare status quo”, pictured by comparative scholarship in the 1990s, can be corroborated by the European welfare reform experience since the late 1970s. Undoubtedly, Eastern and Central European countries have witnessed the most epochal political and economic changes over the past two decades. The radical transition to a market economy was compounded by rapid economic liberalisation, and the elimination of subsidies and price control. Never before has the introduction of market mechanisms been achieved in such rapid and radical form in a democratising political setting. State socialist ideology radiated an image of social cohesion which was not accompanied by civic and political right. It should be emphasised that the historical experience of a lack of political democracy is not unique to post communist states in post-war Europe. The most immediate and traumatic shocks confronting Eastern and Central European policy-makers were a deep recession and growing unemployment, unseen in the region since the Great Depression. However, among the population of these new democracies there were raising that new governments would be more attentive to social issues. Under the state socialist system, social policy was anchored by an overarching employment guarantee, but also by strong commitments to income equality and universal coverage. This produced strongly and widely shared public expectations about the role of government in securing employment, and providing transfers and services, generating strong electoral and interest group pressures on governments (Haggard and Kaufmann, 2008).

Challenges like globalisation, ageing societies, fiscal austerity, and intensified European integration are forces which many observers see as fundamentally altering the conditions under which different European welfare states operate. As the cards are no longer stacked in favour of the welfare *status quo* (cf. Esping-Andersen, 1996, p. 267), this raises important issues with respect to the comparative study of Europe’s welfare states. First, an empirical problem, namely to what extent and in what form resilience has indeed been characteristic of recent welfare state development. Second, a theoretical problem, namely whether and to what degree comparative welfare state analysis is capable of explaining profound social policy transformation and institutional change. As such, the key objective of this contribution is to correct the prevailing view that national states are increasingly impotent to deal with the range of challenges that confront them. To be sure, internal and external challenges do not instruct policy-makers under conditions of high levels of uncertainty over their relative weights intensity and scope. Rather, they inform purposive and deliberate policy responses, which are shaped by the normative predispositions of reflexive policy actors and their cognitive interpretations of evolving social and economic conditions.

In an attempt to understand the evolution of the profound, yet gradual, social and economic policy transformation, Maurizio Ferrera, Martin Rhodes and I have introduced the multidimensional concept of “welfare recalibration” (Ferrera, Hemerijck and Rhodes, 2000; Ferrera and Hemerijck, 2003). Our notion of welfare recalibration is based on an explicit recognition that welfare states are multidimensional and made up out of institutionally interdependent social and economic policy repertoires. Multidimensionality implies that welfare reform is likely to take place along several lines of political conflict, compromise and consensus building, varying from contestation over separate and/or interlinked social policy provisions, their distributive consequences, their normative appropriateness, and their institutional viability and financial sustainability. In accordance with the welfare regime literature, institutional interdependence denotes how specialized socio-economic policy domains programs have historically developed into functionally differentiated, but institutionally complementary policy domains. As repertoires of interdependent policy areas, it is difficult to change or replace one policy program without indirectly touching on the functioning of others (Hemerijck and Schludi 2000). Processes of welfare reform, transformation and institutional change are typically the product of a long chain of interconnected sequences of policy change across different areas of social and economic regulation in which one policy change conditions another in neighbouring policy areas. Only a detailed “systematic process analysis” (Hall, 2008) of welfare recalibration over a lengthy period of time is able to trace how old welfare settlements, with respect to the employment, gender, insurance, old age, family, fertility, and human capital development, are undone and new functions of social risk management are suggested, politically enacted, normatively accepted, and implemented through the policy process.

From a recalibration perspective, reform decisions in different policy areas pass through, and are based upon, cognitive and normative judgment, distributive bargaining and institutional (re-)design as to how improve policy performance under conditions of fundamental environmental change. The notion of welfare recalibration thus highlights four key dimensions: functional, distributive, normative and institutional. Together they make up for a heuristic to diachronically analyse the complex ways in which the post war social contract is being redrafted, without abandoning the key insights of path-dependency and the political bias towards inertia rooted in mature social policy provisions. Processes of welfare recalibration surely do not involve a search for a “blank slate” new model, a radically novel blueprint to replace existing national social and economic policy repertoires. We live in a world of path-dependent solutions. Each of the four dimensions of welfare recalibration requires elaboration.

FUNCTIONAL RECALIBRATION has to do with the changing cognitive diagnosis of the social risks against which the welfare state aspires to protect. Roughly until the early 1970s, social insurance displayed a good degree of congruence with the population, family and labour market structures of European societies. The traditional catalogue of the social risks of loss of income tended to reflect quite closely the prevailing pattern of social needs, as shaped by high fertility, a shorter life expectancy than today, industrial employment and traditional gender relations. But, to varying degrees in Europe’s different welfare families, the post-war “goodness of fit” between the welfare state and an evolving socio-economic reality has been torn. As we have seen, the transition towards a post-industrial,

knowledge-based economy is producing a mismatch between the supply and demand for social policy provision.

Many experts share in the diagnosis that the current imperative of recasting the welfare state is very much rooted in the incongruence between new “post-industrial” social risks and diverse family and labour market needs, on the one hand, and institutional resilience of male breadwinner social policy provisions, on the other (Esping-Andersen, 2002 et al; Esping-Andersen, 2005; Jenson and Saint-Martin, 2003; Taylor-Gooby, 2004). The need for functional recalibration is often described in terms of the shift from “old” to “new” social risks confronting people as a result of the transition from a “male breadwinner” industrial to a “dual earner” post-industrial society (Taylor-Gooby, 2004; Bonoli, 2005 and 2006).

Since the mid-1970s, domestic and international organisations and think tanks have come to provide vital data and new sources of intelligence for the social policy process. New evidence on accumulated problems of unemployment hysteresis, the deficiencies of demand management under globalisation, moral hazard and adverse selection problems in comprehensive social insurance, adverse old age dependency, rising rates of early school drop out, unsatisfactory work-life balance for many working mothers, these and many other pieces of intelligence are today cited in attempts to advocate an alternative new welfare edifice. In response to the emerging post-industrial new social risk profile, we can observe a cognitive shift in many expert policy advices, ranging from reports of national think tanks (NESC, 2005; IFFS, 2006; WRR, 2006) to important OECD publications like *A Caring World: The New Social Policy Agenda* (1999) and *Babies and Bosses* (2007). The agenda setting volume *Why We Need a New Welfare State* of Esping-Andersen et al. (2002), commissioned by the Belgian presidency of the EU in 2001, calls for a paradigm shift from a static perspective of the welfare state, focused on social protection, from income support for social disadvantaged groups to a dynamic concern with social promotion social investment in human capital. Crucial is to adopt a life course perspective, to identify the interconnectedness of social risks and needs across time, from early-childhood, education, career, family life and old age.

Another key idea is to go beyond an emphasis on protection from the market, providing people with a replacement income of traditional male breadwinner families in the case of old age, unemployment, illness, and disability. Instead, most scholars promote an emphasis on labour market (re)integration for both men and women in an open, knowledge-intensive economy, from a life course perspective, with a strong emphasis on enabling choice and encouraging behavioral patterns rather than providing benefits. In this respect, the Dutch and Danish moves towards “flexicurity”, with a greater acceptance of flexible labour markets and a limited duration of income replacements on the condition of high benefit levels and investments in active labour market policies, are cases in point.

NORMATIVE RECALIBRATION concerns changing normative and moral orientations regarding social policy. In many countries, lively debates take place on the subject of the “moral foundations” of welfare state and on the need to rethink discourses of fairness in the face of economic internationalisation and post-industrial social change (Schmidt, 2000; 2002). Given the political salience of welfare policy in most European countries, policy proposals amending the welfare status quo only have a chance of being enacted through the democratic process, if they can be seen as normatively fair. In the case of reform it is

therefore extremely important to reflect upon basic normative principles and objectives of social policy reform. Moreover, as values and attitudes change, the expectations with respect to what constitutes an acceptable standard of social policy provision, given economic and institutional constraints, are also up for grabs.

Also in academia there is a revival in the interest of theories of social justice, not only under political philosophers, but also among more empirically oriented social policy scholars. In this respect, as Esping-Andersen (2002) observes, the debate at the EU level is close to the normative benchmark of John Rawls, stipulating that substantial changes in the social status of citizens must be to the greatest advantage of the worst-off. In agreement with Rawls's "difference principle", the European social ethos prioritises social inclusion, the welfare of the least advantaged, and the reduction of inequalities as essential ingredients in any strategy to boost competitiveness. Against the backdrop of economic internationalisation and post-industrial differentiation, a number of policy analysts today advocate "dynamising" Rawls' theory of social justice (Ferrera et al., 2000; Esping-Andersen et al., 2002; Diamond, 2006; Schmid, 2008). Equality and compensation will certainly remain key value orientations. However, a more demanding view is emerging. This pertains to a view of equality that is able to take account of differences between men and women; generational data, natural handicaps, across the life course, adjusted to the multiplicity of social risks, and aimed at supplying citizens with adequate means for social and economic engagement. Hereby the old idea of equality is being enriched with notions of generational equity and a new equity of opportunities, like employability over time.

At the heart of the new normative framework lies a re-orientation in social citizenship, away from "freedom from want" towards "freedom to act", prioritizing high levels of employment for both men and women as the key policy objective, while combining elements of flexibility and security, under the provision of accommodating work and family life and a guaranteed rich social minimum serving citizens to pursue fuller and more satisfying lives (Diamond, 2006). This suggests the need to enrich Rawls' theory with Dworkin's (1981a and 1981b) ethical theory and Sen's (1997 and 2001) capability perspective. As Rawls' theory of justice is not built on the basic distinction between the causal effects of external circumstances and individual choice, Dworkin maintains that it neglects individual responsibility for outcomes under given differences in talent or differences in the exposure to economic change. According to Dworkin, an ethically acceptable balance of individual rights and obligations is required. Taking heed from Dworkin, we observe how the majority of labour market reforms today combine the right to income support with the obligation to actively search for work or to take up vocational training. For Sen, material equality is at best a necessary, but not sufficient, condition for a fair distribution of life chances. What is more decisive is the ability of individuals to convert the resources available to them into a flexible endowment of resources that may be quite unevenly distributed but that enable all individuals to realise their own life plans. With the correction of Dworkin and Sen, we are able to transcend Rawls' static notion of distributive justice, focused on greater equality in the here-and-now, towards a dynamic notion of responsibility-sensitive equality of opportunity, emphasising equality of life chances, while advocating modern social policies as societal investments in capabilities rather than as income-replacing consumption.

The elaboration of a new normative framework is particularly urgent in the field of old age policy. The demographic predicament calls for a normative benchmark for reforming pension systems in a financially sustainable and socially adequate manner, touching on norms of intergenerational equity and intragenerational justice. Intergenerational equity implies that the transition costs associated with population aging are shared proportionately by both young and old (Myles, 2002). In Sweden, for instance, the 1994-98 pension reform was explicitly aimed at achieving more generational equity by transferring an important part of the risk associated with ageing to retirees. This was done by introducing a calculation method that decreases benefits if life expectancy continues to increase. Yet, there also was a strong emphasis on intragenerational material equality as the reform ensured a universal guaranteed pension for low-income pensioners. Moreover, in an attempt to depoliticise the issue and minimise potential veto points, all parties in parliament agreed to compromise at an early stage. This brings to the dimension of institutional recalibration.

INSTITUTIONAL RECALIBRATION concerns reforms in the design of institutions, levels of decision-making and social and economic policy governance, and the responsibilities of individuals, states, markets and families. Institutional recalibration also involves experimentation with alternative means of social policy delivery and public and private administration. One of the most distinctive institutional features of the European welfare state has been its public legalistic nature: the responsibility of ensuring social solidarity and cohesion ultimately relied on national (i. e. central) government in terms of policy formation, funding, administration and implementation. For the most part, national governments have not kept pace with changes in the economy and society, and the new social risks they come with. Various developments have been challenging this state-centric edifice of the welfare state in recent years – a challenge often summarised in the emergence of new forms of “governance” beyond the traditional territorial nation state (Ferrera and Hemerijck, 2003).

The ongoing re-definition of the role of the state with respect to welfare provision is apparent in three ways (Schmid, 2008). First, national governments no longer hierarchically monopolise welfare provision. Many countries (especially the larger ones) have been experimenting with decentralisation of competencies to sub-national (regional and local) governments. Markets and families have gained greater responsibility and community-based “third sector” associations have been called on to deliver new services. From a horizontal perspective, secondly, there is an increasing recognition that effective social policy formation and implementation today requires “joined up” governance across government departments, public agencies, private sector organizations, and community association, together with more effective form of policy co-ordination across various functionally differentiated policy areas. Horizontally across government department and vertically from the national to the local level. The double edged concern with social policy effectiveness and economic efficiency has led to forms of governance in the areas of work and welfare. These are captured by decentralised self-regulation and co-ordinated through common normative objectives and quality standards, promoting prevention and empowerment through private delivery (Zeitlin, 2008).

Finally, in the third place, it is important to emphasise that EU regulation is becoming increasingly more important in laying the international ground rules and social principles

shaping the scope of multi-level governance in social and economy regulation. The EU emerged as an autonomous supra-national body of social regulation and to some extent redistribution (through the structural funds), creating a complex web of multi-level interactions that has turned national welfare states from fully sovereign to semi-sovereign institutions. Open co-ordination processes, in particular, with their strong focus on “new” rather than “old” social risk categories –most notably active ageing/avoiding early retirement, part-time work, lifelong learning, parental leave, gender mainstreaming, flexicurity, reconciling work and family life, and social exclusion– already play key roles in ongoing welfare recalibration (Hemerijck, 2008).

The politics of institutional recalibration very much requires a “policy-seeking” style of political management in contrast to a “power-seeking” or “office-seeking” political style, because institutional recalibration is driven by ideas of a better “goodness fit” between policy solutions and the institutional format that is best to deliver on the substantive problems at hand (Stiller, 2007). This requires policy reformers to principally think problem- and goal-oriented, but also to have very clear ideas about the institutional feasibility and the administrative capabilities of different forms and levels of policy making, whether central, local, functional or intergovernmental and supranational. For instance, when governments in continental Europe and Scandinavia intend to stimulate advances towards more decentralised employment services, they cannot ignore the interests of social partners who are anxious to preserve their roles in management structures (Weishaupt, 2008).

DISTRIBUTIVE RECALIBRATION concerns the re-balancing of social protection provisions across organised interests and policy clienteles. The majority of Europe’s mature welfare states are confronted with a syndrome of labour market segmentation and the insider-outsider cleavage. The post-war welfare state is often seen as the outcome of a “democratic class struggle, in the context of broadly Keynesian macroeconomic management. New risk welfare initiatives, under the shadow of more stringent macroeconomic preferences, are likely to be obstructed by the institutional outcomes of that struggle, protecting insiders rather than weakly unionized women, part-timers, and atypical workers. The predicament of ageing, if unresolved, moreover, could provoke a “generational clash” –with pension expenditures originated by the increasing number of elderly crowding out resources for the younger generations (Ferrera/Hemerijck, 2003; Lynch, 2005).

In terms of distributive recalibration, policy reformers will request policy stakeholders to subordinate their short-term distributive interests in favour of long-term societal interests. There is an inherent tension here between, on the hand, exposing stakeholders abuse of their vested interest positions, and, on the other hand, to appeal to stakeholders to rethink reform resistance to forge a more productive political and societal consensus. To a large extent, distributive recalibration boils down to consensus building to muster support behind reform. After all, welfare recalibration is a political process, a matter of “powering” alongside “puzzling”, to use Hecló’s famous phrase (Hecló, 1974). Electoral incentives, “institutional stickiness” and the veto points created by powerful vested interests devoted to defending transfer-heavy welfare states and their redistributive outcomes make anything other than incremental and negotiated reform, based on complex bargains and linkages between policy areas, very difficult. Reforms to health care systems, pensions and labour markets all require a careful process of adjustment if social cohesion as a

governing principle of these systems is not to be sacrificed and if core constituencies and their representatives (welfare professions, the labour movement, citizens) are not to erect insuperable impediments to change.

Welfare recalibration is not a tidy technocratic learning process in piecemeal engineering. Reforms are the products of lengthy processes of (re-)negotiation between political parties, governments and frequently social partners. Reconciling deep seated norms and values and routines of behaviour with the new challenges of intensified economic internationalisation, ageing and post-industrial change, relative austerity and important advanced in European integration, has surely not been easy. As European policy-makers have not been given a clear political mandate to simply retrench social protection and deregulate labour markets to improve economic performance, they have had to carve out, in a process of learning by doing, the contours of a new welfare state for Europe. In order to gain political legitimacy for promising new policy formulas, political entrepreneurs wishing to put novel policy alternatives on the political agenda are pressed to elaborate new normative priorities (or, to redefine old ones) and communicate their (novel) cognitive insights on the challenges ahead in a publicly compelling manner, so as to convert current anxieties over economic internationalisation, post-industrial differentiation and conditions of permanent austerity, into a pursuit of mobilising policy priorities and political ambitions. And the more reform proposals alter the distributive balance between groups and vested interests, the more important it is to put forward and elaborate new normative frameworks and discourses capable of advocating welfare recalibration as a “win-win” project, i. e. justifying reform in terms of underlying “normative foundations”.

2.5. Welfare performance and recalibration agendas

How much welfare recalibration can we observe across Europe’s diverse welfare systems? While the pervasiveness of the ideas of a “social investment”, “preventive” and “developmental” welfare state in policy-making circles reverberates in a plethora of expert policy reports, academic analyses, official policy priorities, political speeches in various EU capitals and in Brussels policy circles, a more critical question is: Do we see it happening? and what are the results in terms of employment, redistribution, educational investment and, ultimately, social cohesion? To be sure, welfare reform, especially in Europe, is seldom made in large, radical steps. Nonetheless, over the long term, it is interesting to examine whether the broad cumulative direction of incremental reform in the various countries moves in parallel to a new approach. This section pursues these questions by examining the performance and restructuring of the various welfare states of the Member States in the European Union since the early 1990s. Which European governments have been readier to reinforce their commitment to social investment? What is the new balance between social protection and social promotion, between passive incomes transfers and social investment in human capital? Are countries truly recalibrating their conception of social cohesion in accord with the new social and economic realities? Or is it just policy rhetoric, a political cover for stealthy retrenchment?

Welfare performance is conditioned not only by the economic and social policy challenges facing each welfare state, but more critically by variations in substantive policy

design and institutional capabilities, including systems of political decision-making and interest mediation (Scharpf and Schmidt, 2000; Ferrera, Hemerijck and Rhodes, 2000). Hence, it would be a mistake to over-generalise the nature of welfare state change and to overlook these national distinctions and diverse trajectories. If Europe does have models, they are definitely plural rather than singular (Hemerijck, Keune and Rhodes, 2006). There is a rich literature on “worlds” or “families” of welfare which dates back to the 1980s and shows how key variables are systematically related to one another, producing distinctive clusters of nations in four “social Europes” –Scandinavian, Conservative Continental, Southern European and “Anglo-Irish” (Esping-Andersen, 1990; Ferrera, Hemerijck and Rhodes 2000).

While the CONTINENTAL WELFARE STATES rely on relatively high income replacement benefits, linked to the claimant’s employment history and family situation, the Nordic welfare states not only offer generous income guarantees, but also a wide range of public social services and an active labour market policy aimed at maximising employment for both men and women. The Anglo-Saxon welfare states rely on relatively modest individualised income-dependent unemployment, sickness and old age benefit, with strict rules to social assistance. In the *Mediterranean welfare* states the family makes up for the underdevelopment of formal social assistance and services, while social insurance transfers cover core workers, especially in the area of pensions.

The eight Central and Eastern European (CEE) New Member States (NMS), which joined the EU in May 2004 (and January 2007), occupy a special place. They have gone through two radical changes in the past 65 years –the shift from capitalism to state-socialism in the 1940s and from state-socialism back to capitalism after 1989. Before World War II, CEE countries welfare provisions mainly had a Bismarckian character, i. e. welfare arrangements were linked to and based on employment and occupation. The state-socialist era saw a universalisation of the employment-based welfare system through full (and largely obligatory) employment. The state-socialist welfare state (Kornai, 1992) suffered from low quality services, queues, underemployment, limited choice and a generally low standard of living, even if it was also able to abolish deep poverty, create more equality, offer universal and free health and education services, and facilitate female employment by providing childcare, extended maternity leave and child benefits. After 1989, radically new ideas emerged concerning solidarity, equality and redistribution and the role and responsibilities of the state, market and individual. Profound welfare state reforms were the result. It is difficult to place the NMS welfare state in a particular group. By and large, they are minimal welfare states: the percentage of GDP dedicated to social expenditure is low compared to the rest of the EU. Cumulative reforms since 1989, however, have made these systems more “hybrid” rather than coherent regimes. While social benefits seem to be focused more and more on income replacement and linked to individual labour market histories in a Continental “Bismarckian” style, health care, family policy and social assistance display important universalistic as well as “Anglo” market-based trends (Keune, 2006).

Employment is perhaps the most important measure for judging the sustainability of the welfare state and the success of social and economic policy (Eichhorst, Hemerijck, 2008). The reason for this is simple: benefits and social services have to be paid by the taxes

and social security contributions from those in work. The more working people there are, the broader this funding base is. In the event of long-term unemployment, incapacity to work and early retirement, spending on social security goes up while at the same time revenues fall. From a sociological perspective, having a job also benefits people by giving them enhanced opportunities for self-actualisation and self-esteem. Participating in the labour market is today the most important form of social interaction and, as such, is an indispensable element in achieving social cohesion.

With respect to employment, there has been a significant increase in virtually all mature European welfare states over the last decade whereas the new Member States experienced a transformation crisis. Figure 2.1 shows the employment/population ratios among people in the working age population. What is striking is, first, the long-term increase in employment in most countries and, second, some persistent differences in the overall share of people in gainful employment across countries and families of welfare states.

Figure 2.1. Employment/population ratios 1997 and 2006

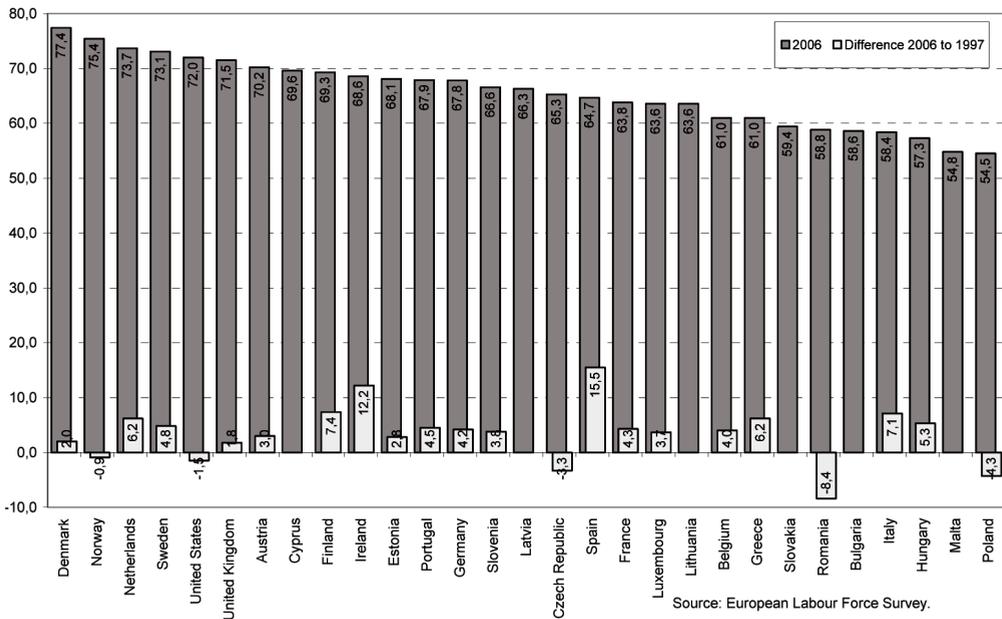
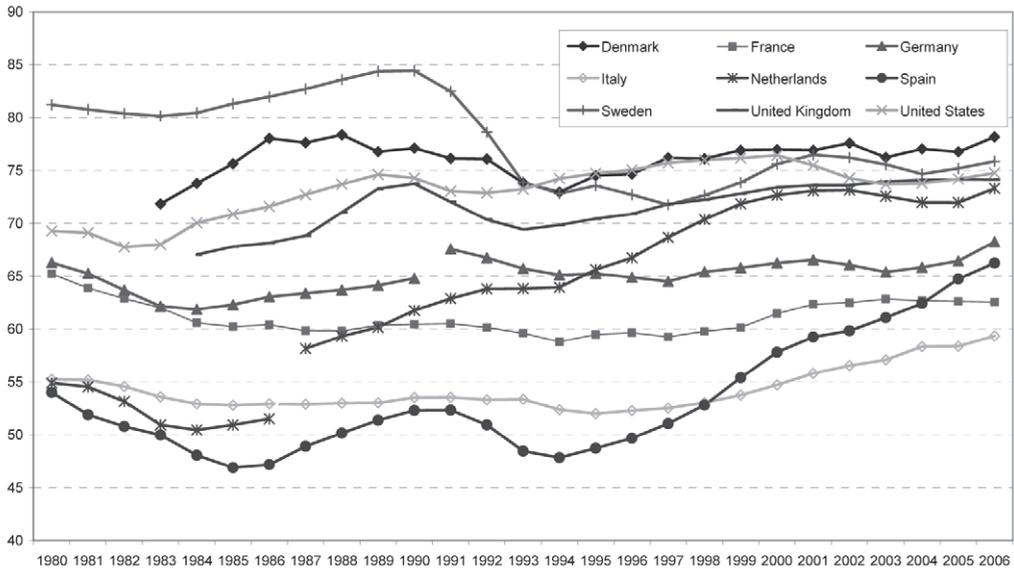


Figure 2.2 shows the long-term development of employment rates for selected European countries and the US. Unfortunately, there are no similar time series for the New Member States. The convergence over time within the EU is striking. By 2005, both the Anglo-Saxon and the Scandinavian countries had about 75 to 80 percent of the working-age population in employment. The same level was also achieved by the Netherlands after an impressive increase in employment over the last two decades. The other Continental and Southern European countries were still behind with employment rates of 60 to 70

percent. But even there we can see some progress, in particular in Spain and Italy while France and Germany have been more stagnant.

Figure 2.2. Employment/population ratios, 1980-2006

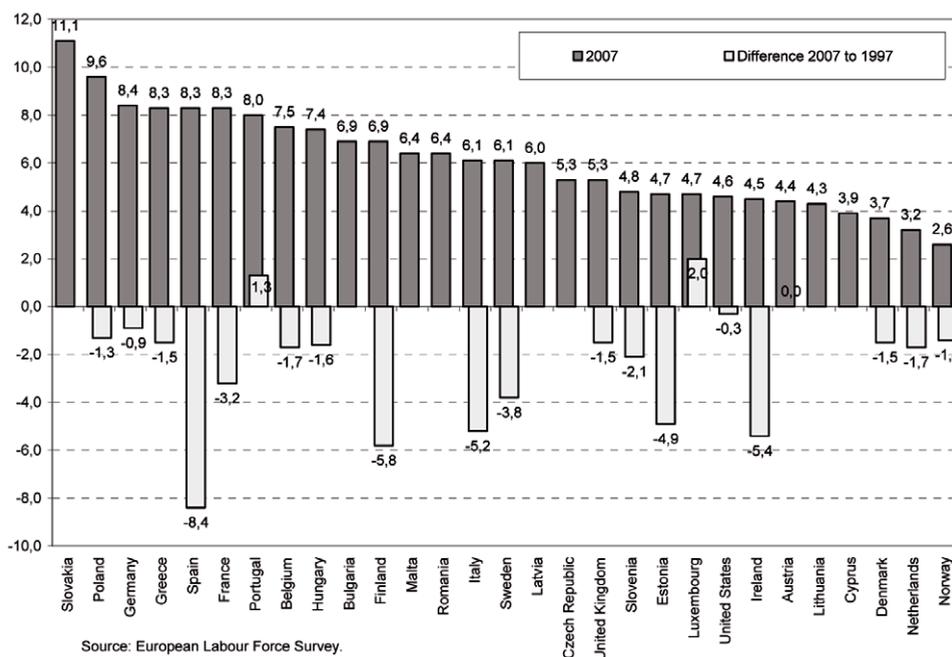


Source: OECD.

Mirroring the improvement in employment performance, standardized unemployment rates declined in most European countries over the last decade as figure 2.3 shows. What is most remarkable is the strong decline in unemployment in some Southern and Continental European countries such as Spain, France, Italy, as well as in Sweden and Finland which could overcome the deep crisis of the 1990s. Even the low-unemployment countries like Denmark and the Netherlands, achieved further progress so that there is now virtually full employment with lower unemployment and higher employment rates than in the US, even though the incidence of long-term unemployment is still high.

High employment is not only found in market-oriented arrangements. The government plays an important role in the Scandinavian welfare state model as an employer in the labour-intensive social services sector. As a result, the Scandinavian welfare states create wide opportunities for men and women with lower education levels to work in the public sector, as well as creating employment for highly-trained professionals. About a quarter of the labour force in Denmark and Sweden (mainly women) are employed in the public services sector. The expansion of the number of jobs in social services, childcare, and care for the elderly from the 1970s onwards gave rise to a self-reinforcing mechanism: more women entered the labour market, leading to a marked reduction in the amount of care provided within (working) families, which in turn led to an increase in demand for professional care services.

Figure 2.3. Standardised unemployment rates

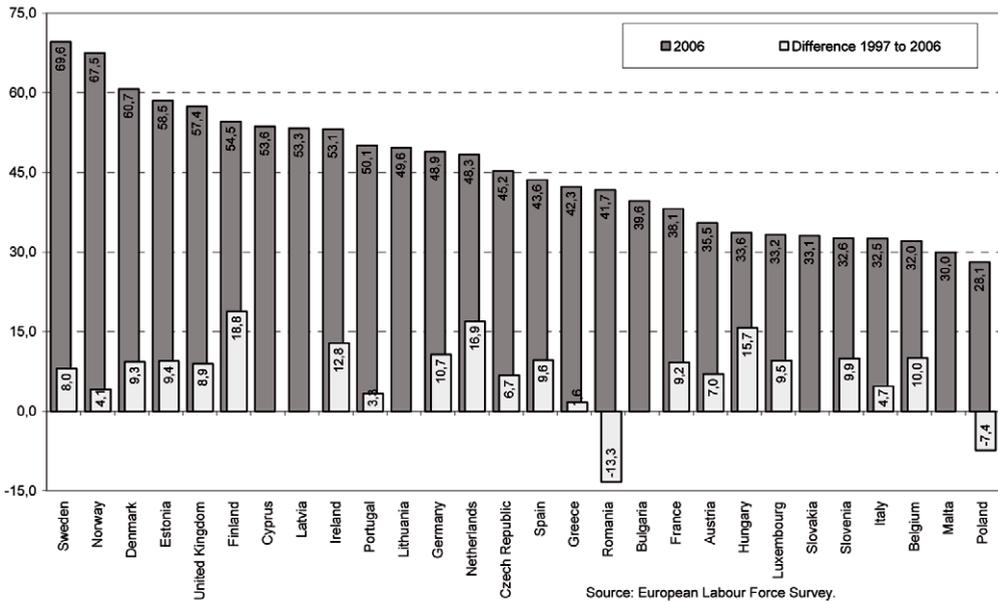


The response of the Continental and Mediterranean welfare states to the process of economic restructuring in the 1970s and 80s was aimed at keeping open unemployment low by limiting labour supply with the help of a host of early retirement options. Growing demands on social security led to burgeoning costs to be borne by the labour market. From the middle of the 1980s onwards, employers in Continental welfare states increasingly began using labour-saving technology and shedding less productive employees via the social security system. This turned the Continental productivity squeeze into an inactivity trap. A vicious cycle arose of high gross wage costs, low net wages, the exit of less productive workers and rising social costs, creating a spiral of falling employment and rising economic inactivity. This also undermined the financial basis of the social security system. It was not until the second half of the 1990s that there was a limited increase in the employment rate in the Mediterranean welfare states, which, in fact, have seen some of the biggest employment gains in the EU over the last decade. The Netherlands occupies a special place comparatively, because it was the first Continental welfare state with a historically low female employment rate to improve its performance, trending towards Scandinavian levels.

There is far more regime-specific variation regarding the employment rates of older workers, women and the low-skilled. Differences in the extent to which these three groups are integrated into the labour market basically determine differences in the overall employment rate. With respect to the 55-64 age cohort (see Figure 2.4), Belgium has the

lowest employment rate of the EU15 (32 percent) while Sweden has the highest (almost 70 percent). In the EU27, Poland and Malta still have particular problems regarding the labour market position of older cohorts. The Continental and Mediterranean welfare states and most of the new EU Member States saw a dramatic fall of more than 30 percent in the employment rate of older workers from the 1980s due to early retirement, particularly among men. Since the end of the 1990s, the employment rate among older workers has been increasing strongly in Finland, but also in some Continental welfare states, with the Netherlands taking the lead.

Figure 2.4. Employment rates of older workers (55-64), 1997 and 2006

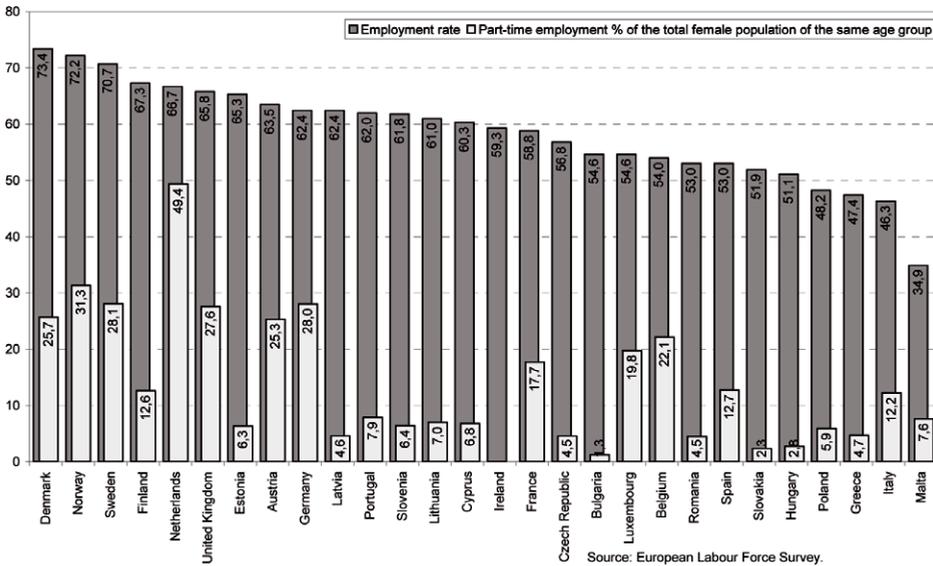


The labour market entry of women is the most striking recent development in European welfare states (see Figure 2.5). In the early 1970s, the Netherlands had the lowest female employment rate in the OECD, at 29.2 percent. This was lower than the figure in Ireland, Greece, Spain, and Italy, where the rate was just above 30 percent. Since then the employment rate of women has grown strongly. In net terms, the rate in the Netherlands has increased to 67 percent, the sharpest rise of any OECD member state. The female employment rate in the Netherlands is currently still lower than in the Scandinavian welfare states, but here as elsewhere younger cohorts are undergoing a notable convergence in the direction of stronger labour force participation.

The low –and only marginally increasing– employment rate among women in the Mediterranean welfare states, in particular, points to a number of key barriers on the Southern European labour market. In the Continental and Anglo-Saxon welfare states, the ability to work part-time has created an important means of entry to the labour market

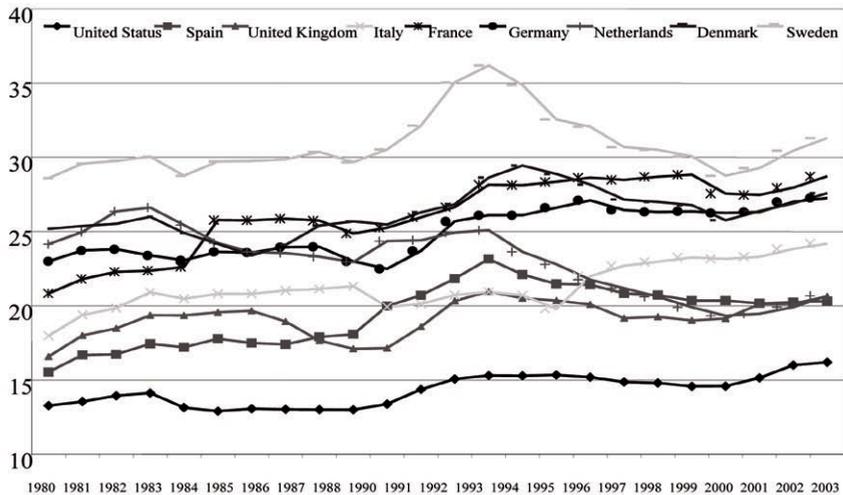
for women, in particular in the Netherlands. In countries with a long-standing tradition of female employment, such as the Scandinavian countries, part-time employment is less common. For younger cohorts, female employment in Southern and Continental Europe is rapidly catching up to Northern European averages.

Figure 2.5. Female employment and share of women's part-time work, 2006



Despite changes in the overall economic environment and sequences of policy reforms, expenditure levels on social protection expressed as a percentage of GDP have remained relatively stable if not increased over the last two decades as figure 6 shows for a selection of countries.

Figure 2.6. Total social expenditure in percent of GDP, 1980-2003



However, gross data on social expenditure which are frequently used tend to overestimate differences across countries as (a) in some countries, but not in others benefits are taxed, (b) tax breaks for social purposes can act as a functional equivalent to cash benefits and (c) private social expenditure, sometimes on a mandatory and publicly subsidised basis, play a varying role as a partial substitute for direct public expenditure. Estimates of net spending on social purposes, exemplified in Table 2.1, including private expenditure, are available for some OECD countries. They show greater convergence across families of welfare states. The Continental European countries France and Germany are at the top, followed by Sweden, but also, notably, the US and the United Kingdom.

Table 2.1. Social expenditure in percent of GDP, 2003

	Gross public social expenditure	Net direct public social expenditure after direct and indirect taxes	Net tax breaks for social purposes (not including pensions)	Net current public social expenditure	Net current mandatory private social expenditure	Net current voluntary private social expenditure	Net total social expenditure
France	28.7	24.7	0.9	25.5	0.3	2.2	28.0
Germany	27.3	23.9	1.9	25.8	0.6	1.6	27.6
Sweden	31.3	24.3	0.0	24.3	0.3	1.5	26.1
Belgium	26.5	22.5	0.5	22.9	0.0	3.1	26.0
United States	16.2	15.2	2.1	17.3	0.4	8.9	25.2
United Kingdom	20.6	18.9	0.4	19.3	0.6	4.8	24.6
Netherlands	20.7	17.2	0.7	17.9	0.4	5.1	23.1
Italy	24.2	20.4	0.2	20.6	1.4	0.4	22.3
Austria	26.1	20.6	0.0	20.6	0.5	1.0	22.2
Portugal	23.5	19.9	0.9	20.8	0.4	1.0	22.1
Norway	25.1	20.1	0.1	20.2	0.9	0.6	21.7
Denmark	27.6	20.3	0.0	20.3	0.1	1.2	21.6
Finland	22.5	17.7	0.0	17.7	2.1	0.7	20.6
Czech Republic	21.1	19.1	0.4	19.5	0.2	0.1	19.8
Spain	20.3	17.2	0.4	17.6	0.0	0.3	17.7
Slovak Republic	17.3	15.5	0.6	16.1	0.2	0.9	17.0
Ireland	15.9	13.6	0.3	14.0	0.0	0.5	14.3

Source: OECD (Adema and Ladaique 2005)

Data on the earnings dispersion of full-time workers and the incidence of low pay, i. e. earning lower than two thirds of the median, show a proliferation of inequality in most countries (Table 2.2). Yet there are marked differences between country clusters. Some CEE countries such as Hungary and Poland and the Anglo-Saxon labour markets have a large wage dispersion, while the Scandinavian countries continue to have relatively egalitarian wage structures.

Table 2.2. Earnings dispersion and incidence of low pay

	Ratio of						Incidence of low pay	
	9th to 1st earnings deciles		9th to 5th earnings deciles		5th to 1st earnings deciles			
	1995	2005	1995	2005	1995	2005	1995	2005
Hungary	3.96	5.63	2.09	2.46	1.89	2.33	21.9	..
United States	4.59	4.86	2.17	2.31	2.11	2.10	25.2	24.0
Poland	3.40	4.31	1.97	2.18	1.72	1.98	17.3	23.5
Ireland	4.01	3.57	1.98	2.07	2.02	1.72	20.4	17.6
Spain	4.22	3.53	2.10	2.14	2.01	1.65	15.2	16.2
United Kingdom	3.48	3.51	1.88	1.96	1.85	1.79	20.0	20.7
Germany	2.79	3.13	1.79	1.84	1.56	1.70	11.1	15.8
France	3.08	3.10	1.93	2.01	1.59	1.54
Czech Republic	2.78	3.01	1.71	1.77	1.63	1.70
Netherlands	2.77	2.91	1.71	1.76	1.62	1.65	13.8	..
Denmark	2.47	2.64	1.69	1.73	1.46	1.53
Finland	2.34	2.42	1.66	1.70	1.41	1.43	..	7.0
Sweden	2.20	2.33	1.59	1.68	1.39	1.39	5.7	6.4
Norway	1.89	2.21	1.40	1.50	1.35	1.48

Source: OECD 2007a.

Moving beyond earnings from work, a comparative analysis of distributional outcomes has to take into account the role of taxation and social benefits as well as the household composition. The Gini coefficient, a frequently used measure of income distribution, shows high inequality in some, but not all CEE countries, but also in Portugal and Greece followed by the Anglo-Saxon family. Continental European countries show a more egalitarian distribution of incomes as do the Scandinavian countries, the Czech Republic and Slovenia. This is confirmed by the poverty rate which is the highest in the Mediterranean countries, Latvia and Lithuania.

Income inequality appears at first glance to have remained relatively steady since the mid-1990s, but in the aggregate, EU-level data masks significant country-level variation, with some countries experiencing a reduction in income inequality, while some other experiencing an increase. New Member States, by and large, tend to have high levels of income inequality, whereas the situation has been improving in some of the older Member States. The Gini coefficient reveals that there has been a reduction of inequality in eight countries: Estonia, Spain, the Netherlands, France, Malta, Bulgaria, Ireland, and Austria. On the other hand, 10 countries experienced growing income inequality. These were Hungary, Latvia, Finland, Romania, Lithuania, Denmark, Sweden, Poland, Slovenia and Portugal. The Gini coefficient remained relatively constant in Belgium, Czech Republic, Germany, Greece, Italy, Cyprus, Luxembourg and the United Kingdom. While the Gini coefficient is a summary measure of income distribution, another measure concerns the at risk of poverty rate, defined as 60 percent of the national median equivalized income. In 2006, 16 percent of the EU population were at risk of poverty. Extrapolating from 464 million people in the EU25, the number of people in poverty was 74 million. Among all the EU Member States, Latvia has the higher at risk of poverty rate, at 23 per cent, whereas another new member state, the Czech Republic, is ranked as the best performer, at 10 per cent, on a par with the Netherlands.

Table 2.3. Income inequality and poverty in Europe

	Gini coefficient		At-risk-of-poverty rate (60 percent of median equivalized income)	
	2000	2006	2000	2006
Latvia	34	39	16	23
Portugal	36	38	21	18
Lithuania	31	35	17	20
Greece	33	34	20	21
Estonia	36	33	18	18
Hungary	26	33	11	16
Poland	30	33	16	19
Ireland	30	32	20	18
Italy	29	32	18	20
United Kingdom	32	32	19	19
Spain	32	31	18	20
Norway		30		11
Cyprus		29		16
Belgium	30	28	13	15
Luxembourg	26	28	12	14
Malta	30	28	15	14
Slovakia		28		12
Germany	25	27	10	13
France	28	27	16	13
Netherlands	29	26	11	10
Finland	24	26	11	13
Austria	24	25	12	13
Czech Republic		25		10
Denmark		24		12
Sweden		24		12
Slovenia	22	24	11	12

Source: Eurostat.

Turning to social investment and services, the variation across countries and families of welfare states is more pronounced. The provision of public childcare and pre-schooling shows marked differences across countries, with the Scandinavian countries, Belgium and France offering the best infrastructure, and most Continental, the Mediterranean and the Central European countries lagging behind (Table 2.4; OECD 2007b). This is major factor driving or restricting female employment.

Public childcare provision is no longer seen merely as a facilitator of female employment or as a means to reconcile family and work. It is increasingly perceived as the first pillar of lifelong learning. As investments at early stages of the life cycle provide the basis for further success in education and training, they are seen as an effective and efficient tool to ensure skills acquisition also at later stages of general education or vocational training. As a consequence, there are also marked differences in terms of participation and intensity of

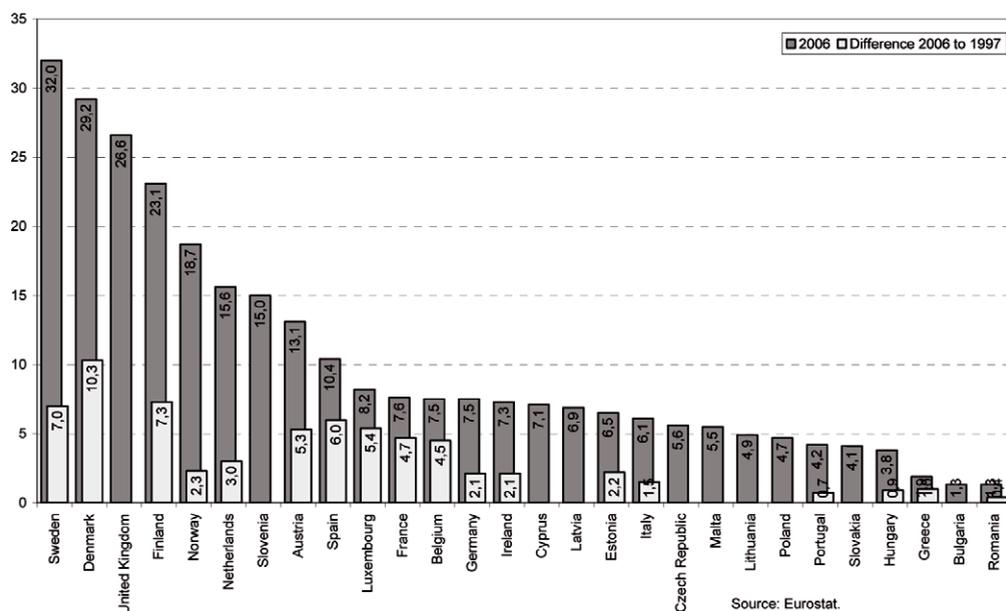
lifelong learning activities (OECD, 2005). Figure 2.7 shows that participation in continuous education and training is more pronounced in the Scandinavian countries and the United Kingdom where on the job training is also a functional equivalent to more formal vocational training. However, despite some increases in most countries, the adjustment of skills over the life cycle is still far from perfect. Particular deficits are found in the Continental and Southern European countries as well as in most NMS.

Table 2.4. Childcare and pre-school enrolment, ca. 2004

	Enrolment in daycare for the under 3s and pre-school from 3 to 6 years (%)				Expected years in education for 3 to 5 year olds
	Under 3 years	3 years	4 years	5 years	3 to 5 years
Denmark	61.7	81.8	93.4	93.9	2.7
Norway	43.7	79.4	86.9	89.0	2.6
Sweden	39.5	82.5	87.7	89.7	2.6
Belgium	38.5	99.3	99.9	99.7	3.1
Netherlands	29.5	32.3	74.0	98.4	1.7
United States	29.5	41.8	64.1	77.0	1.8
France	26.0	100.0	100.0	100.0	3.2
United Kingdom	25.8	50.2	92.0	98.2	2.4
Portugal	23.5	63.9	79.9	90.2	2.3
Finland	22.4	37.7	46.1	54.6	1.4
Spain	20.7	95.9	100.0	100.0	3.1
Slovak Republic	17.7	60.3	71.7	84.7	2.2
Ireland	15.0	48.0	46.6	100.0	1.5
Germany	9.0	69.5	84.3	86.7	2.4
Hungary	6.9	71.0	92.3	97.8	2.6
Greece	7.0	..	57.2	84.1	1.4
Italy	6.3	98.7	100.0	100.0	3.0
Austria	4.1	45.9	82.1	93.1	2.2
Poland	2.0	26.1	35.7	46.2	1.1
Czech Republic	3.0	68.0	91.2	96.7	2.6

Source: OECD Family Database.

Figure 2.7. Participation in lifelong learning, 1997 and 2006

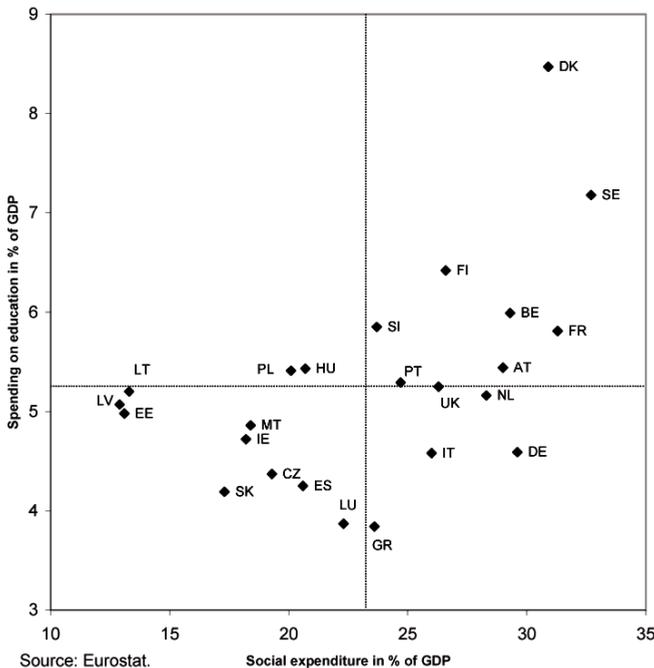


The differences in the allocation of public resources to either investment policies (such as education and training) or to compensating policies such as social benefits and passive and active labour market policies are most evident in Figure 2.8 which shows how public spending on education and social expenditure in percent of GDP combined in 2004. While the overall association between both areas of public spending is positive, some countries, in particular the Scandinavian ones, as well as Belgium and France, combine above average spending on social policies with above-average spending on education. Germany and Italy, in contrast, spend a lot on social purposes but are relatively stingy on educational expenditure. Many new EU Member States devote few resources to social policies, but some achieve the European average in terms of educational spending such as Poland, Hungary and the Baltic states.

Summarising the welfare performance data presented above, we can see, first and foremost, an overall improvement in employment and a significant decline in unemployment across most European welfare systems over the last ten years. Both aggregate social expenditures have remained relatively stable and also incomes inequality has remained relatively stable since the mid-1990s, however, both with significant country variation. Also good news is that of the 13 countries that were below the EU27 average income in 1997, only two of them failed to improve their relative position. In the EU we have managed to narrow the gap between countries in a way that has ensured that the poorest countries have not been left behind. Yet poverty as remained stubbornly constant at a time when we hoped that the benefits of economic growth and employment creation would have trickled down. As we are now facing a severe world recession, the prospects for poverty alleviation are bleak. Social investment strategies have been most successful in the Scandinavian countries. The

overall improvement in employment performance is related to groundbreaking social policy changes which were enacted in the majority of European welfare states. Since the late 1970s, consecutive changes in the world economy, European politics (most spectacularly the demise of communism in Eastern Europe), labour markets, and family structures, have disturbed the once sovereign and stable social and economic policy repertoires. As a consequence, all developed welfare states of the European Union have been recasting the basic policy mix upon which their national systems of social protection were built after 1945. Below we render a stylised sketch of the reform agendas since the 1990s across the different regimes so as to bring out both the similarities and differences within regime clusters (see also Hemerijck, 2006).

Figure 2.8. Public social expenditure and spending on education in percent of GDP, 2004



2.5.1. Nordic “dual-earner” post-industrialism

Thanks to their overall institutional coherence, together with their strong full employment and active labour market policy legacy, the Nordic welfare systems have proven to be relatively well equipped for the challenges of economic internationalisation, aging societies, gender equality, and transition to the post-industrial economy. In response to the oil shocks of the 1970s and 1980s, the Nordic countries expanded employment by increasing public sector employment. The lasting effect of the expansion of public services to families,

together with the rise in female labour supply, has been a high level of employment for both men and women, with women working largely in public social services, like education, childcare and elderly care. This policy of “de-familialisation” of caring responsibilities subsequently catalysed the dual-earner norm throughout the Nordic countries (Kuhnle, 2000).

This is not to say, that economic internationalisation has not generated problems of costs competitiveness. The Swedish public employment growth strategy, based on fiscal demand stimulus and monetary devaluation in the 1980s, led to a severe macroeconomic imbalance in the early 1990s. Throughout the 1990s, Nordic countries grappled with pressures to contain high and increasing costs and to reorganise labour markets so as to generate more demand for private employment. Sweden and Denmark have begun to reduce public-sector employment but the tradition of universalism remains largely unquestioned, even if cuts in replacement rates (e.g., sickness benefits) or basic guarantees (e.g., family allowances) have occurred. Eligibility for cash benefits, especially duration, has been tightened in Sweden and Finland. A core dimension in the Nordic reform agenda consisted of “activation”, i. e., the modification of programs to encourage actual and potential beneficiaries to find and maintain gainful employment. Denmark has gone furthest in changing the institutional profile and logic of labour market policies. Denmark has deployed a wide array of “activating” instruments including information and counseling, subsidised employment in public and private sectors, training and educational initiatives, and job rotation combined with a (temporary) expansion of leave possibilities for employed workers (Andersen and Svarer, 2007). The Danish model of “flexicurity” adheres to the principles of a “golden triangle” of a flexible labour market, generous social protection, and an active labour market policy (Erhel and Gazier, 2007). The Nordic countries, and especially Finland, have pursued a deliberate human capital response, so as to secure a productive workforce, to the challenges of economic internationalisation and post-industrial social change. The Finnish success can be traced back to a public education system which provides highly skilled people and a culture of innovation. Co-ordinating public and private efforts, the Finnish government has deliberately invested in research and development. The idea that sustaining the welfare of an aging population requires a highly productive labour force is much more widespread in Scandinavia than in any of the other welfare clusters. Cognitive inequalities are substantially lower in Scandinavia and the diminishing impact of social origin on educational performance coincides with the expansion of universal day care. Important pension reforms have also been undertaken to strengthen the links between contributions and benefits in Sweden and Finland. In order to keep older workers in the workforce, Finland has developed policy approaches to improve the occupational health, work ability and well-being of ageing workers.

The Scandinavian tradition of universal coverage provided an effective safeguard against poverty and exclusion, spells out of work and broken or changing career trajectories, with low transaction costs. Moreover, the incentive structure of nationwide social insurance and active labour market implied portability, which promotes labour mobility, while avoiding poverty traps. A wide array of services has allowed the Nordic welfare state to respond more effectively to the needs of dual earner families and to socialise the costs of care for children. As a consequence, high rates of labour market participation for both

men and women and older workers have reduced the financial strains on pension systems. Spurred by the recession in the early 1990s, most reforms were based on a strong consensus among the social democratic governments and bourgeois parties as well as employers and trade unions which all agreed on the need for modernisation (Schludi, 2005). The Nordic experience clearly shows that (high) expenditure levels are not the critical factor for effective policy responses to new challenges, but that system design and reform approaches are what really matter.

2.5.2. Reversing the Continental syndrome of “welfare without work”

From the 1970s onwards, most Continental welfare states began using disability pensions, early retirement, and long-term unemployment schemes to remove older and less productive workers from the labour market. Both center-left and right government preferred increasing social contributions over cutting social benefits. Luring people out of the labour market by facilitating early retirement, increasing benefits for the long-term unemployed, lifting the obligation of job search for older workers, discouraging mothers from job search, favouring long periods of leave, easing the access to disability pensions and reducing working hours, made up the characteristics of the Continental welfare “without work” policy strategy that became popular in the 1980s and for most of the 1990s. Backed by the unions and employers this strategy produced short-term gains, but eventually engendered a severe employment crisis in most Continental welfare states.

The Continental employment problem is directly related to payroll-based social insurance financing and relatively strict labour market regulation. The strategy of boosting international competitiveness by early retirement and high-quality training and education may have placed a premium on high productivity, but its indirect effect was a substantial increase in the tax burden on labour, as ever fewer workers had to support ever more people outside the active labour market. Productivity growth thus led to a vicious cycle of rising wage costs and the exit of less productive workers requiring further productivity increases and eliciting another round of workforce reductions through subsidised early exit (Hemerijck and Manow, 2001). In addition, strict employment regulation, including minimum wages and hiring and firing restrictions, protected the insiders in key industries, while harming the participation of outsiders, youngsters, women, older workers, low skill groups and ethnic minorities. From the 1990s onwards the policy of labour supply reduction came to be brandished as a policy failure and, if continued uncorrected, as a threat to the survival of the Continental welfare state and the Rhineland model more generally. But the Continental syndrome of welfare without work proved extremely difficult to reverse (Palier and Martin, 2007).

The severe recession in the early 1990s following the German unification produced a sharp rise in unemployment and public debt, constraining the scope for further labour supply reduction. From the early 1990s on, high taxes and the EMU entrance exam served to shift policy attention to employment creation, generating a multidimensional reform agenda to curtail passive welfare and pension commitments, to improve family policy, reform labour markets and reduce social charges. The Dutch were the first who managed to escape the Continental employment crisis through a long-term strategy combining

wage moderation, the activation of social insurance, active labour market policy, and more labour market flexibility, all developed largely in agreement and with the support of the social partners (Visser and Hemerijck, 1997). In contrast to the Dutch success at “activation”, the Belgian social insurance scheme has been transformed from a traditional Bismarckian system into one with an overriding emphasis on minimum income protection and universal coverage. Over time, this has resulted in a *de facto* targeting of benefits on the basis of individual, household and family need. In France, minimum income protection has likewise shifted from payroll contributions to general taxation so as to reduce non-wage costs and encourage job creation. Germany has been much slower in embracing reform. Only the highly unpopular Hartz reforms pursued under the Social-Democratic/Green coalition government since 2002 have sought to reduce benefit dependency and to activate the long-term unemployed into work via a combination of cuts in benefits, together with a shift towards a means-tested income support scheme for the long-term unemployed and more coherent activation measures (Eichhorst, et al., 2008). Both France and Germany now have a repertoire of (a) less regulated work contracts such as fixed-term employment or temporary agency work and (b) areas with low social contributions or employer subsidies, e.g. low-wage jobs exempt from employers contributions and a multitude of *contrats aidés* in France and *Minijobs* and different subsidisation schemes in Germany (Palier, 2008). In combination with further steps in favour of more jobs, time flexibility, including part-time work, or wage moderation for standard jobs in the core of the labour market, these reforms contributed to making Continental welfare states more employment-friendly.

Pension reform in Continental welfare states has been especially difficult, but not impossible, to implement (Immergut, Anderson and Schulze, 2007). Pension contribution rates have risen in Germany and the Netherlands, while Austria extended the reference period as part of a larger package of reforms. Germany has moved from gross to net wage indexation and France has shifted from wage to price indexation. The Netherlands, France, and Belgium have started building reserve funds to sustain pension provision when the baby-boom generation retires (Esping-Andersen et al., 2002). Germany took first steps in establishing a multi-pillar system of pension provision, including a partial privatisation of pensions with a greater emphasis on occupational pensions. The age-limit for retirement will gradually be raised to 67 years. France represented a critical case of policy blockage until Sarkozy’s entry into office in 2007 due to an absence of consensus among mainstream parties and between unions and employers.

From the mid-1990s onwards, the new goal of reconciling work and family life gained prominence in Continental countries. While the Netherlands developed the “combination scenario” of childcare through the workplace for mothers working part-time, the Schroeder governments in Germany visibly put childcare at the core of an increasingly employment oriented policy. The Grand Coalition of CDU/CSU and the SPD expanded tax reimbursements to cover childcare costs and introduced a new parental leave benefit, while expanding (public) childcare facilities.

It is no exaggeration to say that the allegedly most change-resistant and veto-prone Continental welfare states have transformed the most over the past decade! Continental welfare states are in the midst of a general paradigmatic shift away from systems geared

to income and status maintenance towards activating and employment friendly as well as gender neutral welfare systems. This suggests an element of policy convergence with the Nordic model. The method of financing saw shifts from contributions levied on earnings from work to more general taxation. In the governance structure we observe a weakening of the social partners in favor of privatization and/or more state control. We also observe a stronger role of the state regarding the provision of childcare and of female friendly leave policies, albeit with a strong emphasis on “free choice” on the part of dual earner families. The state is not to interfere directly in family life.

2.5.3. Modernization pains across southern welfare states under fiscal austerity

The modernisation of Southern welfare states proved particularly difficult, as external pressures from the entry into EMU and intensified economic internationalisation combined with the rapid aging of the population and fierce social opposition against reform from a range of vested interests. Yet Southern European states pursued an ambitious agenda of reform, including the attenuation of overly generous guarantees for privileged occupational groups, improved minimum benefits, the introduction and consolidation of safety nets, especially through means-tested minimum income schemes, increased family benefits and social services, measures against tax evasion, the reform of labour markets and the modification of unemployment insurance benefits.

Italy saw a rapid growth of expenditures on public pensions after generous social security reforms in the 1970s. Deficits soared and by the early 1980s, escalating inflation made a reorientation of macroeconomic policy inevitable. By the late 1980s Italy was becoming a “pension state”. But proposals to rationalise the pension system and restore financial balance led only to incremental cuts and little progress. The Maastricht criteria for EMU membership subsequently made fiscal restraint indispensable, and also helped spur policy reforms in industrial relations, social security and labour market regulation (Ferrera and Gualmini 1999). Within the pension system, the privileges enjoyed by civil servants to retire after only 20 years of service regardless of age (the so-called “baby pensions”) was phased out. Pension rights were accorded to atypical workers, and lower pensions were repeatedly upgraded. Some traditional gaps in social coverage were also filled. The introduction of means-tested maternity benefits for uninsured mothers was accompanied by a reform of parental leave, and a means-tested allowance for families with three or more children was introduced. But little progress has been made in improving the functioning of the Italian labour market: rigid norms protecting the employed have only been relaxed marginally, and Italy’s system of wage guarantees and unemployment compensation schemes has not been reformed. As the combination of labour shedding policies, low female participation and low birth rates were exacerbating the pension crisis similarly as in other Mediterranean countries, the Prodi-government did recognise that caring services and leave arrangement, especially for families with small children and for the aged, are an urgent matter, but reform on these issues has been blocked by political contestation.

With respect to care, leave and social services, Spain is much more of a front runner today (Guillen and Matsaganis, 2000; Guillen, Álvarez and Adão Silva, 2003; Guillen and

Petmesidou, 2008). When Spain joined the EC in 1986 it had a highly regulated labour market, but only a rudimentary system of social provision. In the recession of the early 1990s, unemployment rose to almost 25 per cent, producing a sharp increase in unemployment compensation payments and a severe deterioration in public finances. In 1995, with an eye on early EMU entry, the government, unions and employers agreed to the Toledo Pact that sanctioned pensions and labour market reform. With trade union consent, cuts in pension benefits for the “better off” were traded for improving the positions of lower-income earners. Spain also engineered a thoroughgoing decentralisation in social services from central government to the regions. Regarding unemployment, reforms included new flexible contracts (which, however, led to an explosion of temporary employment), a rationalisation of unemployment benefits, activation measures, and broad changes in employment services (Moreno, 2000). Unlike Italy, Spain has also progressed towards reducing inequalities in the labour market: in 1997, 2001 and 2005, labour laws relaxed the protection for core employees and improved the social security rights of irregular and temporary workers. Unemployment fell from 24 percent in 1994 to 8.5 percent in 2006 and is now lower than in Germany or France. Like Spain, Portugal improved its minimum benefits in pensions, increased family allowances, as well as the basic safety net and experimented with minimum income schemes. Unemployment insurance was broadly reformed, occupational training and insertion programs were expanded, and specific incentives were introduced to promote a “social market for employment” based on local initiatives that targeted the most vulnerable workers.

2.5.4. Anglo-Irish diverging “Third Ways”

The picture of the Anglo Saxon model producing high levels of inequality is certainly true from the mid-1970s to the mid-1990s, when income inequality rose dramatically, further and faster than in almost any country in the world. In the United Kingdom, Westminster-style government (giving the governing party with a significant majority untrammelled decision-making powers) allowed Conservative governments in the 1980s and 1990s to speed up social security reform. Benefits eroded in real value and the middle classes were encouraged to opt out into non-public forms of insurance in pensions and health care. As the costs of targeted, means-tested benefits started to soar despite a tightening of eligibility rules inspired by the new “workfare” philosophy, a stricter benefit regime contained costs by reducing the number of claimants. These developments have had significant consequences. The erosion of universal provision has helped restore public finances, radical labour market deregulation has fostered an expansion of private employment, and inequality and poverty have markedly increased, partly because of the perverse effects of means-testing (Rhodes, 2000).

After 1997 the Blair government embarked on a broad strategy of “third way” reform, fine-tuning benefit rules to neutralize the “traps” created by welfare-to-work schemes, and launching a fight against poverty and social exclusion by increasing minimum wage and income guarantees, reforming the tax code and introducing new targeted programs. Much like the Conservatives before them, New Labour’s approach has been to minimize regulatory burdens on the labour market, but its “welfare-to-work” strategy differs

substantially from its predecessor's workfare policies. The New Labour approach has been built around a "rights and responsibilities" agenda that attaches conditions to benefits, requiring the unemployed to actively seek work and training. That has been matched, however, by more generous in-work benefits for those who take low paid jobs, a policy now underpinned by a minimum wage. The most distinctive feature in New Labour's strategy of welfare reform is reliance on work and employability to address poverty, disadvantage, and social exclusion. In part, reforms were inspired by the active labour market policy tradition of the Nordic countries. In 1997, the Blair government introduced the New Deal for skills and compulsory job search aimed at moving especially young workers from public benefits into employment (Clasen, 2005). New Deal activation programs rely heavily on tax credits, which have gained in importance, particularly since the introduction of the Working Families Tax Credit (WFTC) in 1998, aimed at guaranteeing any family with a full-time worker a relatively generous minimum income (Glyn, 2006). A national minimum wage was introduced from 1999, set at different levels for different age groups, and has been regularly raised since. However, in contrast to "third way" rhetoric about "learning and education as the key to prosperity", vocational training, skill enhancement, and upward mobility are rather limited. Since the mid-1990s the trend towards higher inequality and poverty, although still high, has been halted, in part due to the introduction of a wide range of new tax credits.

In the late 1970s and early 1980s, the Irish mimicked British decentralisation of wage bargaining and radical labour market deregulation. The United Kingdom and Ireland have parted company over the last twenty years. Instead of following the UK's path of restricting union power, Irish governments have adopted a more co-ordinated strategy based on successive "social pacts", also to qualify for EMU. Beginning with the National Recovery accord of 1987-1991, co-operation with business and unions helped reform the economy and attract high levels of foreign direct investment, boosting Ireland's rates of output and employment growth. The revitalisation of the Irish economy is also based on increased investments in education, preventing early departure from formal education and training, and facilitating the transition from school to work, in particular school leavers with low qualifications (NESC, 2005; Weishaupt, 2008). Poverty levels, however, did not initially decrease, principally because transfers per recipient, although rising significantly in real terms, lagged behind the exceptionally large increases in average income. Therefore, while there are fewer people relying on transfers as unemployment has declined, more of those reliant on them are relatively poorer. However, research does reveal a marked decline in poverty from 1994 (Atkinson et al., 2005).

2.5.5. Recalibrating welfare in Europe's new Member States

Since the fall of the Berlin wall, Central and Eastern European welfare states have been a laboratory of social policy experimentation, and as a result they have remained under-defined. Characteristic of the transformation of the welfare state in Central and Eastern Europe has been the extended role for international organizations, like the World Bank and the IMF, especially in the area of old-age pensions. For most of the 1990s, the role of the EU in shaping social policy in the region was comparatively weak. Only since the new

Millennium has the EU started to push social policy issues on the political agenda of CEE countries. In May 2004, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia, became the first eight post-communist Central and Eastern European economies, to become fully-fledged members of the European Union. While participating in the Lisbon Strategy, there has been a growing interest in the New Member States (NMS) in the institutional structure and quality of social policies and services.

The collapse of state-socialism and the (re-)establishment of capitalism in 1989-1991 were accompanied by a deep economic crisis. In 1990-1994, economic growth and wages declined rapidly and inflation spiraled, bringing an end to full employment, with job losses ranging from 10 percent in the Czech Republic to 30 percent in Hungary. Unemployment rose from virtually zero to two-digit levels rates in countries like Poland, Slovakia and Lithuania. Since 1995, the CEE economies have been growing again, as have real wages, but employment rates remained extremely low in Hungary, Slovakia and Poland (Hemerijck, Keune and Rhodes, 2006).

The first decade of welfare transformation in Central and Eastern Europe saw the withdrawal of the state from the economy. In the early post-1989 period, the welfare state was used as a buffer to cushion the most dramatic effects of economic crisis and reform, especially the loss of income through unemployment. Early retirement provisions and disability pensions were widely used for redundant workers (Fultz and Ruck 2001; Müller 2002). Most CEE countries introduced a minimum wage and income-related social assistance schemes to combat poverty. However, inflation often depleted the real value of social benefits, leading to increasing poverty, not only among the old, but also among children, except for Slovenia and the Czech Republic. As an ethnic group, the Roma suffered the most from the social and economic hardship (Potucek, 2007).

As the number of people on pension, unemployment or social assistance benefits increased dramatically, this led to a near fiscal crisis by the mid-1990s in most CEE countries. A new wave of reform took shape with a view to containing costs and reducing welfare (Keune, 2006). As elsewhere, welfare reform was heavily contested. Cost containment was achieved by tightening unemployment benefits, and the duration of benefits and replacement rates were reduced. Pension reform – particularly privatisation and the individualisation of saving – was also strongly advocated by the World Bank. State-socialist old-age pension systems were largely financed on a pay-as-you-go (PAYG) basis through transfers from state firms to the state budget; direct contributions by workers themselves were rare (Fultz and Ruck, 2001). The introduction of the mandatory second tier of old age pension schemes run by private funds, in Hungary in 1998, Poland in 1999, Latvia in 2001, Estonia in 2002, and Slovakia in 2003, represents a clear indicator of the success of the World Bank's advocacy for pension privatisation. The Czech Republic has thus far resisted the shift to compulsory private co-insurance, because the Czech economy was not in as deep a fiscal crisis as many of the other CEE countries and therefore less dependent on loans provided by the IMF and the World Bank, but also due to strong domestic political opposition from the ruling social democratic party and the trade unions. In 1995, the Czech government did agree to raise the statutory retirement age incrementally for women to 57-61 (the actual limit depending on the number of children) and for men to 62 up until 2007 (Potucek, 2007).

Passive labour market policies still account for over half of all labour market spending in the CEE countries. Active labour market policies are relatively well developed in Hungary and Slovenia, while in the Czech Republic the attention paid to active and passive employment policy has fluctuated over the years according to the political colours of government, with social democrats more in favour of active policies and neo-liberal parties more supportive of passive programs. Family and childcare policies, maternity benefits, constituted a prominent example of state-socialist welfare provision in most CEE countries. Traditional forms of public support for families with children weakened considerably during the transformation period. In Hungary, earnings-related maternity benefits were entirely abolished to be replaced by flat-rate benefits which were linked to the level of the minimum pension. The provision of childcare and kindergartens was at least partially re-commodified in the Czech Republic. Family cash support dropped as well, with the important exception of Slovenia. Targeted, means tested residual schemes were introduced in child allowances in the Czech Republic.

All post-communist welfare states have evolved towards a hybrid mixture of conservative and liberal regime types, with a flavor of limited universalist elements. In many of the NMS, the new social policy repertoire seems to be crystallizing around three tiers, containing a compulsory Bismarckian social insurance, financed out of contributions, active labour market policies and public social assistance financed from general taxation, but run by local authorities. While the Visegrad countries would seem to have returned to their roots of Bismarckian social insurance from the late 19th century, the Baltic nations have put a greater emphasis on means-testing and targeting.

There is not only “contingent convergence” in performance but also in terms of policy. As there are still structural and long-lasting differences between different national welfare states or families of welfare states, it would certainly be wrong to say that Europe as a whole suffers from severe employment deficits –this is only true for some countries, but not for others.

The overall picture across the European countries shows that quite different economic and welfare state models can achieve high and probably sustainable employment levels. This suggests that there is no necessary trade-off between employment performance and the size of the welfare state, that a large public sector does not necessarily hurt employment mobility and competitiveness, that there can be a positive relationship between fertility and high levels of female employment and that labour market flexibility and low poverty more often than not go together with high levels of employment. Hence, high employment is not necessarily associated with higher inequality (see also Ferrera et al., 2000; Esping-Andersen et al., 2002; Lindert, 2004; Kenworthy, 2004; Aiginger and Guger, 2006; OECD, 2006a).

2.6. Beyond the “double bind” of social Europe

Combating income inequality, poverty and social exclusion have been long-standing objectives in the EU. With the view that all EU citizens must reap the benefits of economic integration and economic growth and that the EU cannot be successful if significant groups are left behind as prosperity rises (Atkinson et al., 2005), the EU concept of poverty

is therefore based on the notion of social and economic participation. More than 30 years ago, at the EU Council of Ministers, poverty is defined as “individuals or families whose resources are so small as to exclude them from the minimum acceptable way of life of the Member States in which they live”. Over time, while the issue of poverty remains an important concern, the concept has been broadened to “poverty and social exclusion” in order to capture the “multidimensional” nature of the mechanisms whereby individuals and groups are excluded from taking part in the social exchanges, from the component practices of social integration. The concept of diversity is often mentioned in tandem with the objective of social cohesion in EU official documentation, and referred to with respect to national and regional, and cultural and linguistic diversity. Aspects of diversity are also discussed in the Charter of Fundamental Rights of the European Union proclaimed in 2007. This Charter declares support for the values of freedom, equality and solidarity of all peoples of Europe, and reaffirms the principle of non-discrimination, equality between men and women, rights of children, elderly, and persons with disabilities, as well as cultural, religious and linguistic diversity. The idea of diversity has a central place in understandings of the European Union in recent decades. In 2000, *United in Diversity* was adopted as the European Union’s motto strengthening the belief that Europeans are united in working together for peace and prosperity, and that the many different cultures, traditions and languages in Europe are a positive asset for the continent. In general, diversity in the EU refers to heterogeneity in racial or ethnic origin, religion or belief, disability, age, sexual orientation and gender. Diversity is mentioned in many definitions of or discussions about social cohesion, typically referring to the way in which social cohesion is furthered by (or contributes to) the fair and non-discriminatory sharing of resources, goods and services in diverse societies. We understand the link between the two concepts as manifested in that socially cohesive society in which there are no great disparities in the social and economic opportunities for individuals of diverse origins and backgrounds to become fully integrated. In this sense, diversity is understood as a characteristic of societies, and social cohesion as an aspiration to fairness and inclusion.

The High-Level Task Force on Social Cohesion report (2007) *Towards an Active, Fair and Socially Cohesive Europe*, lists four avenues of policy concern for the Council of Europe. These are:

- Reinvesting social rights and in cohesive societies;
- Building a society of responsibilities that are both shared and social;
- Strengthening mechanisms of representation and democratic decision-making and expanding social and civic dialogue and engagement;
- Responding to demographic change and multiculturalism by building confidence in a common and secure future for all.

Despite these lofty ambition, according to Maurizio Ferrera (2005) domestic welfare states development and European (economic) integration are practically based on opposite logics. Whereas national welfare state expansion has hinged on a logic “closure” of clearly demarcated and cohesive citizenship communities and post war nation-building, the logic of European (economic) integration hinges on “opening”, on the weakening of barriers

and closure practices that European nation states have built to protect their citizens from economic contingencies, in favour of free movement, free (undistorted) competition and non-discrimination. As a consequence, European integration, as it is programmatically geared towards the expansion of individual options and choices, very much challenges the conditions of social closure that sustain national welfare states. In many areas of economic and social policy, EU regulation and rulings by the European Court of Justice correct and override decisions of national governments that have been legitimised by national democratic procedures. Throughout the post war era there has always been an uneasy relationship between the internal market and the lofty ambitions of social Europe and, by the same token, also between national welfare regimes and the process of increased market integration. Since the 1950s there has always been an implicit division of labour between European and national institutions. European institutions concentrate on liberalisation measures while national institutions concentrate on redistribution and welfare. European economic integration has surely helped to strengthen market related civil rights, but progress in the area European social citizenship rights has been erratic. Today, domestic insulation of national welfare states from the dynamic of economic integration and supranational interference is no longer viable. The process of European (economic) integration is fundamentally recasting the boundaries of national systems of social protection, both constraining the autonomy for domestic policy options but also opening opportunities for EU social policy agenda setting (Ferrera, 2005; Zeitlin and Pochet, 2005). It is fair to say that in the EU we have entered an era of “semi-sovereign welfare states” (Leibfried and Pierson, 2000).

The negative outcome of the 2005 referenda over the EU Constitutional Treaty in 2005 in France and the Netherlands and in Ireland in 2008 signalled “growing pains” accompanying the shift from an elite-driven diplomatic union to a broader political union. The rejection of the Constitutional Treaty by French, Dutch and Irish voters brought to the fore discontent about globalisation, unease over immigration, and resistance to prospects of Turkey joining the EU in the near future –all this against the background of a stagnating Eurozone economy (Wallace, 2005). The Single Market, the EMU, and the Stability and Growth Pact started out as path-breaking structural policy reforms of enhanced European economic cooperation, potentially putting long-term growth and stability on a structurally higher plane. Today these reforms are increasingly seen as a set of constraints that undermine domestic manoeuvrability.

We live in time of rapid change. Globalisation is creating winners and losers within countries, rather than between countries, and European integration is increasingly perceived to be shaping distributive outcomes. Accentuated by the current crisis, this state of affairs is especially difficult to sustain politically. The EU’s current crisis of legitimacy is hereby not really an issue of economic or social performance, rather it is a crisis of political leadership and policy engagement. Domestic political elites from Left to Right have since the adoption of the Single Market been all too happy to scapegoat the EU for painful reforms. In doing so they fed popular discontent against the new Treaty, which they themselves would eventually support. Now that the public genie is out of the bottle it is impossible to go back to the *status quo ex ante* of elite-driven technocratic European integration with the Commission in the driver’s seat, supported only haphazardly by Member States

governments. In order to counter the tendencies of Europe's national political economies towards navel-gazing, protectionism, and xenophobia – which nostalgically glorify the past successes of their respective national welfare states – EU political leaders must develop a policy vision for social progress that European citizens can support.

Europeanisation has unleashed a restructuring of domestic social citizenship regimes along two dimensions of social and economic policy co-ordination. First, there is the relevance of cross-border risk pooling through binding legislation against unruly competition through the well-known “Community Method”. Examples include directives and rulings of the European Court of Justice. The role of Europe in this regard has obviously increased over time due to the combined effect of earlier and recently legislated European laws, serving to open up national welfare states to competition. This trend is intensified by the shift from public schemes towards multi-pillar systems in the field of pensions and health care in particular, since private and voluntary arrangements are subject to legislation on the internal market. Many of the ECJ's rulings have also been devoted to employment protection, gender equality, and to the extension of rights to social assistance and other non-contributory benefits to EU citizens.

Second, the EU can serve as an external agenda setter, catalyst and facilitator of domestic reform, rather than a law maker. For instance, the European Employment Strategy (EES), launched in 1997, was deliberately designed to favour a gradual reorientation towards activation, the avoidance of early retirement, the promotion of part-time work, lifelong learning, gender mainstreaming, balancing flexibility with security and reconciling work and family life. Such a reorientation perhaps is of a similar magnitude as the macroeconomic paradigm shift from Keynesianism to monetarism of the early 1980s. As EU economic regulation has ushered in a period of regime competition, this has opened a window for agenda setting and policy transfer of experience and institutional “borrowing” taking place from outside domestic policy systems, via the intermediation of other boundary spanning international organisations like the OECD, IMF, the World Bank and the ILO, encouraging domestic redirection of social and employment policy. Rather than requiring strict adherence, these forms of governance are aimed at promoting a certain degree of cognitive and normative harmonisation in the areas of employment policy, pension, health care and social inclusion policies. In its central role as an agenda setter, the EU's institutions can help diagnose the nature and magnitude of fundamental challenges and identify potentially effective policy solutions. Although the relationship between these two dimensions of EU policy co-ordination goes beyond mere overlap and co-existence, in the academic debate over the future of “social Europe” these two forms of policy co-ordination are more often than not seen as alternatives, rather than complements.

Leading scholars, most notably Fritz Scharpf (1999), have argued that the Single Market and the introduction of the EMU, in the wake of successive rounds of enlargement, are exemplary of the overall tendency of “uneven growth” between the EU's economic and social policies. The latter, market-correcting “positive integration”, has been unable to keep up with the market-expanding logic of “negative integration” – “the removal of tariffs, quantitative restrictions, and other barriers to trade or obstacles to free and undistorted competition” (Scharpf, 1999, p. 50-52). From this pessimistic reading, European welfare states face the predicament of a “double bind”. On the one hand, Member States are

unlikely to shed their welfare-state obligations, as this would jeopardise the political base of their legitimacy. On the other hand, EU Member States have, since the mid-1980s, become irreversibly committed to a pervasive program of European economic integration. In the face of this “double bind”, national policy-makers cannot seek to shed their welfare-state functions without jeopardising the territorial bases of their political legitimacy, while at the same time they cannot seek to reverse the process of economic integration that increasingly exposes their now semi-sovereign welfare states to regulatory competition. The double bind confronts national and EU-levels policy-makers with a thorny dilemma: common European solutions are desirable, but neither feasible nor effective on account of national interests, political sensitivities and the huge diversity of social security systems in an EU of 27 members (Scharpf, 2002).

The logic of the “double bind”, arguing from a more voluntarist standpoint, can however be turned into a “double engagement”. This arises out of a corollary to Europeanisation. Domestic adjustment problems resulting from economic integration can trigger political spillovers pushing consecutive rounds of EU policy initiatives, pressed for by domestic policy-makers, to deal with the unintended consequences of the first round of liberalisation. Such spillovers create the political space for “uploading” social policy considerations to the level of the EU. The spectre of competitive welfare retrenchment, due to the predominance of “negative integration”, can thus serve as a critical trigger (and intellectual resource) for progressive EU- and domestic policy-makers by encouraging them to engage in “positive co-ordination”, to constructively recalibrate national welfare regimes and the European social policy agenda. The remarkable resurgence of “social pacts” across the European Union in the 1990s, alluded to earlier, is exemplary of the logic of “double engagement” at the domestic level. Following this line of reasoning, Maurizio Ferrera and Elisabetta Gualmini (2000) go as far as to claim that, in effect, the EMU “saved” the Italian welfare state from complete ungovernability.

At the level of the EU, the introduction of a separate employment chapter in the Treaty of Amsterdam provided a new European political space for “double engagement”. The European Employment Strategy was accepted on condition that no national authority would be transferred to Brussels, there would be no extra cost, and that the EMU rules would be fully respected. Likewise, in committing the Union to becoming the “most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth and more and better jobs and greater social cohesion”, the Lisbon summit in March 2000 put forward an integrated agenda of economic, employment, and social objectives, to help EU economies perform better, while contributing to social cohesion and political stability. In terms of institutional innovation, the European Council at Lisbon formally recognised the Open Method of Co-ordination (OMC) as a new form of European governance, based on common guidelines to be translated into national policy, combined with periodic monitoring, evaluation and peer review organised as learning processes and accompanied by indicators as a means of comparing best practices.

Through OMC, the EU acts as an agenda setter, providing analysis and policy advice, as a catalyst for reform, by mobilising peer pressure and benchmarking, and, finally, as a consensus builder by encouraging policy dialogue and transfer between national, EU and other stakeholders (Zeitlin, 2005).

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

In practice, however, OMC processes are far from perfect. Especially, its degree of “openness” in terms of political exposure and commitment, together with lack of substantive focus, should be criticized. OMC practices are particularly poorly integrated in domestic policy processes, public awareness, and media coverage, so parliamentary overview remains poorly developed. The role of the European Parliament so far has been only considered in strict advisory terms, while, more seriously, national parliaments have let themselves be marginalized in the process. Open co-ordination is dominated by a new class of high civil servants and EU officials. These problems of political accountability have not been adequately offset by other mechanisms of civil society articulation and representation. Without substantive consensus, common concerns, and a sense of urgency for cross-national problem-solving, there is the worry that OMC participates in a ritual of “dressing up” existing policy legacies. The effectiveness of the open method of co-ordination depends largely on the opportunity offered to the Member States and the stakeholders to learn from each other through the exchange of good practices and by taking action at the EU and national levels. A common understanding of the issues at hand and strong ownership are requisite for an effective process of open co-ordination. Evaluation studies reveal a very positive role, open co-ordination played in the context of the European Employment Strategy. The experience with open co-ordination in the areas of social inclusion is far more ambiguous.

2.6.1. European employment strategy

A comparison between the OMC European Employment Strategy and the original OECD Jobs Strategy, which I portrayed earlier in this chapter, reveals one similarity and a number of important differences (Eichhorst and Hemerijck, 2008). Both reform campaigns abide by a supply-side diagnosis of the labour market. While in 1994, the OECD Jobs Strategy was met with lukewarm support and fierce opposition, we believe that the EES, being more cautious and less confrontational, has proven to be more effective in helping national policy-makers to translate new labour market and social policy ideas into action. Whereas the OECD Job Strategy focused on fighting unemployment, applying the concept of NAIRU (non-accelerating inflation rate of unemployment) as a benchmark, the EES is more bent on raising the share of employed persons within the population as the key to assess employment performance. The Lisbon summit of 2000 set target employment rates: By 2010, 70 percent of the EU population aged 15-64 should be in paid employment, with 60 percent of women. The Stockholm summit of 2001 complemented these with intermediary targets for 2005 and added a target for older workers (aged 55-64), namely 50 percent in 2010. A second important difference between the two strategies is that the original OECD Jobs Strategy was based on a rather deductive and distinctly efficiency-oriented form of policy analysis, drawn up by the leading economists of the OECD. The EES, by contrast, followed a more inductive approach. But what is more critical is that policy analysis within the context of the EES is not a product of academic expertise, but rather a joint endeavour of domestic policy-makers, civil servants, the European Commission, and other interested parties. The result is a more inclusive, albeit fuzzy, process of EU Member State commitment, with a better chance of amplifying or intensifying reform. Due to the more “contextualised” (Hemerijck and Visser, 2003) quality of the OMC to come to recommendations, the EES is particularly emphatic to processes of contingent convergence. I maintain that the key contribution of the EES to improved labour market performance is mainly cognitive, but not as an afterthought, but as its major feat. The EES helped to redefine the European employment problem away from managing unemployment toward the promotion of employment, fostering the diffusion and acceptance of a new mental framework for employment policy re-direction rather than concrete policy recommendations. We believe that the reorientation from managing unemployment to promoting employment, on the basis of activation, active ageing/avoidance of early retirement, part-time work, lifelong learning, parental leave, gender mainstreaming, flexicurity, balancing flexibility with security, reconciling work and family life, is of a similar magnitude as the macroeconomic paradigm shift from Keynesianism to monetarism of the early 1980s. This surely was also the stronghold of the OECD Jobs Strategy. But while the OECD “one-size-fits-all” recommendations ran the risk of intensifying rather than narrowing the ideological rift between policy-makers from Anglo-Saxon and the Rhineland and Nordic member countries of the OECD, the EES’s more consensual approach plausibly seems to have been far more effective in stimulating changes in policy thinking, also by deliberately shying away from single minded policy recommendations. This, ironically, has resulted in narrowing rather than widening the real divergence across EU welfare states in policy and outcomes. The OECD itself, in turn,

adopted a more subtle approach reflecting much of the policy interactions and balancing flexibility and security in the restated Job Strategy of 2006 (OECD, 2006a).

2.6.2. Social OMCs

After the early successes of the EES, OMC has quickly spread to other social policy areas, like social inclusion (2000), pensions (2001), and health care (since 2004). In terms of substance, open co-ordination processes strongly focus on “new” rather than “old” social risk categories, most notably active ageing/avoidance of early retirement, part-time work, lifelong learning, parental leave, gender mainstreaming, flexicurity, reconciling work and family life, and social exclusion (Zeitlin, 2005).

In the winter of 1999, the Labour and Social Affairs Council of the European Union launched a Concerted Strategy on social protection. Work was to be organised around four key objectives: (1) making work pay, (2) safe and sustainable pension, (3) social inclusion and (4) high quality and sustainable health care. Besides, the improvement in available data provides the opportunity to operationalise concepts of poverty and social exclusion. In December 2001, the Laeken European Council established a set of eighteen common statistical indicators for monitoring social inclusion. Nevertheless, the social OMC continued to be plagued by insufficient penetration of EU objectives and priorities in the wider social and political circles of the Member States. In comparison to the EES, many of the social OMC indicators remained only familiar to a rather narrow circle of policy officials. As a consequence, the social OMCs did not reach downwards to national parliaments, and important other stakeholders, beyond the closed circle of “usual suspects”.

2.6.3. European globalisation adjustment fund

The idea of the European Globalisation Adjustment Fund (EGF) is based on an initiative by President Barosso. It was negotiated in the second half of 2005 under the British Presidency of the EU. The regulation was adopted in 2006 and EGF has been in operation since January 2007. It is important to understand how the Fund was conceived. It was the product of an unusual alliance between the Commission, the UK and France. It was pushed forward against widespread reluctance and scepticism from many other Member States. This lack of support is reflected both in the terms of reference adopted for the Fund and in the meagre resources that were made available for the Fund. The terms of reference concentrate on three, quite restrictive, criteria. In the first place, the EGF should deal only with trade-induced redundancies, inviting the Commission to try to separate trade from other concerns. Second, the fund should concentrate on large-scale redundancies, where more than 4,000 workers might be affected within four months before EGF may come into play. Finally, the EGF only funds various forms of active labour market measures through new employment searches, mobility and promotion of re-training of laid off workers. The fund is not supposed to compensate for lost income or be used to protect jobs. It should primarily encourage laid off workers to find other jobs. Take up on the EGF has been quite limited. Between January 2007 and July 2008, no more than 67 million euro were spent, affecting merely 15,000 workers. Today, the European Adjustment Fund

risks being reduced to a purely symbolic scheme that may backfire as the current crisis intensifies across Europe.

2.6.4. Renewed social agenda

In July 2008, the European Commission presented the so-called “Renewed Social Agenda for the 21st century Europe”. Defined by the Commission as proof of “a new commitment to Social Europe”, the approval of this new agenda slipped passed without much discussion. Since the early-1970s, the European Commission has organised its various interventions in the social domain within the framework of multi-annual social action programmes or “social agendas”. The two latest social agendas (covering respectively the period 2000–2005 and 2005–2010) were set up to accompany and support the implementation of the Lisbon strategy, very much focused on helping to achieve the Lisbon goals on employment and fostering the modernisation of the social protection systems in order to ensure its long-term sustainability.

The so-called “EU renewed social agenda” has a different origin. It builds on the results of a broad-based public consultation launched by the Commission in 2007 to take account of Europe’s changing social reality. This consultation formed part of the Commission’s effort to promote a “Europe of Results” –that is, to deliver concrete results with a direct impact on citizen’s lives. The immediate outcome of this consultation was the Communication on “Opportunities, access and solidarity: towards a new social vision for the 21st century Europe (European Commission, 2007, p. 726). Adopted in the November 2007, this Communication provides an overview of the main changes under way in Europe’s societies and sketches a new vision of how to respond to these changes. Inspired by social-investment policy thinking, the Communication recommends a shift towards more active and preventive welfare structures in Europe. It calls in particular for more investment in children’s education and welfare and for more resolute action in promoting equal opportunities and guaranteeing equal access to basic social services, like education and health care. The latter should be complemented with efforts to fight poverty and social exclusion, in order to help those who are most disadvantaged and cannot reap the benefits of equal opportunities and access. While recognising that Member States have the main responsibility in turning this social vision into practice, the Communication calls for a “more pro-active role at the EU level to catalyse change and to steer, support and accompany necessary reforms”. Approved in July 2008, the “Renewed Social Agenda” takes as its inspiration the “Social Vision Communication”: it places opportunities, access and solidarity at its core, and differs from previous social agendas in that it is not focused on supporting the implementation of the Lisbon strategy but responds to a broader goal. Its aim is to enhance European citizens’ well-being and quality of life, by enabling individuals to deal with rapidly changing realities –through the provision of opportunities and access– while helping those who are unable to cope with these changes –through solidarity actions.

In fact, the new agenda’s ultimate goal is to strengthen the legitimacy of the European project in eyes of its citizens, by giving proof that Brussels cares about citizens’ real-life problems and it is able to provide an effective response to them. In coherence with this broader goal, the new agenda is larger in scope than the previous ones. It does not confine itself to the traditional social policy domains –employment and social protection– but

covers a wide range of policy areas including education and youth, health, immigration and intercultural dialogue. The new social agenda also differs from the former ones in its time frame. The two former agendas covered a period of five years each, which coincided with both the Lisbon agenda's calendar and the Commission's term of office. The Renewed Social Agenda is to be revised in 2010, together with the Lisbon strategy.

What is the way forward for social Europe? Despite the increased importance of the EU in the areas of work and welfare, it is very unlikely that we will witness the emergence of a fully-fledged European welfare state, replacing national welfare regimes in an enlarged European Union, even in the long run. European social and economic policy integration continues to depend on democratic legitimacy derived from and mediated through national legislatures, which remain the primary locus for political identity in Europe and the cornerstone for further political integration.

Various commentators and many stakeholders have criticised the new social agenda's limited ambition. Others have criticised the Commission's cautious approach in addressing one of the most controversial issues today in social Europe debates: how to make different social protection systems compatible in respect of the internal market's freedom of circulation, as exemplified by recent European Court of Justice rulings on Viking, Laval and Ruffers, the Renewed Social Agenda does not give any indication of how to resolve it. Yet, in defence of the Commission, one could counter-argue that the social agenda's proposals are as far-reaching as the political context permits. Acknowledging the difficulties of passing new EU social legislation in a European Council of 27 members, the scarce number of hard legislative proposals cannot be blamed on the Commission, which tries to ensure the consensus of the 27 Member States. Providing policy coherence in an EU of 27 is particularly difficult. The effects of the enlargement from 15 to 27 members should not be underestimated. Increased diversity sets serious limitations on attempts to coordinate European social policy. To the credit of the EU institutions, most Member States today, as active participants to the renewed Lisbon strategy, adhere to an employment and social policy agenda that is far more aware and responsive to the challenges of economic internationalisation and post-industrial social change, based on a shared understanding of the need of reform and adjustment with social sensibility. Policy focus should perhaps recognise the need to build effective partnerships for suitable involvement of relevant stakeholders in each part of the policy process, including problem definition, information gathering, consultation, development of options, decision making, implementation and evaluation. It also calls for a suitable set up that enables meaningful open public debates on EU objectives and priorities with policy-decision makers and stakeholders in the Member States and at EU level. However timid the Renewed Social Agenda might seem to various commentators, the Commission should be congratulated for its attempt to draft a new European social narrative.

2.7. Social cohesion, social promotion and social protection

Neither the doomsday scenario of the demise of the European welfare state, predicted by mainstream economists in the early 1990s, nor the prevailing image of a "frozen welfare *status quo*" can be corroborated by the Europe welfare reform experience highlighted

earlier in this chapter. Over the past two decades, many European welfare states have –with varying degrees of success– taken measures in order to redirect economic and social restructuring by pushing through adjustments in macroeconomic policy, industrial relations, taxation, social security, labour market policy, employment protection legislation, pensions and social services, and welfare financing. The result has been a highly dynamic process of self-transformation of Europe’s different welfare families (Hemerijck 2002), marked not by half-hearted retrenchment efforts but by more comprehensive trajectories of “recalibration”, ranging from redesigning welfare programs to the elaboration of new principles of social justice. (Ferrera, Hemerijck and Rhodes, 2000; Ferrera and Hemerijck, 2003).

Crafting policy responses is a subtle art, this can be concluded on the basis of the foregoing analysis. Before turning to more concrete policy conclusion, it is useful, for a moment, to go back to the conceptional heuristic of the four distinct intellectual version of social cohesion, exemplified in Section 2.3 of this chapter. Durkheimian ideas of the need for a strong cultural linguistic ethnic community of a rather pre-political form, is no solution in the present European context. In the 1990s, moreover, the Balkan crisis demonstrated the risks of essentialism. The articulation and nurturing of a common national identity and shared social values has not only become more difficult Europe’s increasingly diverse societies. At the European level, institutionally, the question remains whether European social cohesion, based on a pan-European shared understanding and collective identity, can be conceived without a European state. Above we have demonstrated how difficult it is to reach any kind of consensus on questions of social protection, this in contrast to issues of employment and labour market flexicurity, with 27 Member States, all attached to their own brands of welfare regimes. European integration does not assume a European *demos* in the sense of an ethnic homogeneous primordial people. Today social cohesion and solidarity among citizens in democratic societies is disconnected from specific ties like religion, language, and ethnicity.

Encouraging inclusive patterns of engagement and participation in political decision-making, following De Tocquevillian political thought, generates a more optimistic view on building social cohesion and helping European societies to manage diversity. In this perspective, European values are seen as plural and contentious. Rather than one single value basis, which mobilises policy development in a linear direction, we should think the other way around, namely from how through civic interaction and politics produce values. The very contention of the open political process, and for popular consent in elections, gradually produces light but effective feeling of belonging in a pluralist society. The most important instrument for creating social cohesion therefore is to promote engagement among groups and individuals that are actively consulted and learn to participate in their own personal integration processes, which arise from participation, loyalty and involvement. In the field of integration, what is needed are reliable mechanisms of confrontation, tolerance and conflict resolution. Part and parcel of this policy strategy is an active attitude: not leaving things as they are, allowing discussion of behaviour and not ignoring differences of opinion. Through confrontation the positions of parties become clear and they know they are being taken seriously. Tolerance acquires form and substance in an open discussion. Toleration also includes resolution, since the point of exchanging

and refining views is to provide a mechanism for moving forward and not a means of sustaining or escalating the conflict.

The liberal market-oriented perspective continues to abide by the primacy of the deepening of EU market integration, in part to put pressure on existing national welfare regimes of the member state. But to the extent that national populations generally support domestic welfare provision, this infringes on the legitimacy of the EU, as have experienced in the referenda in France, the Netherlands, and Ireland. Those events have made clear that benign division of labour between domestic welfare and EU market liberalisation is becoming increasingly politically untenable. How strong is the neo-liberal “lean state”, premised on the idea of a significant sobering of economic security by retreating from the post war commitment to social protection and economic security, in terms of the broader aim of social cohesion? In the wake of the financial crisis, there is increasing pressure on European governments to take stock of the longer-term societal implications of the neo-liberal policy agenda. In part this is because of a growing political disenchantment arising from the increasing income polarisation, persistently high levels of unemployment, and widespread social exclusion that are manifesting themselves in varying ways across North America and Europe. An important conclusion is in any case that it is a misconception to think in classical liberal terms that “fixing” the economy is sufficient to ease problems of social cohesion. As EU policy initiatives are increasingly affecting the everyday life of European citizens, creating winners and losers within the Member States, both the legitimacy of national welfare state and the European project at large is at stake.

The issue at stake from the perspective of welfare interventionism and social citizenship is how to find a viable and positive mutually reinforcing connection between economic efficiency and social solidarity. The conception of a “preventive” welfare state also seems to generate a policy agenda with a strong emphasis on social investments that can be practically tackled across European political economies. But how strong still is the political support basis of welfare interventionism in early 21st century Europe? Here we are inevitably led back to a debate about redistribution and social cohesion. To the degree that the redistributive state is rooted in a strong, almost Durkheimian, sense of national community and collective responsibility, arguably the bonds of solidarity become more difficult to sustain as populations become increasingly diverse and life chances unequal. Here I would advocate a shift from social citizenship in terms of rights to social capability. Rights to basic income guarantees and minimum welfare standards are only the last resort. Social cohesion should be exploited as an investment instead of a cost to economy and society. Social capabilities require a certain capacity to redistribute, which, however, in turn, assumes economic viability. Fostering social cohesion places high demands on the structure of political institutions. The cohesion of modern societies greatly depends on how well institutions are capable of acknowledging and channelling political diversity, social descent, and economic disparity in the direction of peaceful social conflict resolution. The basic lesson remains: without participation there is no contact, without contact there is no cultural bonding, no socio-economic solidarity and no confidence in politics!

Here I would like to briefly return to the debate about the European social model. European welfare states are different, and in part because of these national differences, EU social policy interventions are thus constrained. In a more nuanced view, it is nevertheless

possible to speak of a social patrimony, operative both at the level of national welfare states and the EU. This social patrimony is made up of a distinctive triad of normative, cognitive and institutional characteristics. Normatively, there is a strong historical commitment to social justice, to the pooling of social risks collectively, to basic social citizenship. Protecting the vulnerable and preventing the disadvantaged from becoming vulnerable lies at the heart of a European ethos of social cohesion. Adequate social insurance, universal access to social services, gender equality, and minimum standards of social assistance, to prevent poverty and reduce social exclusion, are costly objectives. Therefore, at the cognitive level, European policy-makers are historically very keen to promote and seek out social policy measures which potentially contribute to economic performance. The notion of “social policy as a productive factor” is based the fundamental idea that the economic and the social are interrelated spheres, where developments in one have inevitable effects on the other. Social policy in this understanding stands out as a means to reconstruct the vital link between economic efficiency and social progress (Andersen, 2004). Against the neo-liberal assumption of a big “trade-off” between economic efficiency and social equity, European policy elites agree that there is no inherent contradiction between economic efficiency and social cohesion. The line of reasoning behind the potential positive effect of social policy on economic performance as a productive factor clearly makes a virtue of the argument that a strong economy requires a strong welfare state. Instruments like comprehensive wage settlements, employment protection, minimum wages, social security entitlements, and worker participation, simultaneously incentivise and facilitate fortuitous microeconomic choices. A well-developed welfare state allows citizens to fulfil a socially useful and prosperity-enhancing function that would otherwise be economically risky for individuals by themselves. Universal access to good education and health care is good for overall productivity. A relatively equal distribution of incomes reduces dire poverty and social instability. If social cohesion and stability are thus recognised as productive resources, then surely the alleged contradiction between social justice and economic efficiency breaks down. Last but not least, under the current financial crisis, it should not be forgotten that with social protection outlays averaging 28 percent of GDP in the EU, social policy acts as an important anti-cyclical stabiliser. Institutionally, European polities are marked, on the one hand, large political coalitions, and on the other hand, by stable and comprehensive systems of industrial relations. By and large, European polities are negotiating political systems. Institutions of social partnership serve to stabilise collective goods, channel industrial conflict in periods of structural adjustment, and, in turn, foster political stability and social cohesion. Social partnership, with “trust” as a constitutive element, moreover, potentially render collective actors the necessary social capital to overcome sectional interests, encouraging a “problem-solving style” of social and economic issue linkage, also at the level of the EU.

Rooted in the European social patrimony, what seems to be emerging, as the result of ongoing reform dynamics over the past decade, is a welfare edifice based on consistent normative principles, coherent causal understandings, (re-)distributive concerns, and institutional practices, comparable in scope and reach to that of the male-breadwinner Keynesian welfare state of the post-war decades. Most important, this new welfare edifice should be able to address social disadvantage through the life course, alongside maximising

labour force participation in order to reduce dependency rates and increase the tax base and increasing work flexibility among those within the existing workforce and those outside it. Esping-Andersen calls for a paradigm change from a static perspective on social policies to a dynamic one, from a welfare state being a supported of disadvantaged categories to a welfare state being an investor in human capital addressing today's inequalities. Hereby, the normative focus of social policy hereby shifts from *ex post* social insurance compensation towards preventive or *ex ante* social investment, hinging on the deployment of resources to improve and equalise citizens' individual abilities to compete in the knowledge economy. In order to connect social policy more fully with a more dynamic economy and society, citizens have to be endowed with capabilities, through active policies that intervene early in the life cycle rather than later with more expensive passive and reactive policies (Esping-Andersen et al., 2002). In the shadow of intensified economic internationalisation and post-industrial societal change, a relative shift from the social protection function of the welfare state to more of an emphasis on the social promotion function of the welfare state seems imperative. Only by adopting a life course perspective, we are best able to identify the social promotion character of the emerging new European welfare edifice. In line with the ongoing reform dynamics, I advocate a new "developmental" welfare edifice. With many other experts, we share the diagnosis that the current imperative of recasting the welfare state is very much rooted in the incongruence between new "post-industrial" social risks and diverse family and labour market needs, on the one hand, and institutional resilience of male-breadwinner social policy provisions, on the other. In terms of policy solutions, we therefore prioritise high levels of employment for both men and women as the key policy objective, while combining elements of flexibility and security, facilitating men and especially women to accommodate work and family life, managed by new forms of governance and based on subtle combinations of public, private, and individual efforts and resources. A "new" welfare architecture for the 21st century can, by adopting a life course perspective, identify the inter-connectedness of social risks and needs over the life course, and use this as the basis for a developmental "social investment" policy agenda. The Keynesian emphasis on "effective demand" management hereby shifts towards an emphasis on "effective supply", with the implication of removing social barriers for labour market entry, discouraging early exit, making labour market transitions less precarious, and providing gender equality and equality of opportunity throughout the life cycle in response to the drastic changes of the world of work and welfare.

2.7.1. Child-centered social investment strategy

Since life chances are so over-determined by what happens in childhood, a comprehensive child investment strategy with a strong emphasis on early childhood development is imperative. Access to affordable quality childcare is *sine qua non* for any workable future equilibrium (Daly, 2000a and 2000b; Orloff, 2006; Jenson, 2006). Public childcare provision is no longer seen merely as a facilitator of female employment or as a means to reconcile family and work. It is increasingly perceived as the first pillar of lifelong learning. As investments at early stages of the life cycle provide the basis for further success in education and training, they are seen as an effective and efficient tool to ensure skills acquisition also

at later stages of general education or vocational training. Childcare demand cannot be adequately met via commercial care markets. In a purely commercial regime, low-income parents will probably not be able to afford quality care. They may respond by placing children in cheap low quality care or by withdrawing the mother from employment. Inaccessible childcare will provoke low fertility, low quality care is harmful to children, and low female employment raises child poverty. The emphasis on early childhood development goes beyond the idea that childcare is necessary to allow mother and fathers to reconcile work and family life. A “child centred social investment strategy” is needed to ensure that children will be lifelong learners and strong contributors to their societies. More children, educated to perform in a knowledge economy, are needed to keep the economies of the advanced welfare states going for a retiring baby boom generation with high caring needs. An appealing suggestion is to introduce a basic income for children in Europe. The way the various member wish to implement a basic income for children should be flexible, but should provide a minimum guaranteed payment for each child to be paid to the mother. This would substantially reduce the financial risks faced by families with children. In the face of the looming recession, it would also be a very effective way of injecting purchasing power in the EU economy.

2.7.2. Human capital investment push

If Europe wishes to be competitive in the new, knowledge-based society, there is an urgent need to invest in human capital throughout the life course. Considering the looming demographic imbalances we face, we surely cannot afford large skill deficits and high school drop-out rates (above 30 percent in Spain, almost 25 percent in the Netherlands and less than 15 percent in Denmark or Sweden). While inequalities are widening in the knowledge economy, this also implies that parents’ability to invest in their children’s fortunes is becoming more unequal. Everyone’s favourite solution is of course education. If social and employment policies are increasingly aimed at developing the quality of human resources for a high-skill equilibrium, they surely assume the role of a “productive factor”. The revitalisation of both the Irish and the Finnish economy is in part based on increased investments in education, preventing early departure from formal education and training, and facilitating the transition from school to work, in particular school leavers with low qualifications. The majority of Continental welfare states however continue to lag behind significantly. Moreover, basic education and adult learning are complementary: the higher the educational attainment, the higher the probability of participating in learning activities. It is, however, of great importance to emphasise that education and training are hardly (by no means) new components of the welfare state. Historically, liberal welfare states saw the expansion of education systems as enhancing equality of opportunity and supplying the well-educated workforce needed for economic growth. The Nordic welfare states went further, seeing educational reform as a pathway to greater equality of condition; raising the skill levels of the bottom third of the labour force increased their productivity, employment opportunities, and wages relative to those better educated. Most serious adult training is employer-sponsored, which accentuates the polarisation of training opportunities. Individuals who already possess high levels of human capital get a disproportionate amount

of training while those with low levels of human capital are underrepresented. High skill groups find themselves in a virtuous circle of strong skills, challenging job opportunities, and additional human capital investments, while low skill groups are in a vicious circle of skill deficits, underinvestment, and declining employability.

2.7.3. Flexicure labour markets for all

The interaction between economic performance and the welfare state is large mediated through the labour market. The majority of Europe's Continental welfare states are confronted with a syndrome of labour market segmentation between "insiders" and "outsiders" (Schmid, 2008). As family and gender issues were considered subsidiary during the early stages of post-war welfare state development, post-industrial social and economic change seem to reinforce, this has invoked an over-accumulation of insurance benefits on the side of "guaranteed" breadwinner workers with quasi-tenured jobs, alongside inadequate protection for those employed in the weaker sectors of the labour market, particularly youngsters, women, immigrants and older low skilled workers. Most likely, labour markets will become ever more flexible. While the boundaries between being "in" and "out" of work have been blurred by increases in atypical work, low-wages, subsidised jobs, and training programs, one job is no longer enough to keep low-income families out of poverty. Post-industrial job growth is highly biased in favour of high skill jobs. However, increased labour market flexibility, together with the continuous rise in female employment will, in addition, also encourage the growth of a sizeable amount of low skill and semi-skilled jobs in the social sector and in personal services. The policy challenge is how to mitigate the emergence of new forms of labour market segmentation through what could be called "preventive employability", combining increases in flexibility in labour relations by way of relaxing dismissal protection, while generating a higher level of security for employees in flexible jobs. Flexible working conditions are often part and parcel of family friendly employment policy provisions. There is a clear relation between the ratio of part-time jobs and female employment growth. But the ability of part-time employment to harmonise careers with family depends very much on employment regulation, whether part-time work is recognised as a regular job with basic social insurance participation, and whether it offers possibilities for career mobility.

2.7.4. Later and flexible retirement

Many of the so-called "new social risks", like family formation, divorce, the elderly becoming dependent on care, declining fertility, and accelerating population ageing bear primarily on young people and young families, signifying a shift in social risks from the elderly to the young. Late entry into the labour market of youngster, early exit of older workers, together with higher life expectancy confronts the welfare state with a looming financing deficit. Two trends justify an adjustment in our thinking about retirement: (i) the health status of each elderly cohort is better than that of the last; at present a man aged 65 can look forward to a further 10 healthy years, and, (ii) the gap between old age and education is rapidly narrowing, so that old people in the future will be much better placed

than now to adapt in the coming decades with the aid of retraining and lifelong learning. The education gap between the old and the young will begin to disappear when the baby-boomers approach retirement. Beyond the development of multi-pillar, including both PAYGO (pay-as-you-go) and funded schemes, in the area of pension policy, the challenge lies in how to allocate the additional expenditures that inevitably accompany population ageing (Myles, 2002). Of crucial importance remains a general revenue financed first tier pension guarantee with a price index guarantee for the next generation of flexible labour market cohorts. Sustainable pensions will be difficult to achieve unless we raise employment rates of older workers and raise the retirement age to at least 67 year. Delaying retirement is both effective and equitable. It is efficient because it operates simultaneously on the nominator and denominator: more revenue intake and less spending at the same time. It is inter-generationally equitable because retirees and workers both sacrifice in equal proportions, since we are all getting healthier and more educated with each age cohort. Flexible retirement and the introduction of incentives to postpone retirement could greatly alleviate the pension burden. Although there has been a slight increase of part-time work among the elderly, it has been shown that part-time work and participation rates among older people are positively related, there is still little systematic and comprehensive policy activity to enhance the opportunities for older workers. If older worker remain employed ten years longer than is now typically the norm, household incomes will increase substantially. This means less poverty and need for social assistance and greater tax revenue to the exchequer.

2.7.5. Migration and integration through participation

More than before priority should be given to problems of participation and integration of non-EU nationals, whose rates of unemployment are, on average, twice that of EU nationals. Integration and immigration policy should have a central place in our discussion about the future of the welfare state, something we failed to do in the past. In our ethnically and culturally diversified societies the welfare state faces a major challenge of ensuring that immigrants and their children do not fall behind. Recent cohort of immigrants have fared less well in the labour market, despite having higher levels of education and training than their predecessors. Evidence of greater residential segregation is emerging in large metropolis. The recent outbreak of violence in the *banlieus* of the metropolitan cities of France reveals how economic exclusion and physical concentration, reinforces educational underperformance, excessive segregation and a self-destructive spirals of marginalization. The cultural challenge is to reinforce the bonds of a common community. Given that social cohesion is about the active engagement of diverse groups in a society and in debates about that society's future, newcomers should be incorporated into the economic and social mainstream, to sustain a sense of mutual commitment or solidarity in times of need.

2.7.6. Strong safety nets – social promotion with social promotion

We cannot assume that early childhood development, human capital push, together with high quality training and activation measures will remedy current and future welfare

deficiencies. To confront successfully the problem of poverty require broad action against social exclusion which is linked to employment opportunities, education, housing and living conditions across the life cycle. Hence, in the medium term it is impossible to avoid some form of passive minimum income support unless we are willing to accept rising household welfare inequalities. An unchecked rise in income inequality will worsen citizens' life chances and opportunities. Greater flexibility and widespread low-wage employment suggests a scenario of overall insecurity for a sizeable group. It is therefore necessary to have an even more tightly woven net below the welfare net for the truly needy to meet minimum standard of self-reliance. The overriding policy lesson is that in the face demographic ageing and in the light of a declining workforce, nobody can be left inactive (for long)! Moreover, social investments require long time horizons. A transition to a social investment strategy that also keeps faith with the commitment to economic security will be a longterm process. If the strategy works, income transfers will decline naturally, as future workers face less unemployment and enjoy stronger earnings. During the transition, however, we face a "double funding" problem: the need to invest in future workers but to continue to provide economic security for the low-skilled of today and tomorrow. A successful strategy of investing in human capital cannot be divorced from a continuing concern for child poverty and inequality, and a coherent social agenda will depend on the integration of income redistribution and investment in human capital. The key challenge is one that is largely being ignored: a redistributive complement to a human-capital strategy, one that makes meaningful the promise of education as an instrument of economic security and compensates for its limitations. In this respect, income transfers also remain central to any approach to economic security. There is no escape from traditional concerns about of poverty and the legitimate need for economic security among those who do not possess the magic keys to the modern economy.

2.7.7. Towards a European social narrative

What role can the EU play in this era of welfare recalibration? Since the 1990s, the dynamics of European integration have been playing an increasingly important role in shaping social policy developments within the Member States. Slowly but surely, the EU has carving out a distinct "policy space" for social policy agenda setting, especially in the areas gender policy and employment. As an effective agent of welfare reform with an eye economic competitiveness, the EU needs to further strengthen this role as an external catalyst and facilitator of the social face of reform agendas. But it needs to do this on the basis of a more visible caring dimension or new social narrative. Politically, the popular support basis of the European project will increasingly come to depend on its capacity to articulate a productive welfare edifice where neither solidarity is sacrificed for efficiency nor efficiency for solidarity. This requires a social cohesion policy discourse that respect the central role of domestic social rights, not as costs, but prerequisites for individual productive participation and European social progress. Europe's capability to cope with the social pressures of intense structural change very much hinges on a positive interplay between economic and social policy. Much will depend on the social and political institutions that emerge as results of the articulation of social policy as a productive factor. This is a matter

of urgency as significant numbers of EU citizens increasingly perceive Europe as a threat rather than a driver of economic dynamism and social justice, compatible with democratic stability and social cohesion.

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3. Concepts of Social Policy: Universalism vs. Focalisation⁵⁶

JOSÉ ANTONIO OCAMPO

3.1. Introduction

The struggle between the two approaches to social policy has been revived in recent years. The first approach, which was the basic pillar of social policy reforms in the last decades, revolves around the idea of focalising government subsidies towards the poorer sectors of society and on designing a public-private plan. The second approach argues that social policy needs a solid foundation based on various principles, including particularly universalism and solidarity. This latter idea harks back to the roots of post-war –and in some cases, pre-war– social policy. However, it was never widespread in Latin America, mainly due to the limited scope of formal employment, to which its development was associated.

This chapter revisits this debate, and comes down on the side of a universal concept of solidarity based on a vision of social citizenship. It argues that the best focalisation is a universal social policy, and moreover that focalisation should not be seen as a substitute, but rather as a complement –in fact, as a tool– of universalism. It also presents some reflections on the growing problems of segmentation in social policy systems throughout the region, and maintains that the full application of these programmes will generate a high demand for financial resources, which brings up an endemic problem in most countries, namely the weakness of their tax systems. Thus progress towards universal social policy systems, with citizens' rights at the fore, will require a much greater effort to increase and improve tax revenue structures.

The chapter is divided into three parts. The first part reviews the conceptual debate and presents the fundamental arguments in favour of a universal social policy. The second part analyses the available evidence on the focalisation of public social expenditure, and then briefly reviews the tax system. The final part presents the main conclusions and implications. Although the essay is broad in scope, it should be noted that the focus is on social policy in and of itself, rather than on the relationship between economic and social policy, which we have addressed in other projects.

56. This chapter is based on the article published in Spanish in the Latin American Journal *Nueva Sociedad* and based on a project carried out for the Corporación Andina de Fomento (Andean Development Corporation) (CAF) and presented at the social policy workshop in Caracas on January 18, 2008. The author would like to thank Horst Grabe, Julio Bolvinik, Alfredo Sfeir and other participants in the workshop, including Martin Hopenhayn and Juan Carlos Ramírez, for their comments. A series of meetings with Luis Miguel Castilla, Chief Economist of the CAF, which led to the CAF 2007 Report, as well as with Rebeca Grynspan, Regional Director for Latin America and the Caribbean at the UNDP, over the years, have helped to polish some of the ideas expressed in this essay. These ideas are obviously the author's exclusive responsibility.

3.2. The struggle between the two concepts of social policy

3.2.1. Outline of past social policy and the impact of market reforms

The modern concept of social policy as the responsibility of the state arose from the recognition by liberal governments of the need to develop basic, secular, universal education, along with primary healthcare, as social services which were inherent to the progress of modern society. In the late 19th century this came to include Bismarck's idea of social security, and the rise of the workers' movement led both directly and through its political expression to demands for protective and promotional labour legislation, as well as for an integral system of social policy. These ideas spread gradually throughout industrial countries in the 19th and particularly the 20th centuries, with the development of the welfare state. This process was closely related to an unprecedented expansion in the size of government and the consequent demand for resources to finance it.

In Latin America, these tendencies were expressed in a more limited fashion. The earliest advances were achieved in a handful of countries, especially in the Southern Cone and Costa Rica, as the result of an equally early economic progress, but also, during certain periods in the history of these countries, of a strong commitment to social development. The reforms enacted by José Batlle in Uruguay in the middle of the first decade of the 20th century are among the most outstanding examples of these advances.

In the majority of Latin American countries, progress towards basic universal public education and health systems was only definitively consolidated after the Second World War. However the scope of social security, both in terms of pensions, healthcare and professional risk, was always limited to formally salaried employment. This was due to the influence of the Bismarckian principle, which associated social security with formal employment in economies where its scope was always limited. Moreover, the uneven bargaining power of different salaried employment groups led to a considerable variation in the benefits they received, and this combination of a low incidence of formal employment and corporative elements⁵⁷ meant that the welfare state which evolved in the region was somewhat segmented and incomplete (Ocampo, 2004).

Although inspired by the same universal principles that had motivated the development of welfare states in industrialised countries, social policy in the region advanced in a lop-sided fashion. This was partly due to the fact that towards the end of the government-driven phase of industrialisation, social policy tended in most cases to reach only population sectors with average incomes (including modern factory employees, who generally belong to these sectors) and continued to exclude the poorer segments of society, especially in education or in access to more advanced systems of social protection. The poorer sectors also tended to be concentrated in rural areas, where social policy had a much more limited reach.

The economic reforms of the 1980s and 1990s – and in some countries such Chile, prior to this – addressed this problem. These reforms were developed under the influence of the World Bank in response to the financial hardships that were rampant during the debt

57. Here, we use the "corporative" concept in the same sense as other authors of literature on the welfare state, to refer to the tendency of these systems to offer different services to different labour groups. It should be noted that the use of this concept is different here from in political science, and does not in any way allude to the existence or otherwise of corporative political systems.

crisis, and led to an alternative vision, founded on three basic instruments: focalisation, private participation supported by on-demand subsidies, and decentralisation. The first of these instruments –focalisation– sought consistency between the need to rationalise public expenditure and the need to ensure that social policy effectively reached the poorer sectors. One of its most innovative features was the creation of systems to target beneficiaries. The other two instruments sought to rationalise governmental apparatus, either by developing public-private plans or through decentralisation, in order to bring beneficiaries within reach of the government authorities in charge of providing (or assigning) the subsidies. Specific programmes –particularly a range of emergency social funds– were added to these instruments in order to deal with the problems of vulnerable populations, or to defray the costs of structural adjustment.

The reforms that were enacted combined different variations of these instruments with the old social policy programmes. In the case of basic education, public education continued to dominate. The plans for public-private participation supported by on-demand subsidies (grants), such as those implemented in Chile, advanced gradually. In contrast, public-private participation systems –and even privatised pension systems– were imposed in healthcare and particularly in pensions in various countries, although public schemes continued to dominate in others, subject to a rationalisation designed to make them financially viable. In all cases, even in countries where the schemes were privatised, the government maintained regulatory responsibility for pensions and healthcare systems, as well as for sustainability and other financial obligations (minimum pensions and healthcare subsidies). Focalisation was most successful in conditional cash transfers which were originally designed as mechanisms for use in social emergencies (the Progresca programme in Mexico), or as a complementary instrument for universalising educational services (Bolsa Escola in Brazil). However, it gradually evolved towards programmes with a wider range of support which provided income to poorer sectors (Oportunidades in Mexico and Bolsa Familia in Brazil), which were later applied in many other countries throughout the region. On the other hand, decentralisation progressed furthest in the two countries with a strong federal tradition (Argentina and Brazil), as well as in the two formally centralist countries with a “federal vocation” (Bolivia and Colombia), and also to different degrees in numerous other countries.

The result of all this is that today there are three different coexisting social policy systems that correspond in one way or another to Esping-Andersen’s three models of welfare state (1990), but they are frequently all combined within the same country –which undoubtedly means they fail to achieve the attribute, emphasised by the author, of “de-commodification”. The first system has a strictly universal vocation and a predominantly public organisation –although with different degrees of decentralisation– and is found in primary and secondary education, and also in university education, in competition with private institutions. The second is a segmented plan with different corporative elements, which is found in social security systems in the broadest sense (pensions, healthcare and professional insurance). The third is a strictly focalised plan, of which the best example is the conditioned subsidy programme, but it is also present in many other policies aimed at particular social groups. In fact, the proliferation of specific programmes, in many cases with the structure of a “geological layers” (new programmes introduced as innovations by

successive governments, but which are often partially superimposed on old programmes still in effect) is a notable feature of social policy in the last few decades.⁵⁸

In spite of numerous reforms and some useful innovations, social policy appears to have lost the unity and strategic character of the welfare state in industrialised countries and the best examples in Latin America in the past. Filgueira et al. (2006, p. 37) described social policy in the region as “persistent corporatism combined with liberal reform” that lacks the support of non-contributive, clearly defined social services. One way to explain this loss is that the excessive emphasis on the three aforementioned instruments –focalisation, public-private plans and decentralisation– instead of acting as guiding principles, has ultimately jeopardised the strategic vision of social policy.

3.2.2. The return of the universalist vision

The return to a strategic vision of social policy therefore rightly subordinates the instruments of this policy to the principles on which they were founded. These instruments are conceived as deriving from formulations of rights and social citizenship, and as such, place social policy at the very core of the social pact and cohesion.

This vision has a long tradition. It should be remembered that the development of the welfare state brought with it the formulation of a new body of human rights (mainly second-generation rights), which was finally confirmed in articles 22 to 27 of the Universal Declaration of Human Rights and later in the United Nations International Covenant on Economic, Social and Cultural Rights. From a modern point of view, this body of rights, with its emphasis on the values of equality, solidarity and non-discrimination, is inseparable from the civil and political rights which were clearly formulated in the late 18th century –particularly in the Declaration of the Rights of Man and of the Citizen during the French Revolution– which guaranteed the rights of the people against the power of the government, and their participation in public decisions (ECLAC, 2000a).

It is worth noting that these economic, social and cultural rights are considered in the preamble to the Universal Declaration of Human Rights as an extension of the principle of liberty. This preamble indicates, in effect, that the United Nations seeks to “promote social progress and (...) better standards of life in larger freedom”, thus reproducing a concept that had already been adopted in the United Nations Charter. This concept has direct roots in the political vision of Franklin D. Roosevelt which inspired the Charter, and is also associated to T. H. Marshall’s concept of social citizenship (1992, which reproduces the original essay from 1950) as well as more recently to Amartya Sen’s (1999) “development as freedom”. Democracy is seen as an extension of citizenship, in its triple dimension as civil, political and social citizenship, an idea which was spread throughout Latin America by the UNDP report (2004). It should be added that a vision of social citizenship –or of a “government of social rights”– forms part of the constitution of various countries throughout the region, including Brazil, Colombia and Venezuela.

One of the most precise formulations of these ideas is the chapter on the principles of social policy in the document *Equity, Development and Citizenship* by ECLAC (2000a),

58. This classification is not necessarily exhaustive, but we use it here as it permits a direct comparison with the widely-known conceptual plan of Esping-Andersen.

which establishes the values of universalism, solidarity, efficiency and integration. The first of these is associated with the concept that basic social services provided by the government are a citizen's "right", and therefore that education, health and social protection are more than merely services or products. The second principle points to the obvious, particularly in highly unequal societies; the guarantee of access to these rights by underprivileged sectors forces us to apply the solidarity principle, which also expresses a fundamental social objective: the need to build more integrated societies. The third –efficiency– highlights the need to make better use of public resources in order to achieve greater benefits; and the last –integration– alludes to the strong interrelations between the different aspects of social development (or, on the negative side, the multiple dimensions of poverty).

This formulation leads us to two closely interrelated points: the relation between economic and social rights, and a country's level of economic development, on the one hand; and to what extent rights can be demanded, on the other. With regards the first point, it should be stressed that the political declaration that "Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services"⁵⁹, or the right to education and social security⁶⁰, does not itself create wealth or the ability to deliver what does not exist. In this regard, as remarked in a previous essay: "Its implementation should be compatible with the level of development achieved and (...) with the prevailing 'fiscal pact' in every society, so as to avoid unsatisfied expectations or macroeconomic imbalances that affect, in other ways, the very social sectors that are to be protected. Equity, in this sense, should be understood as establishing goals that societies are effectively capable of reaching, given their level of development. That is, their point of reference is the *achievable*, but nothing less than that, and therefore –as established in debates on economic and social rights– the *achievable maximum*". (Ocampo, 2004, p. 159).

This means that the degree to which economic and social rights can be demanded is subject to the limits of what is possible, and to the economic development of a country at any particular time. In fact, any attempt to demand rights in the abstract without taking into account what a society is able to give to "every" citizen will ultimately distribute scarce resources among only a few. Even though the freedom to demand certain "legal" safeguards is inherent to any kind of formulation of economic or social rights, "political" rights are equally important, or perhaps even more so: the political authority (the Constitutional Assembly or Congress) should specify what a particular society aspires to achieve in terms of social and economic rights, within the restrictions imposed by the level of development, but working towards the principle of obtaining the "achievable maximum". This is of course a subject for political debate between different democratic options, as is the discussion on how to generate the resources necessary to guarantee the basic services defined by society, through its political authorities, as being essential at a particular time.

This vision is associated with Molina's concept of "basic universalism" (2006)⁶¹, which refers to a series of basic social services and essential risk coverage that should be available

59. Art. 25.1 of the Universal Declaration of Human Rights.

60. Articles 26.1 and 22 of the Universal Declaration of Human Rights.

61. This contribution, also seminal to the debate, comes from a publication by the Inter-American Institute for Social Development of the Inter-American Development Bank edited by Molina (2006). See in particular the Introduction to that collective work, written by the editor, as well as Chapter 1 by Filgueira et al.

to the population as a whole, with universal quality standards based on the principle of citizenship. This leads us to the concept of “*merit goods*” in the theory of welfare, which ECLAC (2000a) translated –alternatively and correctly– as “social value goods” that is, goods and services that society believes all its members and citizens should receive. These goods and services can be understood as a material expression of economic and social rights, and they express the genuine preferences of society, beyond any individual preferences.

The scope of these “social value goods” should respect not only the level of development, but also the requirements of a specific economic organisational model for its citizens. Contemporary economies generate two specific conditions, in addition to those that have been recognised by social policy for decades. The first derives from the spread of the knowledge society, and the greater educational and training requirements demanded by the economy and society today. The second is increased economic insecurity in a society facing accelerated changes in a more competitive arena. For this reason, some authors have suggested that there should be a positive association between economic expansion and social expenditure, as occurs in OECD countries (Rodrik, 1997). This is also consistent with various visions of the Scandinavian welfare state, in the sense that a more elaborate social protection system is essential in more open economies, since these services are an alternative to labour protection based on external commerce barriers (Thalen, 2000).

Lastly, it should be noted that this formulation seeks to correct one of the greatest dangers facing social policy: segmentation. This problem tends to intensify in focalised policy programmes, but it can also be seen in systems where there are multiple service providers, some of which tend to “skim the cream” off the market or discriminate between different sectors based on their income level or location.

The educational system is a particular cause for concern. Education is commonly said to be a mechanism for social equality –a principle that, as we have already mentioned, is deeply-rooted in the liberal tradition– and that unequal educational achievement is one of the primary determining factors in unequal income distribution. But we should also remember, especially in highly unequal societies, that the education system is also a powerful mechanism for social segmentation that tends to reproduce existing inequalities and even, in some cases, to spread ideas and practices that further separate the elite from the rest of the citizens. But as with educational systems, there is also a tendency to generate health systems for the rich and the poor, as well as spatial segmentation in cities and numerous other mechanisms that reproduce or amplify these differences.

The paradigm of universalism has been a target of several fundamental criticisms: it requires substantial tax resources and, given scarce public budgets, can generate social policy systems wherein resources are ultimately poorly focalised. As we will see later, the first criticism is valid, but the second is not. In fact, exactly the opposite could be said: the best focalisation is a universal social policy.

This second criticism –that universal policies generate a poor focalisation of resources– is associated in some schools of thought to the idea that the middle classes are skilled at ensuring that public resources are distributed in their favour, thereby excluding the underprivileged sectors. This might be done, for example, by means of trade unions (which, as we already mentioned, in countries without much formal employment generally correspond to average income sectors) or by wielding influence over political parties.

This point of view is inaccurate for at least three different reasons. The first is that if the extension of social benefits can be seen largely as a “conquest” of the middle classes, democratic systems create pressure so that these benefits are equally spread throughout the entire population. This is, in fact, the history of welfare states in industrialised countries. In this context, as we will see, marginal expenditure oriented towards extending the coverage of social services is highly progressive. Another view of this topic is that the capacity of a social policy to attract the middle classes can be seen as evidence and as a guarantee of a policy that provides services of universal quality (Grynspan, 2006). It is also essential to ensure that the middle classes support the tax levels necessary to finance the high public social expenditure required to sustain the system, as shown in studies on industrialised countries (Korpi and Palme, 1998). As for the rest, with a few exceptions, the proposal of some defenders of focalisation that the public resources of the middle classes should be redistributed to the poorer sectors is politically unrealistic.

Secondly, in Latin America many households belonging to “middle-class” sectors have relatively low incomes. This is evident when we look at the 3rd and 4th quintiles of income distribution. In effect, according to ECLAC’s calculations,⁶² in countries with a lower income per capita (such as Bolivia, Honduras or Nicaragua), some households in the 3rd quintile belong to the poor population. In these countries, the majority of families in both these quintiles have an income lower than the equivalent of two poverty lines, which makes them very vulnerable to the threat of poverty. In countries with a per capita income on a par with the regional average such as Colombia or the Dominican Republic, almost all the households belonging to these quintiles earn less than the equivalent of three poverty lines. Only in four countries (Argentina, Chile, Costa Rica and Uruguay) can the gross income of households in the 4th quintile be said to have an income superior to the equivalent of three poverty lines.

This reflects a widely known fact: unequal income distribution, typical of Latin America, is associated with concentration of wealth in the richest ten percent (see, for example, ECLAC, 2006b, Chapter I). However these middle-class sectors may have been among the population who have been under the greatest pressure over the last few decades, due to decreasing returns from secondary education in terms of the guarantee of higher income, or the decline in formal employment up until the beginning of the new century.

Lastly, a coherent social policy aimed at encouraging greater social cohesion should offer its proposals to society as a whole. In fact, one of the major drawbacks to the “focalising government” is its limited capacity to draw citizens together, because, among other reasons, it does not offer the very least that a society expects from its government: a proposal for all of society, and not just for some of its parts.

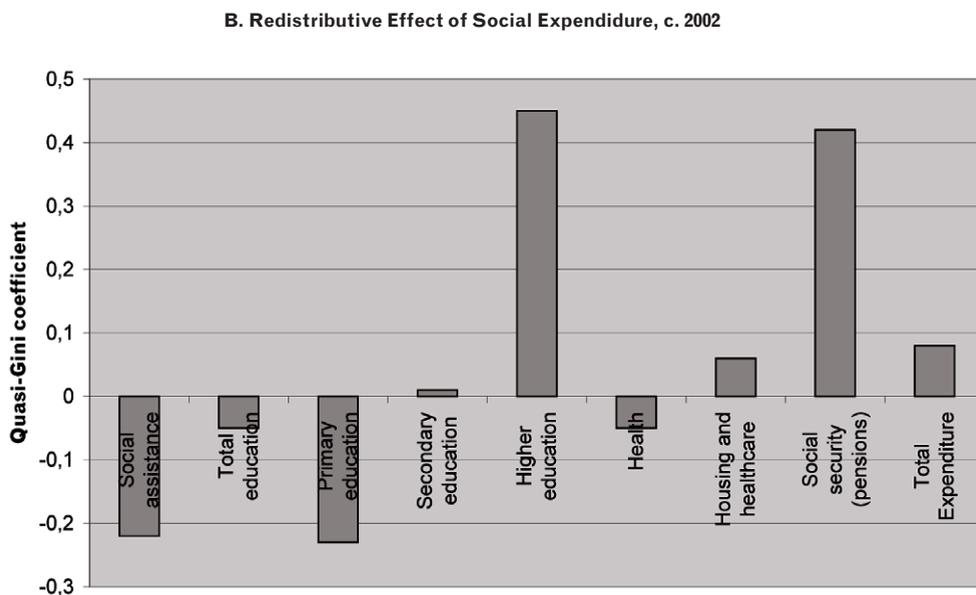
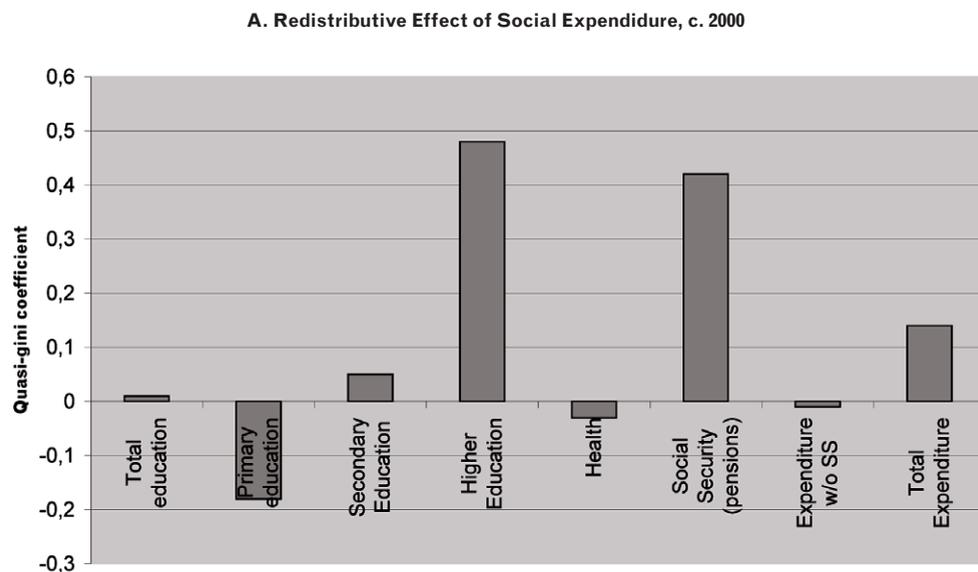
3.3. Universalism and focalisation

3.3.1. The redistributive effects of public social expenditure

Various ECLAC projects (2000a, 2000b, 2006b and 2007) provide comparative syntheses of studies on the redistributive effects of public social expenditure (in the case of those

62. See ECLAC (2007), Annexed Graph 6.

Figure 3.1. Redistributive effect of social expenditure



Sources: ECLAC (2006b), Figure II.10, and ECLAC (2007), Figures II.16 to II.19.

published in ECLAC, 2006c, based on research done by the BID). Figure 3.1 provides a summary of recent results, corresponding mainly to estimates based on public spending since the end of the 1990s to the beginning of the 2000s.

These studies indicate that distributive effects vary significantly between the different types of expenditure, which can be grouped into three large categories. The first includes the most redistributive expenses: social assistance programmes and areas of social policy with universal or quasi-universal coverage, such as primary education and some health services. The second category comprises services with intermediate coverage, such as secondary education and housing and healthcare expenses; in this case, distribution is not generally progressive (except in a few countries), but does not significantly differ from equi-distribution and is therefore much better than distribution of primary income. Health expenditure is included in both categories: this is slightly progressive, particularly in the most recent study. Finally, the third category includes social security (pensions) and university education, where benefits are more concentrated in the top percentages. But even in these cases, this distribution is slightly better on average than primary income distribution (albeit in some cases it is worse).

Although it is true that social assistance programmes confirm the opinions of defenders of focalisation, in the sense that greater selectivity implies an improved redistributive effect, in reality, the impact is limited, given that the amounts distributed are relatively modest. Conditional cash transfers (like Bolsa Familia and Oportunidades) are the most important innovation in this area, but there are other programmes that also generate highly redistributive effects, particularly nutrition programmes aimed at children. The outstanding feature of the most successful focalised programmes is precisely their greater coverage; that is to say, their tendency to “universalise” their benefits within the target population. Moreover one of their great virtues is that they use transfers as a lever to encourage the beneficiary sectors to make use of universal education and social healthcare programmes.

As these programmes absorb a small proportion of public social expenditure, they account for less than a fifth of the redistributive effect of this spending (ECLAC, 2007, Figure II.20). The greatest redistributive impact comes from broad-coverage health and education programmes. In effect, according to all existing studies, these programmes have the most significant impact on effective incomes in the poorer sector. Moreover, the expansion of these programmes from limited to wider or universal coverage confirms the conclusions of the pioneering study on this topic in Colombia (Selowsky 1979): social expenditure in these cases is highly redistributive “at the margin”.

Despite studies on this topic are not strictly comparable, they serve to illustrate the point. Table 1 shows a comparison between the implicit incomes received by Colombian households from different types of public education expenditure at two different times: 1974 and 1992 (Selowsky, 1979 and Vélez, 1996).⁶³ As can be seen, spending on primary education was already highly progressive in 1974, but became even more so in the following years. Secondary education benefits in 1974 were concentrated in the middle-class sector, but with expanded coverage began to move towards lower-income sectors. Moreover,

63. The data calculated for Colombia by ECLAC (2007, Graph II.16) corresponding to 2003 do not significantly differ from the data shown in Graph 1 for the year 1992.

university education benefits, which were highly regressive in 1974, in 1992 were less concentrated than primary income, thanks to the expansion of coverage. This implies that expenditure that was previously considered regressive became progressive once coverage was extended. This is particularly the case with secondary education, but also with other services such as aqueducts and sewage systems. In both, the “marginal” expenditure was highly redistributive.

Table 3.1. Distribution of education subsidies according to income distribution quintiles Colombia, 1974 and 1992

Quintile	Primary Education		Secondary Education		Higher Education	
	1974	1992	1974	1992	1974	1992
	%	%	%	%	%	%
1	32.1	39.3	16.8	20.6	0.9	5.1
2	26.8	26.2	21.8	26.8	4.6	9.4
3	20.5	19.4	21.1	25.3	10.7	18.6
4	14.5	10.8	24.6	17.7	23.5	33.1
5	6.2	4.3	15.6	9.6	60.3	33.9

Source: Velez (1996), Figure 3.6.

The conclusion of this analysis is that the policies included in the second category mentioned, secondary education, housing and healthcare –that is, social services that are in the process of being universalised– will become more progressive as coverage widens. In all of them, the “increased” costs associated with coverage –that is to say, the “marginal” expenditure– is highly progressive, perhaps no less progressive than the expenditure included in the first group (primary education and basic health services).

The third category includes two types of social services with a very different character: university education and social security. The first is perhaps the clearest candidate for making redistributive criteria more prevalent than in the past, by creating a means-related grants programme based on family income. This system of financing differs from free education policies, which should unquestionably be a priority in primary and secondary education. Two particular aspects of this point require further clarification, however. On the one hand, the university is also a source of knowledge production, and as such, should be assigned resources in view of that fact. On the other hand, the public university can be a very effective mechanism for “social de-segmentation” in countries where contact between citizens is very limited. In industrialised countries –particularly in Europe– the public university has in effect played that role. Therefore a grants programme runs the risk of eliminating this function of the public university; this function may in fact have already been heavily eroded. One way to address this problem, which is also applicable to other social policy sectors, would be to maintain a more competitive system for both public and private agents, but to increase recruitment of public agents by awarding general subsidies. This is effectively the design of the

university system in the United States. In this case, quality control would be achieved by competing for the resources of the public universities.

In addition to university education, the second area in this category is social security (pensions). On this point it should be mentioned that the estimates exaggerate its regressive impact on distribution, mainly because no deduction is made for the contributions (present and past) by the system's beneficiaries. To put it more simply: if expensive measures are seen as regressive, as they limit access, then financing contributions are by the same token progressive, as they devolve upon the sectors with higher incomes. In these conditions, the “net” regressive effect is much lower than normally estimated, and the subsidies provided by these systems may be progressive –even highly progressive.⁶⁴ Moreover, a large part of what appears to be budgetary outlay is in fact employers’ contributions required by the state. This expenditure appears to be regressive, due to the high proportion of workers with a university education in the public sector. The distributive effect of social security must be estimated based on the government subsidies taken from the general net budget of employers’ contributions. In fact, in this case, as we will see in the following section, the central hypothesis of this project is still valid: the progressiveness of the expenditure –or, rather, the reduced regressiveness– is associated with greater coverage. The greatest progressiveness is achieved through a policy aimed at universalising access to social security. As ECLAC has extensively analysed (2006a), in economies where there is a large proportion of informal employment, this requires combining the existing contributive system with non-contributive support. In a plan like this, the government’s net subsidies will by definition have a highly progressive effect.

The general conclusion to be derived from this analysis is clear: greater progressiveness in public expenditure is closely related with wider coverage; therefore, the best form of focalisation is universalism. Focalisation –or perhaps we should say selectivity, in order to avoid the strong conceptual, and even ideological connotations this concept has acquired– should play a subsidiary role in this plan. However, it can still fulfil three specific functions. In the first place, in countries where poverty levels are still very high, social assistance programmes can have important redistributive effects and thereby constitute a support for the system. In accordance with the principles of social policy mentioned above, these programmes should fulfil the requisite of “universal vocation” towards what are considered target social groups (nutrition programmes, conditioned subsidies and pensions for the destitute elderly population, among others). But these programmes should be considered subsidiary to a basic social policy of a universal nature, and thus be as fully integrated as possible into this policy. The second function of focalised programmes is to allow the design of special programmes to target certain populations (such as Indians) or specific groups within a population (for example, pension systems that take into account women’s reproductive activities). The third function is to serve as a bridge to help sectors with difficulties in accessing basic universal social services to obtain this access. In all of these cases, focalisation (or selectivity) should be seen as an instrument of universalism, never as a substitute for it.⁶⁵

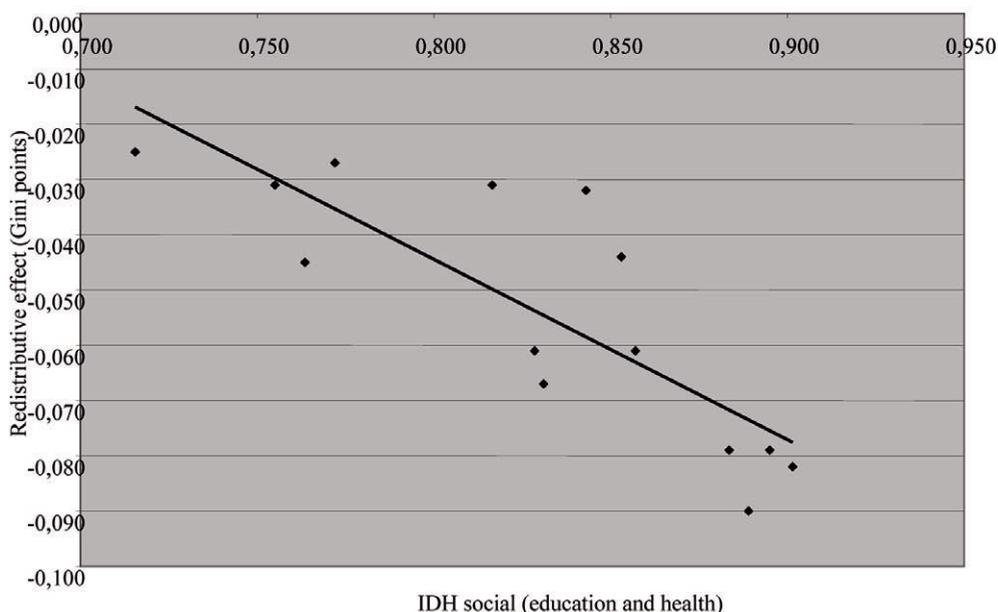
64. Although it refers to healthcare, Vélez’s study (1995) illustrates this point very well. While coverage of this system may have been slightly regressive in Colombia in 1992, the net subsidies were highly progressive, with a quasi-Gini of -0.345, which is not very different from that of primary education.

65. Note that these arguments, like those in the following section, have positive implications: they are intended to show

3.3.2. Progression of expenditure in different countries

Estimates as to the total redistributive effect of public social expenditure in Latin America corroborate these interpretations. Figure 3.2 shows the relation between the redistributive effect of social expenditure in different countries (estimated as points of the Gini coefficient) and an added indicator of social policy development, UNDP's Index of Human Development, although only considering the education and health factors from this index. The first of these variables includes not only the impact of focalisation in the strictest sense, but also the magnitude of social expenditure. Both factors are reinforced, given that if better focalisation –and, as a result, greater redistributive impact– is associated to more universal systems, this will entail greater expenditure, as explained below.

Figure 3.2. Relation between the distributive effect of social expenditure and the index of human social development



Sources: UNDP (2007), Statistical Annex, Figure 1, and ECLAC (2007), Figures II.16 to II.19.

The data indicates, in effect, that countries where public expenditure has a higher redistributive effect are those which developed government social services earlier and whose education and health systems have wider coverage: Argentina, Chile, Costa Rica and Uruguay (to which should be added Cuba, although it is not normally included in the analyses on this topic). Note that in some estimates which concentrate exclusively on an analysis of focalisation, the highest redistributive effect of public expenditure occurs in Chile,⁶⁶ although,

that the criteria of universalism are clearly superior in terms of redistributive impact. There is also literature critical of focalisation which highlights the information errors, distortions of incentives and problems of stigmatisation that characterise these systems. See, among others, Cornia and Stewart (1995), Makandawire (2007) and Sen (1995).

66. See, for example, ECLAC's assessments (2006c).

this is not the case when the joint impact of focalisation is combined with total expenditure.⁶⁷ The Figure shows that countries with intermediate levels of development in social policy, such as Brazil, Colombia and Panama, also generate intermediate redistributive effects of public expenditure, with the lowest redistributive impact in relatively less developed countries, like Bolivia, El Salvador, Honduras and Guatemala. Other countries, such as Ecuador, Mexico and Peru are worth noting due to the fact that although they have average indicators of human development, their social policies have a limited redistributive impact.⁶⁸

Table 3.2. Relation between formal employment and the redistributive effect of social security spending

	Formal employment c. 2005	Number of dependents per formal employee	Redistributive effect social security of spending (quasi-Gini)	
			c. 2000	c. 2002
Argentina	62.4	4.0	0.21	-0.176
Bolivia	34.8	9.6	0.28	0.276
Brazil	68.6	3.8	0.40	0.396
Colombia	55.2	4.8	0.68	0.680
Costa Rica	63.3	3.9	0.29	0.471
Ecuador	47.2	8.5	0.40	0.396
Guatemala	46.8	7.5	0.65	0.648
Honduras	45.5	9.4		0.710
México	62.2	4.9	0.38	0.377
Panama	64.4	4.7		0.552
Peru	41.7	7.7		0.605
Uruguay	57.4	4.2	0.46	0.346

Source: See Figure 1 and ECLAC (2007).

The specific data for social security (pensions) shows an even more complex picture. In this case, there is an evident relationship between the redistributive impact, measured by the quasi-Gini of the corresponding expenditure, and the level of formal employment (Table 3.2). In general, the data proves that expenditure is more redistributive when access is greater, measured by the level of formal employment. However, there are notable exceptions, both positive and negative. Particularly worth noting among the positive exceptions are Bolivia and Brazil, which have developed basic universal pensions of a

67. In strict terms, the data corresponding to this country are not comparable to data from other countries, as it excludes the privately-run contributive health and pensions systems which in other countries are financed by the government. A corollary of this is that any calculations of the redistributive effect of expenditure must include the resources and services managed by private bodies or participatory supporters of social policy systems in the future. Equally, all services financed by the contributions of those that access them should be considered distinct.

68. We have excluded data on Nicaragua, which shows the opposite effect, as the amount of social expenditure used in the corresponding calculations by far exceeds the amount of social expenditure normally estimated by ECLAC for this country.

non-contributive type. On the negative side, some systems have achieved a very limited coverage for their pension regimen given their level of formal employment. Honduras and Colombia are the most notable cases (Guatemala is another, but this could be due to a low level of formal employment). The redistributive impact data corresponding to Argentina in 2002 refers only to non-contributive pensions, and therefore cannot be strictly compared with the rest.

The conclusions of this analysis, and of the previous section, concur with Korpi and Palme (1998), who in analysing social protection systems in industrialised countries, described what they call the “redistribution paradox”: the total redistributive effect of public social expenditure is greater in countries with universal systems in which focalisation criteria are applied (particularly in Anglo-Saxon countries). According to these authors, one of the fundamental reasons for this is the strong political support given to social public expenditure by the middle classes in countries with more universal systems, which is an essential factor for obtaining the support of these sectors for the elevated tax levels necessary to finance them.

It is worth noting that the estimated redistributive effect mainly refers to indirect transfers to households, equivalent to the cost of providing government social services. Only in a few cases is it associated with direct income transfers (pensions and some social assistance programmes). Some recent studies have highlighted the fact that Latin America’s delay in developing these direct transfers is one of the most significant explanations for the acute levels of inequality in income distribution throughout the region, in comparison with OECD countries (World Bank, 2006, Chap. 5; OECD, 2007, Chap. 1).

Lastly, it should be pointed out that the data in Figure 3.2 refer to the impact of social policy on “secondary” income distribution. Another important point is the effect of social policy on “primary” income distribution. The best illustration of this is provided by the analyses of industrialised countries. These analyses clearly corroborate the fact that countries in continental Europe with more universal welfare systems have better income distribution than countries where the focalisation principle is used in a more active fashion (Alesina and Glaeser, 2004). The reason is without doubt a virtual circle: more equal societies demand universal systems of social policy, and in turn contribute towards generating more equal societies. If social policy is to contribute to reducing excessive inequality in income distribution, a characteristic feature of Latin America, it must work towards a universal social policy, including systems founded on income transfers, as indicated by studies by the World Bank and the OECD.

This association between the development of social policy systems and the primary distribution of wealth is not new in Latin America, but has been weakened with the deterioration in distribution experienced by almost every country in the region with an advanced level of human development over the last decades, in a tendency defined by ECLAC (2006b) as the “convergence towards greater inequality”. Of the four countries whose social policy has the greatest distributive impact, the examples of Costa Rica and Uruguay still tend to corroborate the association between social policy and better income distribution (and, it may be added, support for democratic systems), although Costa Rica has suffered a deterioration in its distribution in the last decades. Argentina, on the other hand, experienced a greater deterioration between the 70s and the beginning of the present

decade, and in spite of its recent improvement, its levels of inequality are still very similar to the regional average. Chile also underwent a distributive deterioration in the 1970s, and has now become one of the countries with the highest levels of inequality.

3.3.3. Fiscal requisites

The main limitation on universal social policy is the demand for public resources. One of the advantages of focalisation –and perhaps this is what makes it so politically attractive– is that it requires fewer resources. It is therefore no wonder that its spread was associated with an effort to rationalise public expenditure. This fact requires us to address one of the main weaknesses in Latin American development: the fragility of its tax structure and the weight of systems of an indirect nature. Advancement towards a universal social policy will not be possible without a new fiscal pact, to use the term coined by ECLAC (1998), which significantly raises public income and transforms tax policy into a progressive instrument.

The projects of ECLAC (1998), the World Bank (2006, Chap. 5) and the OECD (2007, Chapter 1) corroborate these ideas. The OECD study shows that the average tax burden in Latin America is barely half that of the OECD (17 per cent compared to 36 per cent of GDP). There are substantial differences in direct taxation (5 per cent in Latin America as opposed to 15 per cent in the OECD) and social security contributions (3 per cent in Latin America as opposed to 9 per cent in the OECD). The World Bank estimates that, given the international standards for the relationship between taxation and income levels, Latin America should be collecting four additional GDP points, particularly for income tax on natural persons. As these studies show, indirect taxation does not show a similar lag, but rather the reverse. This confirms that countries within the region have more regressive structures than OECD countries, and points to the fact that an advance towards direct taxation could contribute to reducing the excessive disparities in distribution that are such a feature of the region.

Within such a framework, social security contributions and taxes to finance other kinds of public programmes (such as professional training programmes), taken directly from citizens' salaries, are a bone of contention. The main criticism of these contributions is that they are a tax on labour that, as such, reduces the generation of formal employment and creates an increase in informal employment. This idea is certainly correct, and has led to proposals to partially finance these benefits with taxes of a general nature. However, it does not seem either possible or advisable for the entire social policy system to rest on taxes of a general nature. A brief glance at the OECD data shows, in effect, that industrialised countries could not finance the high social security benefits without the nine GDP points collected in this fashion. But, besides not being financially viable, a system supported only by general taxes would eliminate an essential element of economic policy: contributive systems create a sense in their workers of belonging to the welfare state, and carries not only rights (services), but also duties (contributions).

For this reason, the idea of detaching the financing of social policy from direct salary contributions is gaining acceptance in cases where it benefits the public good, or in important external programmes (to prevent contagious diseases or professional training,

for example) and when there is no direct relation existing between the contributor (or when the company contributes in the worker's name) and the person receiving the benefits. But when the benefit principle is applied, as occurs in a broad sense with social security, there is no substitute for direct salary contributions. The key to advancing social protection in a context in which formal employment continues to be limited is to contemplate a careful blend of contributive and non-contributive methods in the system (ECLAC, 2006a), without eliminating the contributive method.

Finally, the importance of taxation is corroborated by the trends in public social expenditure observed in Latin America. In effect, one of the most positive trends during the 1990s was the significant increase in public social expenditure, which grew on average from 12.8 per cent to 15.5 per cent of the GDP, thanks in part to the substitution of other types of expenditure. The increase, although generalised, was more notable in countries that lagged further behind. However, in recent years this trend has given way to a much slower advance, with expenditure between 2004 and 2005 at 15.9 per cent of GDP (ECLAC, 2007, Figure II.6).

In conclusion, advances in fiscal policy in Latin America are undergoing an unavoidable tax change, especially in terms of direct taxation and social security contributions. This is one aspect in which we will observe whether the return of equality in the region's development agenda is a deeply rooted phenomenon, or merely based on shallow rhetoric.

3.4. Conclusions

This essay argues that the prevailing focus of social policy, which over the last few decades has inclined predominantly towards focalisation, should give way to ideologies based on the concept of social citizenship and thus on the principles of universalism and solidarity. This will lead to the development of services and social programmes that can be effectively universalised, while at the same time making universalism the main instrument for achieving a greater focalisation of public expenditure towards lower-income sectors.

A plan such as this would recast focalisation (or rather, selectivity) as an instrument of universalism rather than as a substitute for it. Focalisation can still fulfil three basic functions: developing social assistance programmes with a universal vocation within certain social groups, adapting programmes to the specific characteristics of particular sectors, and serving as a bridge towards universal programmes, as in the case of conditional cash transfers.

An additional aspect is the importance of the efforts to combat segmentation in the access to the various services by different social groups. As we have already mentioned, this problem tends to be more acute in focalised policies, but it is also the result of systems in which there are multiple service providers, some of which may discriminate between possible candidates for these services. A particular source of concern in this regard is the high degree of segmentation to be found in education systems, which implies that systems involving participation by many different actors require greater regulation in order to correct these problems.

Lastly, a fundamental requisite in the movement towards a more universal concept of social policy is that tax systems need to be made stronger and more progressive. Advancing

towards a universal social policy will not be possible without a new fiscal pact to reinforce direct taxation in particular. Moreover, given the much slower rate of increase of public social expenditure in the present decade, any efforts to advance social policy in the future will be much more financially demanding than they have been in the past.

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4. The debate on social cohesion in Latin America: origins, issues and some lessons from successful experiences

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4.1. Introduction

The strategy for social cohesion is increasingly imposing itself on the Latin American social agenda, particularly in the battle against inequality and poverty. The emergence of such an agenda is recent, and if one wishes to indicate its starting point, the meeting of the European Union (EU) and Latin American/Caribbean Heads of State in Guadalajara in 2004, could be selected as a symbolic date.

Effectively, it is under the influence of the agenda of the European Union that the theme of social cohesion is being introduced to the region through typical processes of intellectual discussion, but particularly through various mechanisms and instruments of co-operation between the European Union and Latin America (for example, meetings, networks and especially decentralised cooperation projects).

A second influential factor shaping the Latin American social agenda around the theme of social cohesion is that arising from the Economic Commission for Latin America and the Caribbean (ECLAC) (ECLAC, 2007; Sojo and Uthoff, 2007). Again, under the influence of the European Union, since 2006, ECLAC has been gathering and producing, of its own accord and with increasing independence, definitions and indicators in an attempt to encapsulate the particular Latin American situation with regard to social cohesion. Furthermore, a programme of mobilisation of countries and governments around a “cohesion pact” was established, providing a strategic instrument for the advancement toward societies that are less unequal, socially more integrated.

It is known that institutional influences of this type reflect the strategies of institutions themselves, determined as much by their internal dynamics as by the logic of competition and dispute amongst peers (especially international institutions). This is true, also, in the case of the strategy for social cohesion. Moreover, to a certain extent, it explains some of the recurring difficulties of implementation.

However, the success and speed with which the new social policy strategy has been disseminated amongst Latin American countries is undeniable. This is certainly due to the fact of having encountered a favourable atmosphere for its reception. Moreover, beyond the virtues, and conceptual and strategic qualities, the success is due, in large part, to a kind of fatigue in the region with narrow and restricted visions with which poverty and social inequality were approached for almost two decades through programmes of adjustment and structural

reforms. The new framework defined by the European Union would appear to respond to, and overcome, the gaps and limits critically identified by analysts and policy makers.

Establishing one perspective of social cohesion in Latin America is far from being accepted or univocal. It is true that its use in European community forums faces strong obstacles. However, in the Latin American case, the challenges are much greater, particularly at present when the traditional socio-economic heterogeneity of the region appears to have been accentuated by the combined effects of globalisation and democratisation.

As is common knowledge, the thesis that globalisation provokes increases in poverty and inequality is controversial. However, it is difficult to deny the effects of the deepening of regional diversification (between countries and within countries), brought on by processes of free trade, the intensification of relations and foreign exchanges, the intensive use of new technologies of communication and information, etc. In the last twenty or twenty-five years, alongside movements towards a concentration of income and strong oscillations in the levels of poverty, together with increasing urbanisation, notable changes have been underway in the lifestyle and patterns of consumption of Latin American populations, which differentiates still more the colourful regional mosaic. If it is possible to see the effects of convergence in these various processes, there are also strong impulses of differentiation and social fragmentation to be found.

On the other hand, the recent democratisation of the region, while permitting a more intense exposition of demands, has brought to the table new forms of social and civic participation (some more individualised, others more collective), almost always horizontal and not hierarchical, which would have been accommodated with difficulty in the traditional mechanisms and institutions of participation and representation. These promising civic dynamics however, do have disruptive effects on social and political orders, even more so when there is a lack of solid and established democratic institutions.

The objective of this chapter is to precisely trace the origins, the prior conditions and the current characteristics of the debate about social cohesion in Latin America.

Part 4.2 summarizes the intellectual and conceptual dimensions with which the question of social cohesion is being framed in Latin America. Starting with the decomposition of the principal components of the social cohesion's notion, as it is currently used in international literature, the paper reconstitutes the main aspects of the ECLAC contribution, as well as the terms of the present Latin American debate about the theme.

Part 4.3 includes a brief overview of the prior conditions to the emergence of the debate about social cohesion, taking as a point of reference, the succession of strategies to combat poverty, which influenced the region in the last two decades and the evolution of the discursive context in which they were introduced.

Part 4.4 is dedicated to the succinct examination of some European and Latin American local experiences of co-operation guided by the search for social cohesion.

4.2. Social cohesion strategy in Latin America: conceptual evolution and themes of the current debate

How is social cohesion understood by the strategies which invoke this title? What is the theoretical basis of such a concept and to which tradition or sociological current does it

belong? Which would be the specific marks that distinguish a social cohesion strategy from other strategies of social development? Would strategies and parameters of social cohesion be applicable in the Latin American context, like those adopted by the European Union social agenda?

There is not any single or unequivocal response to any of these questions. It is true that common sense dictates that it is possible to identify a group of meanings and conceptual components normally accepted by people when they refer to social cohesion. At the practical or operational level, efforts are being made to identify and define the parameters and measures that would permit the evaluation of “the state of social cohesion” of a given society. However, the consensus around the origin of the concept is a lot less, even where the possibility exists to relate it to classic sociological concepts, which, at some point, deal with social cohesion. Finally, the divergence relative to the application of the concept to societies as heterogeneous and recently democratised as Latin American societies is very broad.

This section has a two-fold objective. Firstly, it tries to identify the theoretical and normative origins of the idea of social cohesion as it has come to be disseminated in Latin America. And secondly, it tries to examine and reconstruct the principal themes of the Latin American debate regarding the idea and the strategies for social cohesion. It is important to note that the examination of the concept of social cohesion in itself or in general is not examined here. Instead, it is approached within the context of recent development and social integration strategies, which have social cohesion as their normative parameter.

4.2.1. Social Cohesion: a preliminary approach

For a better understanding of the current debate regarding the origins of the concept and its use in Latin America, it would appear to be useful to examine in a preliminary manner the analytical content of the notion of social cohesion, including how it has been used as an idea basis for contemporary social development strategies.

Although fluid and difficult to define, the notion of social cohesion brings with it ideas of belonging to one shared community shared values, common discourses, undertakings and goals, in short, a common destiny. In this broad sense of belonging, the quality of society is referred to, a certain kind of connection between people and a given society.

Social cohesion involves the incorporation of distinct social groups within a common destiny. On the contrary, the lack of perspective of a “shared destiny” constitutes an indicator of social fragmentation. For instance, poverty and inequality can be thought of as weak or the absence of social cohesion, signifying a breakdown of the social fabric; the isolation and passivity of people; a lack of identity and a widening of differences; a lack of trust in and disenchantment with political institutions; a loss of opportunities due to the scarcity of resources and local capacities, etc.

Proposed as a strategy and goal for overcoming social fragmentation, poverty and inequality, as the European Union does, support for social cohesion appeals to a (re) construction of interpersonal relationships based upon trust, tolerance, altruism and pluralism. It seeks to stimulate investment in building capacities in local collectives through active participation of people and the strengthening of organisations, networks and alliances between public and private institutions.

Belonging, inclusion, interpersonal relationships, collective capacities, social networks –the notion of cohesion is recognisably complex, involving multiple meanings and interlinked with other concepts as can be seen by the selected definitions registered in the study Population Health (Public Health Agency of Canada, 2001).

Social Cohesion: “Social cohesion is the ongoing process of developing a community of shared values, shared challenges and equal opportunity ... based on a sense of trust, hope and reciprocity among all ...”.

Social Inclusion: “Inclusion is characterized by a society’s widely shared social experience and active participation, by a broad equality of opportunities and life chances for individuals and by the achievement of a basic level of well-being for all citizens” (Sen, 2001).

Social Capital: “Social capital refers to features of social organization such as networks, norms, and social trust that facilitate coordination and cooperation for mutual benefit” ... “... that enable participants to act together more effectively to pursue shared objectives” (Putnam, 1995).

Or: “Social capital describes the resources available to individuals through their membership in community networks. In contrast to financial capital, which resides in people’s bank accounts, or human capital, which is embodied in individuals’ investment in education and job training, social capital inheres in the structure and quality of social relationships between individuals”.⁶⁹

Placed at the centre of social and economic debate, these concepts are often used as synonyms, and in fact, they maintain strong relations of proximity between themselves. In other words, the concept of social cohesion would appear to be a genre close to social capital and social inclusion amongst others (ECLAC, 2007). To some extent, it is possible to affirm that each refers to the idea of social bonds, which keep a given society united, corresponding to a certain degree of integration and collective identification of its members.

Up to this point, usual notions of social cohesion enable us to understand that social cohesion is understood with respect to the nature and intensity of social relations, which link members of a given society. We have also seen that a complex notion, composed of distinct elements is being dealt with. What, therefore, are the central components of this notion?

Unpacking its elements constitutes a useful methodological exercise which enables a better understanding of the intellectual and value content present in the usual definitions of social cohesion

4.2.1.1. Social Cohesion: principles of analysis and constitutive elements

A complex and hybrid notion, such as social cohesion, naturally admits distinct approaches, following a greater or lesser emphasis on whichever aspect analysts highlight regarding the notion. In recent work, in which we base much of this part of our work, Victor Godinez (2007a) points towards three main principles, which, in his opinion, have marked out academic studies around the concept of social cohesion.

69. As defined by Ichiro Kawachi, Social Environment Working Group, Research Network on Socioeconomic Status and Health. See: Public Health Agency of Canada (2001).

A dynamic vision of social cohesion –contrary to a static vision, the concept refers to a process of constructing shared values and quality relationships between individuals and society.

The dynamics of social inclusion and exclusion of individuals, including the various aspects of material and non-material and the implied symbolisms.

The values and identities which underpin the meaning of belonging of individuals to their local, national and even super-national communities.

The understanding of social cohesion as a dynamic process is decisive for the current understanding of the use of the term in the area of public policy. This is because on the one hand, such an understanding perceives differences in intensity, levels or degrees of social cohesion, even in the society at different times or between different societies. On the other hand, it also allows, almost as a “necessary complement”, the consideration of factors, which promote social cohesion, including public policies.

Constitutive elements of the normal and contemporary notion of social cohesion make the basis of these analytical principles explicit.

Supported by the seminal studies of Wooley (1998), Bernard (2000) and Jeannotte (2002), Godinez (2007a) quotes the 6 binomials traditionally used in the academic works in the identification of social cohesion and of its absence: (1) belonging-isolation; (2) inclusion-exclusion; (3) participation-passivity; (4) recognition-repelling; (5) legitimacy-illegitimacy; (6) equality-inequality.

Based upon the distinction between formal relations and substantive relations sketched by Wooley,⁷⁰ the author distributes six binomials, constructing the following classification of elements or constitutive vectors of social cohesion:

Table 4.1. Godinez’s classification: Six basic components of social cohesion

Sphere of activity	Character of relation	
	Formal	Substantive
Economic	(2) Inclusion/ exclusion	(6) Equality/ inequality
Political	(5) Legitimacy/ illegitimacy	(3) Participation/passivity
Social-cultural	(4) Recognition/repelling	(1) Belonging/isolation

Source: Godinez (2007a)

The meaning of each binomial for the effects of social cohesion is clear, according to the author (Godinez, 2007a, p.18-19).

- Belonging-isolation: social cohesion implies sharing values and perceptions to form part of the same community;
- Inclusion-exclusion: social cohesion implies a generalised capacity of insertion in the market, in particular the job market;

70. According to Wooley (1998), formal relations suppose the participation of the grassroots and in principle are within the reach of all society. Substantive relations suppose sustained compromises with respect to the functioning of the economic, political and social-cultural life.

- Participation-passivity: social cohesion implies the involvement of citizens in public questions, understood broadly;
- Recognition-repelling: social cohesion implies plurality and at the same time tolerance towards differences;
- Legitimacy-illegitimacy: social cohesion implies the existence of public and private institutions with the capacity of managing and mediating conflicts;
- Equality-inequality: social cohesion implies a profound and systematic compromise in light of distributive justice and equality.

There is a central point for understanding this typology of components for social cohesion, strongly underscored by Godinez (2007a): a necessary inter-relationship between formal elements and substantive elements. That is to say, social cohesion results from a tense and dialectic relationship between these components, which in their inter-relationship form a dynamic totality.

It is convenient to indicate, along with the author, the main permutations of this understanding: social cohesion results in the disposition of the actors towards co-operation in all sectors of society in light of collective goods.

Social cohesion is dynamic, not static, and can increase or decrease depending on the result of forces of relations between elements and their opposites.

The action of institutions is of decisive importance in democratic societies, "... in proportioning space and defining the rules of the game which enable the members of a community to create, under each specific circumstance, conditions for social cohesion" (Godinez, 2007a, p. 20).

As Grynspan and Lopez-Calval (2007) highlight, social cohesion cannot be thought of without thinking, simultaneously, of forces of attraction and distraction, which maintain the elements or individual members of society more or less cohesively. They conclude that the concept of social cohesion requires: (i) individuals; (ii) the existence of potentially shared objectives; and (iii) a system of incentives and institutions, which, conferring credibility, constitute forces of attraction around objectives (*ibid.*, p. 88).

Finally, it is important that we take a further step in this brief analysis of the constitutive elements of the idea of social cohesion, emphasizing what cohesion says with regard to real social relations, which link individuals in a given society as much as the perception that individuals have of their own belonging to such a society.

Said in another way, the idea of social cohesion brings with it the idea of belonging to the same community, the experience and feeling of membership. This is from the perspective of the individual. From the perspective of the society as a whole, it is understood that it will be more cohesive to the extent that its members feel and perceive themselves as legitimate members, as elements of a collective "we".

The theme is emphasized by Sorj and Martuccelli (2008), when they state: "Much of the analysis concerning social cohesion in contemporary societies stresses the changes that are taking place in a fragmented world characterized by self-centered individualization. This panorama is associated with the loss of a sense of belonging to the national community, a lack of concern for the common good, the erosion of traditional reference points, and the expansion of information systems coupled with the desire for access to an increasingly broad spectrum of consumer products" (Sorj e Martuccelli, 2008, p. 14).

4.2.2. Social cohesion, citizenship and democracy

The relation between social cohesion, democracy and governability is gaining space in contemporary literature. This is not by chance. Firstly, as has already been referred to, institutions define and guarantee rules and incentives for the construction of social cohesion. In democratic societies, it is not only democratic institutions that do this, but also democratic governance supposes minimum degrees of social cohesion for its own sustainability. “The Council of Europe asserts that social cohesion is an essential condition for democratic security –divided and unequal societies are not only unjust, they also cannot guarantee long term stability” (Jenson, 2006).

Of a more decisive nature, most pertinent to social cohesion and democracy, are the facts of social diversity and heterogeneity, characteristics of contemporary societies, which transform tensions and social conflicts into norms rather than exceptions. Therefore, democratic institutions, above all, constitute mechanisms for mediating conflicts and building consensus, occupying a central role amongst the mechanisms for building social cohesion.

4.2.3. Social Cohesion and the European model of solidarity

As used at present in international debate, the notion of social cohesion is a European Union (EU) concept that tries to express the solidarity and fundamental equalities of the European model of society.

Launched in 1986, the EU policy of social and economic cohesion was defined as one of the main goals of the Union Treaty of 1993. It has gained full prominence with the Treaty of the Lisbon in 2000 and more recently in 2006⁷¹ when social cohesion occupied the central position in the European social agenda, supported by the values of the European social model and implemented by the open model of coordination and social dialogue and structural social funds.

The normative discourse of the EU on social cohesion supposes the incorporation of different social strata in a “... common destiny, characterised by equal opportunities, a struggle against marginalization and an attack on poverty and social decay” (CeSPI, 2001, p. 6). On the contrary, the absence of a vision of “common destiny” supposes social fragmentation.

The motivations of the new stage in EU social policies seem quite evident: globalisation, the economic and monetary union, restructuring of several economic sectors, an aging population and the transitions to EU-27.

The orientation as to how these challenges will be addressed is also explicit: social policies are conceived as factors of economic as well as social development, guided by efficiency considerations, but also by purposes such as cohesion among citizens, reduction of several forms of inequality, guaranteed minimum standards, etc.

Finally, the normative and institutional framework, where the European Social Agenda (SA) is inscribed, is also clearly oriented by social cohesion: the European model

71. After a period of low profile, the concept of Social Europe has been significantly pushed through the Amsterdam Treaty in 1997 and both the Summits of Luxembourg (1997) and Lisbon (2000). In 2006, the Social Agenda for the period 2006-2010 was settled under the label “A Social Europe in the world economy: jobs and new opportunities for all”.

of social protection, different from the Anglo-Saxon model founded on individualistic and market values, is oriented by values of solidarity, equality and in terms of law, social rights and full citizenship. “Social protection represents a fundamental component of the European model of society. Social protection can be defined as all the collective transfer designed to protect people against social risk” (European Commission, 1995).

“Social protections systems provide people with income in times of need and allow them to accept and embrace economic and social changes. In this way they promote both social cohesion and economic dynamism” (European Commission, 1999).

Social risks involve not only those specifically covered by social security but also new ones that arise from changes in economic and social structures: “Member States’ social protection systems face a series of significant common challenges, for example, the need to adapt to the changing world of work, new family structures and the dramatic demographic changes of the forthcoming decades” (European Commission, 1999).

More recently, the European Commission has insisted on the importance of social protection and on its positive effects over economic growth: “A high level of social protection affords societies with the means to face adversity and to eliminate and prevent the most severe and inhumane forms of poverty. Well-designed social protection systems also contribute to economic development by providing a favourable environment for economic growth, in which people and businesses consume and invest with confidence; they facilitate structural change by cushioning workers against the effects of restructuring; they also stabilise aggregate demand throughout economic cycles and create favourable conditions for recovery. Economic growth, in turn, provides the means required to underpin social cohesion” (Council of Europe, 2004).

Equality and fairness constitute the principles of social justice that sustain the concept of social policies directed at the promotion of social cohesion. From the point of view of fairness –referred to minimum standards that everyone should attain–, the policies are oriented to promoting equal opportunities, correcting differences of milieu, context, or produced by the market. From the point of view of equality, that is, considering the relative differences between social groups, social policies look mainly to reducing them. Redistributive policies and targeted social policies such as social minimums, inclusion, monetary transfers, basic income, etc., follow these principles.

Its relation to democracy is direct. Democratic life supposes the observance of human rights, human freedom and dignity as the basis for social and political coexistence of citizens. Social policies conceived from a rights perspective correspond exactly to those considered in the constitution of societies that are democratic, participative, and respect and promote the rights of citizens. On the other hand, as previously mentioned, social cohesion is the basis and guarantee of democratic governance in diversified and multicultural societies as those developed today.

4.2.3.1. From Durkheim to Putnam: on the conceptual origins of social cohesion

Up to this point, social cohesion has been treated as a “notion”, but not as a precise “concept”, pertaining to a specific theoretical body. In fact, it is rather a strong idea that

synthesizes the meaning and specificity of the European SA. The notion forms part of the political normative discourse of the EU, as a banner that symbolises the specificities of the European social model and institutions, as a counterpart to other traditions and visions of society and social policies. What is the theoretical origin of such a concept?

Durkheim is frequently mentioned, and with good reason. His definition of organic solidarity would constitute, for many, the origin of the concept, which would cover the nature of the social bond that unites individuals in modern societies, shaped by the division of social labour and by the integrative action of institutions that confer a moral sense to individuals. It is the cohesion that springs from the complementary, different from the mechanical solidarity founded on primary bonds of traditional communities.

To a certain point, it seems possible to establish an equivalence between social cohesion and organic solidarity, because both refer to the manner by which values, norms and behaviours are acquired, internalised and applied in the framework of a given society. However, this is an abstract, generic assertion.

Probably, it would be possible to find in Durkheim more discordance than common definitions regarding the origin of the present concept. Mainly because Durkheim refers more to semi-automatic integration mechanisms of modern societies, originated in the necessities of individuals and groups that are satisfied through the complementarity of “special functions.” The moments of conflicts and tensions would express anomalies and disfunctions in the integration mechanisms.

The current notion of social cohesion is conceived less by this holistic idea of “integration” than by the recognition that contemporary societies can remain cohesive through the democratic “administration” of the social conflicts that are inherent thereto. More than an abstract notion of “integration” contemporary societies understand social cohesion and democracy as “processes and mechanisms that may strengthen or weaken the belief in democratic values and practices as a way of solving social conflicts and advancing common well-being”, as written by Sorj and Martuccelli (2008, p. 291).

However, as these authors write: “Social cohesion in modern times cannot be disassociated with social change and conflict. Modern societies are in constant mutations that generate permanent disintegration processes of socialisation forms, opening at the same time, new mechanisms of integration in which citizens’ demands play a central role” (ibid., p. 291).

In other words, tensions, social conflicts, participation of distinct interests far from becoming social anomalies, constitute the nucleus of contemporary democratic societies, whose institutions operate (or should operate) not to suppress them, but rather to accommodate them in a dynamic whole in continuous mutation.

Robert Putnam is another author frequently invoked in the debate around the social cohesion concept, when it is understood as social capital. This makes certain sense. As seen, in the current notions of social cohesion there is a sentiment of belonging, of acceptance of rules of trust, collective goods, etc., elements that with no difficulty could very well be among the definitions of social capital, as Putman says. It is not a coincidence then that ECLAC considers social capital as a concept that is closely related to social cohesion (ECLAC, 2007).

Nevertheless, it should be mentioned that searching classic sociological traditions for the origin of the concept is to a certain point a fictitious exercise that occurs *a posteriori*,

because the present concept has arisen more from the public policies and values of EU institutions and others. Not even the UE claims paternity of the concept, but rather uses it *de facto*, as a practical notion defined in a political context that seeks to invoke a “desirable state of things in relation to a previous situation” (Sorj and Martuccelli, 2008, p. 288).

4.2.3.2. Contribution of ECLAC to the Latin American debate on social cohesion

ECLAC has contributed decisively to the Latin American (LA) debate on the concept of social cohesion, thereby widening it and defining it more precisely. Certainly, assuming the hybrid and complex nature of the concept, it understands that it results from the “dialectics of social integration and inclusion, on the one hand, and between social capital and ethics, on the other”. In other words, “... social cohesion is defined as a dialogue between institutional mechanisms of social inclusion and exclusion and the reactions, perceptions, and disposition of citizenry towards the way they operate” (ECLAC, 2007, p. 16).

ECLAC considers there are several advantages to such a concept. First, it allows other realities to be associated with the concept that were dealt with separately up to now: “social policy is the value of solidarity extended over society; the synergies between social equity and political legitimacy; transmission of skills and empowerment of citizens; socio-economic transformations and changes in social interaction; socio-economic change and changes in collective subjectivity; the promotion of greater equality and better recognition of diversity –of gender, ethnicity or race–; socio-economic difference and a sense of belonging.” Second, such a definition avoids the limitations of an excessively functionalist understanding of the concept, defined as a mere adaptation of a systemic structure and widening the margin for insertion of “actor dimension” as defined by Touraine. Third, such a definition understands social cohesion both as a purpose of social policies as well as a means to attain them; as an institutional framework that is favourable to investment and growth.

Another decisive contribution of ECLA has been the adaptation to LA of the social cohesion indicators defined for the EU (Lacken indicators), a work still in progress.

A question remains even though the advantages of the ECLAC proposal are acknowledged: are the social cohesion approach and measures as developed for the EU applicable to LA realities? The initial, but already rich LA debate, offers ambivalent answers to this question. Some of these are enumerated below.

Sorj and Martuccelli (2008) are categorical in this respect: the social cohesion scheme is not applicable to LA countries because in addition to the wide heterogeneity within the regions there are no consolidated democracies in the region –which sustain the concept at present. They wonder why this concept is to be introduced in a region that already has several other normative concepts that have been established for decades, such as full citizenship, democracy with equality, Human Development Index, etc. (ibid., p. 288).

This notwithstanding, they acknowledge the advantage of placing social and cultural dynamics at the centre of the debate, after decades of hegemony of economic matters.

Victor Godinez (2007a, 2007b) assumes the validity of the approach since the specifics and limitations of LA are duly respected. He enumerates some factors that avoid a critical application of the concept:

- the degree of coordination of public policies is usually very low in Latin American countries, which is a limitation for their effectiveness in the promotion of social cohesion;
- the general environment is not favourable for social cohesion because economic growth is volatile and disperse within and among countries;
- the labour environment is also unfavourable for social cohesion because there is growing informality in this market;
- the fiscal environment is also unfavourable for social cohesion because tax contributions are low and consequently resources available for social policies that promote social cohesion are scarce.

However, the author acknowledges as a great advantage to the concept, the fact that it overcomes the limited visions of equality and poverty stemming from neoliberal approaches, and allows for a reappraisal of universal social programs such as education, health and urban policies – which are known to be much more favourable to social cohesion than targeted and limited programs of restricted effects. In addition, differences among social programs for the poor and the middle sectors are reduced.

Probably the latter reasons explain the success of more inclusive schemes such as social cohesion in LA during recent years, after a long period of hegemony of social programs concentrated on the poor and the subject of poverty. This is what will be examined in the following section.

4.3. The prior regional experience: strategies to combat poverty and discursive contexts

The debate and the adoption of the strategy for social cohesion met with a favourable atmosphere in the prior regional experience on strategies to combat poverty. In reality, in the same way that Latin America constituted an effective laboratory for the neoliberal experience in economic and social terms, there is also to be seen an undeniable evolution of the strategies to combat poverty and the discourses which justify and accompany such strategies. Moreover, a convergence between strategies which were initially conflictive can be seen. In this section, the strategies as well as the discursive context formed by the principles, concepts and reasons behind the strategies are discussed.

4.3.1. Strategies in evolution: from focused models to inclusive strategies for understanding poverty

It is possible to trace the evolution of the strategies to fight poverty and inequality through the movement of substituting simpler concepts and strategies of little social breadth for others, more complex and ample, which are capable of embracing, more broadly, the social structure –and not only the groups in extreme poverty– including non-material aspects of destitution and inequality.

In the concrete case of Latin America, two processes (or evolutionary lines) may be identified: that which has its origin in the Breton Woods institutions, having the World

Bank as the central institution; and that which has been originally influenced by the institutions of the United Nations system, and more recently, by the European Union.

It is not easy to distinguish and separate strategies of the nature we have commented upon. Corresponding to ample movements of dissemination of perspectives, concepts and worldviews, the various strategies for approaching poverty and social inequality tend to share some common areas if not also principles, arguments and objectives. At the very least, this is the case in the common recognition of aspects of the phenomenon or even partial consensus regarding how and with which programmes they can be combated. A given strategy, to be produced precisely within the strict plan of a programme for action, could even occur and survive in relative harmony with more general and ample strategies, as appears to be the case with the Conditional Transfers Programmes (CTPs), which we will discuss further below.

Despite the highlighted difficulties, and even running the risk of a certain simplification, a description of the two evolutionary lines in the strategies to combat poverty as they have manifested themselves in Latin America from the 1980s onwards is set forth in the next section.

4.3.1.1. Strategies of focussing and information to demand: from the safety net to programmes of conditional transfer

From the beginning, programmes of stability and the neoliberal ideology contributed certain theses about the necessity to protect, in the first stages of stability, the vulnerable groups and to do so in a focussed way through decentralised programmes with a preference for the participation of Non-Governmental Organisations (NGOs). However, only in the second half of the 1980s, under the auspices of multilateral agencies, is when we could effectively say the first regional strategy for combating poverty was formed, defining itself according to the model: emergency social fund vs. social safety net.

Emergency social funds (*fondos sociales de emergencia*), later known as inverting social funds (*fondos de inversión social*) were conceived as mechanisms aimed at financing small projects selected from the applicants, and were, in general, administered by the community or local actors. Amongst the main characteristics of this model, it is possible to highlight the principle of co-funding on the part of the beneficiaries, administrative autonomy, concentration of resources in poor areas, guidance through criteria of efficiency, low cost and even transparent practice and routine evaluation of the actions. The funds also constituted an important instrument for non-budgetary national and international fundraising.

In the case of social safety nets, they were designed as minimum safeguards of focused programmes destined for the protection of the most vulnerable groups in the area of basic and vital necessities. In general, they are composed of two groups of programmes: food subsidies (price subsidies, distribution of food in kind, such as basic food parcels or milk, food vouchers, discounts or coupons) and minimum employment programmes. In some cases, they also involve direct money transfers to people with fixed aims (assistance) (Cohen and Franco, 2006).

According to many analysts, the model funds vs. social safety net signified a rupture with traditional strategies of social assistance, which had dominated until then.⁷² The novelty of the model reflected less in the actual programmes (in no way new to the traditional system of social policy), and more in the option for a four pronged structured strategy:

- the clear decision of a preference for subsidies on demand, with joint responsibility with the beneficiaries;
- a clear focus on poor groups, obtained by objective measurement methodologies;
- an option for benefit assistance in kind (cash benefits), some based on compensation of the beneficiaries;
- the offer of programmes together, articulated and simultaneous, the social safety net, supposedly destined to momentarily protect poor groups against more serious social risks, particularly those naturally aggravated by the stability policies of the 1980s.

In conclusion, protection of the most vulnerable groups, reduction of the social risks, co-ownership with beneficiaries and the requirement of compensation in certain programmes were key ingredients of this strategy for reducing poverty (Jorgensen and Van Domelen, 2000; Draibe, 1994).

The new focus of combating poverty, introduced with the radical social reform in Chile in the 1980s, was implemented in a varied manner in the region, as was to be expected. In 1986, Bolivia witnessed the creation of the first Social Emergency Fund, which financed and managed a set of emergency programmes for poor groups. Furthermore, Bolivia established the “insulated model”, that is to say, a fund and portfolio autonomous from the public machine, and generally centralised at the highest level of decision-making in the country (President of the Republic), and operating through exceptional rules, which are almost always justified by an emergency (Draibe, 1994).

The initiative spread quickly throughout the region reaching more than 20 countries a decade later (Siri, 2003).⁷³ Supported by the Inter American Development Bank (IDB) and the World Bank and under the name of Inverting Social Funds, the emphasis was on the generation of employment. Other than the Bolivian experience, the Mexican experience with Pronasol (1989-1994) had great repercussions, but more for its negative than positive aspects.

72. Influenced by the preference for subsidies on offer (from the government social services or private social services) and by relatively weak forms of focus, often generated by self declarations of income; and characterised by accentuated fragmentation and ending of programmes, alongside low levels of integrations between assistance programmes and social programmes in general.

73. It is possible to highlight the following countries and corresponding funds: Belize (SIF, 1997); Bolivia (FSE/FIS 1987–1995); Chile (FOSIS, 1991–1995); Colombia (Red de Solidaridad Social); Dominican Republic (PROCOMUNIDAD, 1995–1996); Ecuador (FISE, 1991–1995); El Salvador (FIS, 1990–1995); Guatemala (FIS/FONAPAZ 1992–1996); Guyana (SIMPAP, 1990–1996); Haiti (FAES, 1995–1996); Honduras (FHIS, 1991–1996); Jamaica (FIS, 1997); Mexico (PRONASOL, 1989–1994); Nicaragua (FISE, 1991–1996); Panama (FES, 1991–1995); Paraguay (PROPAIS, 1996); Peru (FONCODES, 1991–1996); Uruguay (PRIS/FAZ, 1991–1995) (Siri, 2003; Cohen e Franco, 2006).

The advantages and results as well as the strong limitations of the model have already been extensively reported in research. Despite recognising that the social funds constitute interesting social technology, and that they further contribute to the introducing of agility, management standards and efficiency, and introduce a culture of evaluation, various aspects have been criticised by analysts: the parallelism and institutional fragmentation with which they tend to operate; the fact that they are not destined to remove people from poverty in the short to medium term; the fragmentation of action through small scale projects and even projects which are not sustainable and frequently chosen with gross injustice. Harsher criticisms were systematically directed at the reduction of combating poverty by focussed programmes, financed by social funds, which were in general subject to manipulation and political favouritism (Cohen and Franco, 2006; Siri, 2003; Reddy, 1998; Draibe, 1994).

In the new atmosphere offered by the consolidation of democracy, more favourable international conditions and an improvement of the economic situations in almost all Latin American countries, changes were introduced to these strategies from the second half of the 1990s onwards. In the area of policy for reducing poverty, new approaches gained prominence. The new approaches were promoted at times by the criticisms of the reductionist system, dominant until then, and at times in the cognitive sphere by wider, multidimensional and more dynamic conceptions of poverty (with special attention being given to demographic aspects, the cycle of life –in short factors which influence reproduction) (Draibe, 2004; 2005).

Examples of the new tendencies can be seen in the strategies of the Management of Social Risk (MSR) and of the permanent network of social security mainly through the well-known Conditional Transfer Programmes (CTPs) which have come to dominate, more and more in the region, the strategy to combat poverty.

The perspective of the Management of Social Risk, like that promoted by the World Bank, affirms the vulnerability of people, families and communities to diverse risks which negatively affect them, in an unforeseen way, and contributes to a deepening of poverty. It is understood that adequate social protection to confront such risks is less about the distribution of a minimum wage and more about joint policy interventions designed to promote the better management of risk on behalf of people/families at the level to support those who find themselves in extreme poverty.

Inspired by the principles and logic of social security, the structure of such a strategy is supported by four intertwined principles and concepts: (a) a classification of the areas of social protection (intervention in the job market, social security and networks of social protection); (b) three strategies for facing the risks (prevention, mitigation and overcoming shocks); (c) three levels of formality in the management of risk (informal and private or public); (d) the pro-activity of the actors in social provision (people, families, communities, NGOs, diverse levels of government and international organisations). Asymmetrical information and the distinct types of risk marking out the diagnosis and the selection of incentives and mechanisms of risk management, which together ought to provide basic subsistence protection and motivate people to risk for themselves (Holzmann and Jorgensen, 2003).⁷⁴

74. For a critique of the MSR strategy see Sojo, 2003, 2004.

Even although the strategy for managing social risk has not been fully implemented in the region, its central arguments have already been integrated or have come to reinforce current theses about the specific vulnerability of different social groups, in light of the life cycle and distinct circumstances.

The strategy of combating poverty through Conditional Transfer Programmes (CTPs) initiated in the second half of the 1990s and rapidly disseminated throughout the region (and by 2008 was in use in 15 countries), has revealed itself to be much more successful. Bolsa Família, in Brazil, and Oportunidades, in Mexico, are the most widely known programmes of this kind (Draibe, 2008; Draibe, 2006).

CTPs correspond to a strategy that challenges poverty in two ways: (i) the immediate protection of the family through resources that permit the stabilisation of domestic consumption at a minimum level; (ii) overcoming future poverty through greater productivity of the current younger generations.⁷⁵

Many see in this combination of objectives one of the new developments of this programme which, beyond the mere distribution of resources and ad hoc intervention to tackle current poverty, looks towards breaking the vicious circle of generational reproduction of poverty and promotes, through monetary incentives and conditions, the investment of human capital in younger generations. In this way, younger generations are prepared to compete, in the future, with a higher degree of productivity and, therefore, achieve better wages and insertion in the job market.

The definition of the nature and scope of the subsidy is also indicative of concepts that are more or less integrated in the incentives and results expected from CTPs (Franco, 2006, 2007). In addition to the monetary subsidy, some CTPs also operate in the psychosocial area, by means of social promotion, support and development activity undertaken directly with families, as is the case with the Programa Punte in Chile. Social work directly with families, more than just an alternative or in opposition to monetary subsidy, recognizes that situations of destitution and poverty evolve, in a complex web which is difficult to overcome, including material and non-material and psychological aspects (Asesorías para el Desarrollo, 2002). Finally, amongst the initial characteristics and development of CTPs is social participation, which is present in one way or another in almost all programmes.⁷⁶

As can be seen, CTPs appear to move towards a wider and more integrated approach to poverty as well as the ways in which to reduce it. This focus distinguishes CTPs from narrow concepts of focalized programmes and of the aforementioned safety nets.

4.3.1.2. Inclusive Strategies: from social development to the social cohesion approach

In parallel with the previous strategies, other strategies (which are more socially inclusive and broader) of challenging poverty and inequality have been gaining ground in the region,

75. It is possible to find, among the various programmes, additional objectives such as greater or lesser emphasis on short and long-term goals.

76. Local councils, with the participation of the community and authorities are the most common. But, in some programmes (i. e. Oportunidades) the group of beneficiaries participates in the actions of the programme including the selection of new beneficiaries.

especially from the second half of the 1990s onwards. Agencies of the United Nations (UN) system and, more recently, the European Union are at the root of these new concepts and approaches, which have through time received intellectual contributions and support from a wide array of agencies and NGOs in the international arena.

The most traditional strategy attached to the UN in the social area, elaborated in the 1980s under the title “social development”, already insisted on the inseparable link between economic development and social development. Furthermore, it insisted on the thesis that social policy is conditioned by economic development. This integrated concept of social development would, on its own, serve to distance narrow and focussed visions of poverty programmes. Even more so, when in more recent years it has broadened in scope and complexity, influenced by the principles of social and human rights, new concepts of human development, investment in people and social inclusion. Already in the 1990s, this was the intellectual basis which fed the critique of the focussed vision of social protection network performed under the slogan “adjustment with a human face”.

It is worth looking a little at the history involved. It was Gunnar Myrdall who originally outlined the directing principles of this integrated perspective. Commissioned by the Economic and Social Council of the UN, in 1966, Myrdall co-ordinated the group of specialists who carried out a study on a unified strategy for social and economic development. They were guided by four principles:

- that no sector of the population ought to be left out of development and transformation;
- that growth ought to be the objective of the mobilisation of large groups of the population and that their participation ought to be assured in the process of development;
- that social equity ought to be considered morally important and at the same time crucial for efficient long term growth;
- that a high priority be given to the development of human potential, particularly children’s, avoiding malnutrition, offering health services and equal opportunity (Kwon, 2003).

Since then, this integrated perspective has been notably enriched. Since the beginning of the 1990s, it became the basic reference for other multilateral agencies as demonstrated by successive international events such as Universal Declaration for the Protection of Children (1990); the Social Development Summit in Copenhagen (1995); the inception of the UN Decade to Eradicate Poverty (1997 a 2006); the definition of the Millennium Development Goals; the Lisbon Treaty of 2000 (the European Union) and the Social Chart from Islamabad (2004) (Midgley, 1995; Draibe, 2004; Güendell and Baraona, 2005).

Moreover, in the 1990s, two other strategies gained visibility and weight: human development and the strategy for social rights. The first transferred the strategy for integrated social development to people and contributed to the establishment of aims and objectives for development, as the annual reports of the UN Development Programme (UNDP) show. Already, the strategy for social rights –in its various guises of human rights, right to social insertion/inclusion or, in a broader sense, rights of the citizen– has come to

enrich and broaden the integrated vision of social development, connecting it more directly to the principles of equality and equity. At the stage in which Latin American countries freed themselves from dictatorial regimes and entered a democratic era, the perspective of social rights constituted an unimaginable strengthening and legitimising of social demands.

It is important, even now, to make reference to the strategy for local and community development, based upon the capacities of people, social capital and social networks. Far from signifying a substitution of previous strategies, this brings a positive and complementary agenda, which identifies and motivates material and non-material resources already present in people and communities, be it social or human capital.

Finally, in the last four or five years, now under the auspices of the European Union, the strategy for social cohesion has become integrated in the various strategies mentioned above. Here, again, instead of suppressing or substituting them, the new perspective appears to strengthen and incorporate the previous concepts and objectives in a more ample theoretical-analytical framework the principles and conceptual content of which we will comment on further below.

4.3.2. Strategies for combating poverty: principles, concepts and content

For the aims of this work, it is interesting to map briefly some concepts and arguments that are at the root of the successive strategies. In truth, the period covers a kind of Cultural Revolution, which provokes strong changes on cognitive maps, in basic concepts, in the forms of conceiving public, state and other action. A good example is the evolution of the concept of poverty, which we will comment on below.

Few concepts have undergone an evolution as accentuated as poverty. From a restricted and limited view of poverty, as poverty of income, the concept has evolved towards wider and more complex visions which, in addition to considering multiple and inter-related material and non-material dimensions of the phenomenon, also attempt to embrace aggravating factors and the mechanisms of their reproduction. It is clear, however, that it does not attempt to abandon either the concept or measurement of poverty of income, but rather to widen and complement them, making them more sensitive to other multiple dimensions of poverty.

To ask the poor what is meant by “being poor” was the strategy followed by the monumental study by Narayan and his team (2000, 248-9), commissioned by the World Bank, *Voices of the Poor*. Very briefly, it can be affirmed that in addition to low income, those interviewed highlighted the following dimensions of deprivation and vulnerability:

- capacity: lack of information, education, skills and confidence;
- conditions of life and property: precarious, unstable, inadequate;
- place of habitation: isolated, insecure, not helped socially, stigmatised;
- physical condition of people: hunger, tiredness, poor appearance, ill health;
- gender relations: unequal, submissive and suffering;
- social relations: discriminatory and isolationist;
- security: lack of protection and tranquillity regarding the future;
- behaviours: indifference and abuse on the part of the most powerful;
- institutions: excluding and lacking power;
- organisations of the poor: debilitated and disconnected.

As can be seen, in the perception of the poor, poverty, in addition to lack of income, involves material and non-material aspects such as the experience of a poor quality of life, lack of self-esteem, a “pronounced deprivation of well-being”, and fear regarding the future (Narayan et al. 2000; World Bank, 2000; Chambers, 2005). Furthermore, three other crucial dimensions are involved in the reproduction of poverty: gender inequality (UNFPA, 2005); an insufficiency of social capital and, together with a lack of autonomy and power, a systematic loss of opportunities of development on the part of poor groups.

Fundamental to the notion of social cohesion is the fact that poverty is experienced as a debility and inefficiency of structures of interpersonal relations of the public institutions and NGOs, perceived with uncertainty by the poor. Such poverty of social capital is eventually seen to be compensated, partially, by the trust the poor place in local networks and actors, or in the value they give to essential public services which deliver without par an improvement of living conditions.

Studies and research also show that complex situations of poverty cannot be summarily reduced to individual and independent characteristics. Rather, they are associated with a dense and intricate fabric of interdependent characteristics, which are, simultaneously, reinforced projecting a network of necessities of which the poor are prisoners (Narayan et al. 2000; Chalmers, 2005; Townsend, 2005).

It is natural that such inclusive and complex ideas about poverty demand widening concepts. The framework of human rights and the concepts of social exclusion, human capacities and social cohesion provide this mostly general comprehension of poverty.⁷⁷

4.3.2.1. The focus of rights

Democratic life supposes the practice of human rights, freedom and human dignity as the basis of social and political life of citizens. Under the aegis of the Welfare State, the affirming of human rights was gradually introduced in the institution and institutionalisation of social and economic rights.

Social policies conceived within the perspective of rights correspond to the aspirations of constituted democratic, participative societies, which respect and promote citizenship rights. Almost always, the effectiveness, the protection and the development of social rights require proactive policies from the state.

Equity and equality constitute the other principles of social justice, which sustain the concept of social policies aimed at human development. In other words, social policies founded upon the perspective of rights and aimed at human development are aimed at promoting equality between people.

From the perspective of equity, policies are aimed at promoting an equality of opportunity, correcting differences produced according to the means, the context or the market. In Latin America, the universal programmes of public primary and secondary education would fulfil this perspective.

77. As is also the case with the concepts vulnerability, instability, insecurity which are in use in contemporary literature.

From the perspective of equality, social policies could contribute to the reduction of the strongest differences between social groups, providing minimum standards, which is supposed would reach all. Redistributionist policies such as focalized programmes, programmes of social minimums, positive discrimination, monetary transfer, minimum wage, etc. refer to this principle.

Two corollaries can be extracted from these principles:

- Combating poverty in democratic societies and under the Welfare States enters the area of social and human rights. These rights confer legitimacy, universality, sustainability and efficiency on actions directed aimed at overcoming poverty.
- The State is the ultimate guarantor of social rights. It is only when they enter in the judicial-legal institution of the State that these rights can generalise, becoming universal and acquiring sustainability.

Social policy conceived as human development begins with the contemporary vision of well-being and of social development. At its starting point is the supposition that the centre of development is the human being and its aim is the broadening of opportunities for people. Various other premises find their origin in this initial approach.

This broad focus on human development is distanced from narrow concepts which tend to reduce development to mere economic growth. It differs, also, from the narrow concepts which reduce the human being to a mere instrument or passive beneficiary of the production of wealth and well-being. The perspective of human development supposes economic growth; it does not oppose it or reduce it in importance. It does not consider economic growth an end in itself, but instead a necessary and insufficient means to making people and societies progress. Moreover, it can do this by operating with a more complex idea of development, understood as a process shaped by factors which are simultaneously social, economic, demographic, political, environmental and cultural.

However, it is also important to emphasize that such an idea differs from the just, if insufficient, notion of development as attention to basic needs required by disadvantaged groups. This last idea, strategic for attention to urgent social needs, always accompanied more assistance and non-democratic programmes, particularly those directed towards poor populations and groups. Furthermore, it tends to still put an emphasis only on the omissions and absences, not on resources, the aims already achieved, the opportunity and potential of needy groups.

4.3.2.2. Social exclusion and human capacity

Social exclusion can be understood as “an accumulation of conflicting processes with successive ruptures which tears out the heart of the economy, politics and society, and contributes to a distancing and diminishing of people, groups, communities and territories in relation to the centres of power, resources and dominant values” (Estivill, 2003). The concept of social exclusion, elaborated more than three decades ago, encapsulates at least three essential dimensions of contemporary “social ills”: the economic (through

unemployment and lack of access to assets such as land and/or credit); the social (loss of social relationships, lowering of self-esteem, etc.); and the political (the partial or whole denial of political and human rights for sectors of the population like women, ethnic or religious minorities and immigrants, etc.) (Bhalla and Lapeyre, 1997). In other words, the concept of exclusion would embrace multiple factors and situations of poverty, transcending the limited identification of poverty with merely insufficient income. Therefore, it would contribute to an understanding of the complexity of contemporary social processes, in addition to also creating a basis for new social policy proposals (Bessis, 1995).

The rapid dissemination and extension of the use of the concept of exclusion, even until the present day, confirms its importance and use, even though it has been greatly criticised. From early on, the idea of social exclusion has been practically indivisible from the idea of inclusion. However, such an opposition is not always explicit, which means that certain forms and processes of inclusion of the “excluded” are not taken into account. On the other hand, under the concept of exclusion, social dynamic or processes, which produce exclusion, have become relatively opaque. Finally, the negative vision of the concept tends to impede the identifying of potential or capacity of people who are labelled only by negative aspects of absence, need, isolation, etc.

To some extent, the framework of the capacity of human development offered by Amartya Sen (2001) overcomes such limitations, introducing a positive vision, which recovers the potential of development in poor people through the expansion of their substantive freedoms. The concept of poverty is defined, by Sen, simultaneously, as a restriction of freedoms and of rights (entitlements), such as the deprivation of capacity, potential and opportunity. More than just insufficient income, poverty is the deprivation of basic capabilities, that is to say, of opportunities of choice through which people can freely and autonomously transform resources and income into the kind of life one wishes to live. In other words, “being” and “doing”, from the basics of life such as being well fed, escaping the avoidable ills of physical disability or premature death to the complex and sophisticated elements like having self-esteem, being able to participate in community life, etc. Yet, only the capacities which are inscribed in a system of rights and responsibilities prevailing in society are effective.

Sen’s approach is also that of human development. There are strategies that enable people to “function” better, live better, and expand themselves. In the wide-ranging open perspective developed by the author and his followers, human development is the process that extends from poverty to well-being, from deprivation to development of capability. Participation, human well-being and freedom are its central characteristics. In the same way that poverty is understood as multidimensional and heterogeneous, the process of human development is also multidimensional; promoting and leveraging, simultaneously, different types of capacities, which vary also according to material differences, ethnicity and culture between people and groups of people (i. e. differences of gender, class, race, ethnicity, sexual preferences amongst others).

It is also a process that involves people as participants of their own development, agents who demand transparency of leaders and supervise their choices and decisions. The emphasis is on all aspects that allow the overcoming of specific deprivations: employment, housing, health, education, information, but also more generally, participation in decisions, security in all its guises (from food security to political security), belonging to a community, respecting of rights, etc. (Dubois et al., 2005).

4.3.2.3. Social capital and local sustainable development

Another school of thought, which is slowly gaining ground in the discursive context of social policies in Latin America, relates to the social capital and local development models. Undoubtedly, the social cohesion perspective bears a close relationship to these models.

The capability perspective has already indicated the importance in the development process of overcoming poverty, community integration from social networks of family and neighbours, and the circles and dynamics of civic life. In a distinctive intellectual field, such as Sen's, the concept of social capital develops and supports similar ideas, particularly through the work of Robert Putnam on community, mobilisation and civic participation (Putnam, 1973; 1993). In short, it is possible to say that local capacities and energies shape the social capital of a given community: the relationships and connections that the inhabitants establish amongst themselves; the relationships of trust and collaboration between people, their capacities of association and co-operation and informal support systems of solidarity, protection and mutual help.⁷⁸

These are also the basis from which the dynamics of local development are conceived, from the start-up of collective action on development. Far from being merely an administrative or institutional process, local development involves policies rooted in the social fabric; the participation of various actors, different types of groups.

It is not too much to state that effective and lasting processes of economic growth with employment generation greatly depend on macro-economic policies of another kind, in general those managed by central governments, and, therefore, beyond the scope of the local authorities. However, when a part of the population of a particular community finds itself connected to a support system (conflicts are regulated in a democratic and participatory manner and the community corporately assumes the challenges), it can be said that, already, within this community a development process is underway (Di Franco, 2005). Resulting from this, the strategy to combat poverty, which is closely related to such processes, is that which contributes to inducing sustainable human and social development at a local level.

4.4. Social cohesion and decentralised co-operation: some lessons from experience

A new and broader understanding of poverty and the importance of social cohesion is gaining predominance from the perspective of development co-operation. Today, decentralised co-operation prevails in the institutional model, positively responding to the theoretical requirements already referred to, in supporting local government and in the participatory citizenship (a central part of co-operative strategies).

In effect, the current strategy of co-operation for development between Latin America and the European Union results from the articulation of a broad vision of social development (though the idea of social cohesion) and innovating institutional models of international exchange, co-operation and decentralisation.

78. The basic idea of "social capital" is that a family, friends and neighbours constitute an important patrimony of a person. They can help in a crisis, offer security and encourage a person to reach greater material success. Communities with a rich fabric of social support and civic associations appear to be in a stronger position to face up to poverty and vulnerability (Woolcock, 2001).

For this reason, it is in the experience of this form of co-operation that we will try to locate some examples of the social cohesion strategy, examining a Latin American city, Rosario, Argentina, and a European, L'Hospitalet de Llobregat, Catalonia, Spain.

4.4.1. New directions, new institutions: the search for social cohesion through decentralised co-operation⁷⁹

To some extent, decentralised co-operation constitutes in itself an attempt to promote social cohesion. It supposes a coming together of attempts to address different aspects of common interest by diverse allies, in a universe of heterogeneous experiences. In other words, constructing the social agenda of decentralised co-operation means constructing unity in diversity; embracing attempts at harmonisation, joining together, co-ordination, but also recognition and respect for differences and specifics of regional and local stakeholders. In this area, decentralised co-operation constitutes a notable process of institutional building (Fernández, 2004; Romero, 2004; Draibe, 2004).

Amongst the diverse examples, from international co-operation to development, decentralised co-operation constitutes a relatively recent innovation, which privileges the interaction between local actors –communities, cities, regions– territorially-defined, autonomous or claiming autonomy. The examples tend to privilege action through networks, supported by local autonomy and in horizontal collaboration with the virtues of co-operation.

In addition to being supported by mechanisms of articulation, of negotiation and complementariness between crucial actors, it ought to be considered that an agenda of this nature is fed by local capacities and dynamics.

For this reason, horizontal networks of co-operation and collaboration among local communities are projected as an institutional alternative for the building of a social cohesion agenda. Networking, acting within a defined territorial base, articulating crucial state and non-state actors, and rooted in the local economic dynamic, undoubtedly opens a positive front for social action, which offers an adequate base to the actions of building less fragmented and more integrated societies.

Good examples and practices of decentralized co-operation for social cohesion can be found in the Programme URB-AL of co-operation between the European Union and Latin America⁸⁰ and, more recently, in EuropeAid.

4.4.1.1. Generating social cohesion: the experience of L'Hospitalet de Llobregat⁸¹

Research systematically refers to the difficulties in overcoming a lack of social cohesion in societies and communities marked by heterogeneity, by division, by social exclusion

79. The themes of this item were previously developed in Draibe (2004) and Draibe (2005).

80. URB-AL began in 1995 and continued until 2007. In its twelve years of existence, it began to put more than 1000 cities, 2500 local authorities and approximately 700 NGOs, trade unions, universities and businesses into networks. Committed to projects with various themes, they were distributed amongst thirteen networks: drugs, environment, participatory citizenship, poverty reduction, transport, security, urban planning, economic development, information society and democracy. (Draibe, 2004; Godínez, 2007; Romero, 2005).

81. The original study of L'Hospitalet de Llobregat was undertaken by Draibe and Riesco (2008).

of a segment of the population. The experience of L'Hospitalet de Llobregat marks an important and deliberate attempt to face such difficulties within the perspective of social cohesion.

L'Hospitalet de Llobregat, situated in the metropolitan region of Barcelona, in Catalonia, Spain, has developed experiences of social cohesion in the midst of challenges presented by strong migratory flows, which affect the city, by strong economic transition, and, in the recent years, by unemployment and precarious employment, and it does so successfully.

In reality, L'Hospitalet offers an example of shared participation between local institutions. Despite the difficulties facing the various plans, the city has advanced its objectives of social integration of citizens, particularly through policies and programmes of participatory citizenship and civic education alongside organised and coherent interventions of expanding and improving the quality of public services.

At the centre of the idea of social cohesion practised in L'Hospitalet, is the integration of recent migrant groups, the new citizens who have been arriving to the city from the 1960s onwards. The core of the strategy has meant the establishment of a culture of participation, founded on the normative principle of responsibility and the practice of mediation and peaceful co-existence amongst all.

4.4.1.2. Strategies

The process of generating social cohesion in L'Hospitalet centers on three areas: participative management, the strategic plan of the government and the integrated overview of urban intervention.

Participative management involves the implementation of a continuous process of consultation and consensual decisions regarding priorities. This happens through mobilisation and the incentive of a greater density of associated social fabric, capable of expressing the different needs of the distinct groups of citizens. Strengthening a tradition, which began in the 1960s, today there are more than 500 different forms of association (trade unions, business, cultural, sport, recreational, youth, women, etc). These are the institutions that mediate interests, which dynamically constitute the basis of social cohesion.⁸² Collective action by citizens, strategically motivated by the local government, results, ultimately, in formal channels of participation in line with the "Reglamento de la participación ciudadana".

The Strategic Plan (2003-2007) defined five key areas of coherent intervention with the objective of promoting integration and social cohesion: social well-being and participation; housing conditions and living together in neighbourhoods; environment; security and public protection; urban transformation and administrative modernisation. Here, the integration of policies and programmes from diverse sectors constitutes the main direction, mainly focussing on the final user.

⁸² In 2006, the "Servicio de mediación comunitaria" was created and integrated with the "Plan de acción para la integración de la nueva ciudadanía", in the area of well-being and family in the housing estate of L'Hospitalet. The service is undertaken through contracted businesses, whose mediators, in consonance with the rules and regulations of the area and in collaboration with local associations, act in the mediation of conflicts, in the diffusion, awareness raising and formation of co-operative behaviours. Mediating action has immediate and preventive objectives in the solution of conflicts.

The “Pacto de integración de la nueva ciudadanía” (initiated in 2004), directed to the social integration of groups of recent immigration, from the beginning favoured transversal methods of integrating policies, rooted in the dynamic of the city. Based upon values and principles of social rights, equality, freedom, peaceful co-existence and respecting differences, the Plan defined and articulated (for the period 2005-7) 75 projects in the areas of co-existence (12), urbanism (7) and public services (56, particularly education and work).⁸³ Finally, the “Plan Integral de Collblanc-La Torrassa” (PICT) exemplifies the strategy of combined intervention in a specific territory, looking to articulate the revitalisation of a group with broad projects and social services in the areas of urbanism, health, security, environment, social well-being, youth, children and immigration. The Plan, started in 2000, responded to popular demands of revitalisation of deteriorated neighbourhoods, divided by a motorway and occupied by two un-integrated social groups –on the one hand elderly local population and, on the other, recent arrived foreigners (Ayuntamiento de L’Hospitalet, 2005).

The plan is developed on the basis of an intense associative participation, in all its phases. Among its main achievements, we can highlight having established social integration and democratic living. The creation of urban spaces aimed at leisure and the relations among neighbours is another of its most important features.

As regards L’Hospitalet we must underscore how intensely the city has taken part in international cooperation programs and projects, under different modalities. A strong international solidarity mobilizes the city with cooperation programmes with more than 20 countries in Africa, Latin America, the Caribbean and Asia. Undoubtedly, such activities reinforce the solidarity and the cohesion of local society, which, in addition to this, benefits from the cultural and institutional learning provided by international relations. The collaboration projects with cities and regions from the North of Africa and Latin America are especially important because these are the regions of origin of migratory flows towards L’Hospitalet nowadays.

It cannot be said that L’Hospitalet does not face difficulties and challenges. The full integration of the immigrant groups is still a goal to conquer, prevented by well-known socio-economic and cultural factors. Nevertheless, the establishment of dynamic processes of social cohesion, with a shared aim and an identity with the city, encouraged by the intense and systematic civil participation, has undoubtedly created positive conditions for the overcoming of the obstacles (Rojas Elguet, 2007).

4.4.1.3. Local development and social cohesion: Rosario’s experience, Argentina⁸⁴

The city of Rosario, located on the banks of the estuary of the Paraná River, in the province of Santa Fe (Argentina), has been considered an example of how to achieve a successful coordination between local development and social cohesion.

The model of investment in local development on the basis of social cohesion can be glimpsed in the Strategic Plan of Rosario established in the past decade, when Rosario

83. The Plan was complemented in 2008 with the definition of specific objectives such as the creation of a first shelter facility, better access to health services, educational and multicultural programmes.

84. Visit and interview with Maria del Huerto Romero, Sub Secretary of International Relations of Rosario, to whom the authors are grateful.

authorities and society decided to transform Rosario into a city supported by work and creativity, with the recovery of the river becoming the main point of regional development and active MERCOSUR integration.

The Strategic Plan has been constructed on five main axes of intervention: the economic-productive axis (City of Work), the socio-institutional axis (City of Opportunities), the physical-environmental axis (City of the River), the regional centrality (City of the Integration) and the international projection (City of the Creation).

In a model similar to that of the L'Hospitalet, Rosario has chosen simultaneous interventions in multiple dimensions and spheres of social life, which are aimed at strengthening the institutional bases of sustainable city development, following the example of the "Suma project",⁸⁵ intervention strategies of which have centred on the following areas (Godínez, 2007, p. 130):

- formulation of projects to intervene in abandoned and unconnected public spaces in each of the associated municipalities, within the framework of an integral methodological approach;
- formulation of a methodology for urban regeneration of degraded and dismantled spaces that allows the exchange of experiences and makes intervention in the associated towns possible;
- restructuring of the area of Hipólito Yrigoyen Park in the city of Rosario through the investment in infrastructure and the restoration of buildings with historical value;
- implementation of a public transportation line, in order for Hipólito Yrigoyen Park to be incorporated into the city network of public spaces at the river bank;
- management of the Hipólito Yrigoyen Park surroundings through instruments that deal with the following issues: a policy of urban rezoning, public/private conciliation, experiences and know-how of the associate cities;
- creation of a collective area of social commitment and civil encounters by means of the cultural exchange among associated cities and the coordinating city, sustained in the development of activities of a diverse nature.

Two characteristics can be highlighted in the model of Rosario. First, the fact that its proposal of social cohesion lies within the tradition of city organization and participation, started in the 80s through different projects.⁸⁶ Second, the redefinition of the international role of the city, through its active participation in agreements and cooperation networks, in subjects that are consistent with the local strategies of socio-economic development.⁸⁷

85. "Rosario Suma" is a common project type B and it is part of the program URB-AL, Network number 7, corresponding to "Urbanization Control and Management". It is subsidized by the European Union and involves several associated cities, such as Montevideo, Uruguay; São Paulo, Brazil; Regione Autonoma della Sardegna, Italy and Lleida, Spain. In Rosario, the coordinating city, the project was organized as urban multisectorial intervention whose main axis has been the restructuring of a park of 17 hectares and the surrounding area, previously a depressed and abandoned area of the city. [www.rosario.gov.ar/sitio/rrii/rosario_suma/suma1.jsp].

86. The previous experiences can be identified in three areas: the neighbourhood (instances of civil participation concerning the budget and primary health care services); the district (the Days of Urban Development, the Children's Councils etc); and the city (the mobilization concerning the Strategic Plan) (Godínez, 2007b).

87. Through the Secretary of International Relations, created in 1992, Rosario's municipality is involved in agreements of international brotherhood with 18 cities, in bilateral agreements with 10 cities or regions, in 8 city networks, in 11 bilateral or multilateral international cooperation agreements. The city has been significant for its intense activism

4.5. Lessons from experiences

In spite of having very different conditions, resources and aims, the strategies of Rosario and L'Hospitalet offer important examples of how to generate social cohesion on the basis of local development and civil participation, achieving many advantages in addition to the mutual benefits of decentralized cooperation.

The study of both experiences as well other studies brings some lessons on how to improve social cohesion.

4.5.1. Social cohesion strategies: many conceptions, multiple models, actors and dimensions

First of all, it is worth saying that there is no single model or a single alternative to social cohesion. As previously mentioned, social cohesion is a process, a social process. And each process is different from the others, as they correspond to different actors and social identities and to the distinct biography and historic vocation of each social context, city or territory.

Local government is a central actor, but in no way the only one. Rosario and L'Hospitalet's experiences show that strategies of social cohesion are rather a horizontal process, involving governments and civic institutions, businesses, corporations, persons, that is to say, collective and individual actors.

On the other hand, there are no particular social cohesion policies. All public and civil policies must contribute to building social cohesion. Probably, as Rosario and L'Hospitalet experiences demonstrate, it is the synergy of many complex policies that promote more effective mechanisms for social cohesion.

4.5.2. The centrality of government intervention

Local Governments have a prominent and central role for the promotion and implementation of strategies of social cohesion. Surely local government is not in any way –and could not be– the single actor, in these strategies. But its role is a central and indispensable one.

As we saw in both experiences above, strong political commitment of local governments was crucial to propose, initiate and implement social cohesion strategies, motivating and gathering institutions and public and private actors around the project. In L'Hospitalet as well as in Rosario, an important urban intervention has supported several others government initiatives in terms of civic participation and cultural integration of multiples social groups of local population.

On the other hand, local government is crucial to integrate and harmonize the multiple actions and programmes, public and private, around of the social cohesion strategies.

in the area of MERCOSUR and has been a coordinating city of the Network7 of Urb–AI (Urbanization Management and Control). Rosario has been awarded several international prizes, among them the PNUD's prize "Exemplary Experience of Local Governance in the Region", acknowledging the success of the city in public policies with regard to its housing system, the decentralization in the management with participative budget, the policies for childhood and its health system (Municipality of Rosario, 2007; Godinez, 2007b).

It is worth to underline another lesson learned from both experiences of L'Hospitalet and Rosario: the strong continuity in time of the project aiming to improve social cohesion has been a decisive factor contributing for its success and sustainability. As many actors have stressed, in both cities the social cohesion strategy has been followed for more than eight years by different majors of the same political party, what has allowed the institutionalization of much of the innovations introduced by the project.

4.5.3. Identity and social participation

Identity and social participation are nuclear and dynamic components of social cohesion strategies.

As we have seen in the first part of this work, social cohesion is concerned with the ideas of belonging to one shared community, shared values and goals, in short, a common destiny. This broad sense of belonging can be conveyed in terms of identity, saying, in other words, the identification of individuals or collective actors within a territory, a city or even within a particular project. "I am the city", "We are the city", "I love Rosario" are known flags that point to the dynamic identification between people and a local society (or even a neighbourhood), generally around an explicit or implicit goal. Strategies of social cohesion, as we have seen in L'Hospitalet and Rosario, try to stimulate this sense of identity as a social mechanism for social inclusion.

Social identity is not an automatic consequence of a given strategy, or even of a specific urban intervention. Differences in perceptions, values and interests are normal, and often are conflicting. And may operate as obstacles to self-identification. In a democratic society, the sound mechanism to avoiding obstacles like these is social participation, that is, the participation of people in defining goals, priorities and the design of public policies mobilized in social cohesion strategies.

The experience in L'Hospitalet provides an impressive example of combining social participation and a conflict reduction mechanism, in order to obtain not only the social integration of marginalized groups, but also more density in terms of social cohesion. As we have said, in L'Hospitalet there is a continuous process of consultation and consensual decisions regarding priorities. Together, this consultation process in collaboration with civic associations and local governments has implemented a complex process of conflict mediation, aimed at the immediate and preventive solution of competitive alternatives and views.

Through the "urban and human development based on citizen participation", Rosario has accomplished converting the local governance into a socially responsible, democratic and participative state. The administrative decentralization and the dynamic channels of social participation (such as the Participatory Budget, through which residents meet to determine the priorities of each neighbourhood), has created new and permanent institutions for social participation, capable of providing the representative city institutions with socially recognized ideas, projects and priorities.

In both experiences, the value of a responsible citizenship, based on rights and duties, has oriented the effort to enlarge social participation inside a framework of representative and democratic institutions.

4.5.4. Culture as a crucial factor of social cohesion

The dissemination and access to information, supported by the new technologies, has been pointed out as an indispensable factor in the democratization of citizens' lives in their relationship with the city, in the cases of both L'Hospitalet and Rosario. However, it is the symbolic dimension of culture in the wider sense –information, aesthetic values, varying artistic expressions– which constitutes an indispensable space for facilitating the generation of the social participation process. Cultural activities and expressions facilitate the recognition of the “other” and stimulate adhesion to the values and the democratic life of the city. Accordingly, social cohesion supposes shared knowledge, which in turn contributes to reducing prejudices.

Strategies in the cultural plan have addressed the particular circumstances of both experiences. While in L'Hospitalet it is the culture diversity of immigrants which has been the strategy centre, in Rosario the different age groups have been basically considered at their specific life stages –children, young people, old age persons. In all situations, respect for and acceptance of diversity and multicultural values have been decisive for the success of the social cohesion projects.

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PART II



5. Employment policies and social cohesion in Europe

NICK ADNETT

5.1. Introduction

The Euro-Latin American Dialogue on Social Cohesion seeks to promote theoretical discussion and policy debate on social cohesion. The role of this chapter is to review the European approach to the use of employment policies to promote social cohesion and identify best practice at different policy levels. In pursuit of this objective the paper is organised as follows. In Section 2 we introduce a number of fundamental issues, a discussion of which is a necessary precursor to the analysis of European employment policies. Section 3 contains a brief description of the evolution of the theoretical analysis of the links between employment policies and social cohesion. This discussion includes a review of the key indicators utilised to quantify the contribution of employment policies to social cohesion in Europe. In Section 4 a complementary analysis of the evolution of employment policies is presented, looking also at the interaction between European Union and national level policy-making in this area and the evolution of attempts to co-ordinate those policies. The final part of this section addresses the issue of the degree of complementarity between the employment policies pursued in Europe to address social cohesion and the health, education and taxation policies targeted at this area. Section 5 identifies examples of “best practice” employment policies in Europe, recognising that perceptions of “best practice” can change over time. The pre-requisites for successful policy innovation are examined and the prospect for potential cross-national transferability examined. The overall findings of this review are presented in Section 6.

Throughout the EU joblessness is not only a major cause of poor living standards but is itself a key element of social exclusion, since employment is a key determinant of an individual’s ability to participate fully in society, build social networks and realise their potential (European Commission, 2007a). More specifically the long-term unemployed and those living in jobless households face not only an immediate risk of poverty, but also over time lose the skills, self-esteem and social interactions necessary for successful re-engagement with the labour market. Hence at the heart of the Lisbon Strategy adopted by the Council of Ministers in 2000 was the proposition that employment was the best safeguard against social exclusion. However, in-work poverty affects around 8 per cent of people in the EU, reflecting low pay, low skills, precarious and part-time employment, but also characteristics of the households such as number of dependents and work intensity (Bardone and Guio, 2005). Below we explore what insights researchers and policymakers in Europe have gained into designing employment policies to promote social cohesion, we

do so with a particular emphasis upon the most recent research findings and with a view to making our discussion accessible to policymakers and practitioners.

5.2. Some preliminary issues

In this short section we address three issues which will inform our review below and also provide a sketch of current employment trends in Europe and their relationship to social cohesion.

5.2.1. Do labour market institutions matter in the promotion of social cohesion?

The presumption of much policymaking is that well-designed and targeted employment policies and the creation and consolidation of benevolent institutions can promote social cohesion and improve overall economic and labour market performance. Given the diversity of labour institutions across OECD countries then it would seem relatively straight-forward to test these presumptions. However as Freeman (2008) points out, it is difficult in practice to isolate the effects of labour market institutions. Indeed, as he explains, the multitude of cross-country studies reach agreement only on the finding that institutions can affect the dispersion of labour market earnings and the degree of income inequality. Whilst these latter findings suggest that for our particular concern with social cohesion a comparative approach will be productive, we still know relatively little about the effects of different employment policies and labour market institutions on aggregate employment and unemployment outcomes and the extent to which successful policies and institutions can be transferred across time and countries.

The limitations of our current knowledge about the impact of different employment policy regimes and labour market institutions suggest the need for extreme caution in drawing firm conclusions from our review. These limitations of aggregate analysis also suggest the need for a greater emphasis upon micro-studies, and particularly the evaluation of specific policy experiments.

5.2.2. Is there a European Model for Employment Policy?

Whilst the European Commission and many commentators frequently find it useful to talk about the European Social Model, it is clear that there are many different evolving employment policy regimes in Europe (Adnett and Hardy, 2005, Aiginger and Guger, 2006 and Rovelli and Bruno, 2008). In part these different policy regimes reflect the diversity of behaviour across individual national labour markets, as well as differences in political and legal philosophies. Diverse institutions, customs and practices within national, regional and sectoral labour markets in the EU27 have generated different policy responses to common trends. Taken together these differences mean that policies successful in one locality, region or Member State may not be transferable to others. Policymakers need to be sensitive to this diversity and avoid undue standardisation and over-reliance on prescriptive hard law measures. Hence the gradual eclipse of grandiose plans for cross-Europe harmonisation

of employment and social cohesion policies and the increased use of derogation, soft law and the open method of co-ordination, though as Alesina and Perotti (2004) point out, the European Commission's own rhetoric sometimes hides the reality of this change.

5.2.3. The changing “best practice” model

Notwithstanding this recognition of the extent of diversity within and across European employment and social policies, policymakers have frequently chosen to champion a particular national system as representing European “best practice”. In the last thirty years or so European policymakers have, in succession, anointed the German model of conservative-corporatism and co-determination, the Swedish corporatist system, and more recently the Dutch “polders model” and the Danish “flexicurity” system as representing European best practice. Each of these, together with at times a dash of neo-liberalist Thatcherism inspired retreats to laissez-faire, have inspired usually short-lived attempts to apply these “magic bullets” to employment and social cohesion policies across European labour markets.

Fashions change and robust evaluations of employment policies still remain relatively scarce in Europe, which together with our previous recognition of the diversity of European labour markets suggest a further need for caution in drawing firm conclusions from our review.

5.2.4. Key trends in employment and social cohesion in Europe

It is not the role of this chapter to detail trends in labour market performance and social cohesion (the European Commission's annual *Employment in Europe, Joint Report on Social Protection and Social Inclusion and The Social Situation in the European Union* reports provide excellent reviews of these trends), however if we are to understand some of the major forces determining the evolution of theory and policy in this area we need to briefly identify key recent trends.

The impact of technology, globalisation and the resulting increased mobility of capital and intensification of competition have impacted on European labour markets to hasten de-industrialisation and the relocation of labour-intensive manufacturing activities eastwards. Hence education premiums have risen in the increasingly knowledge-based economy and the intensity of working has tended to increase. At the same time employment has spread more thinly as the number of part-time workers and those on fixed-term contracts increases. Whilst unemployment in the EU has begun to fall in recent years, it is still highly concentrated amongst the long-term unemployed, youths and within jobless households. These changes in the pattern of labour demand have interacted with equally dramatic changes in labour supply. The proportion of mothers working has increased, as have participation rates in post-compulsory schooling, whilst, until recently, early retirement and those on disability pensions represented an increased, and by OECD standards a relatively high, proportion of those of working-age.

Notwithstanding generally increasing real wages and slowly reducing average working hours, European workers became less satisfied with their labour market experience, adding

to concerns about job quality in the EU. In part this seems to reflect growing concerns about job security, the increasing intensity of work and the growth of staggered working times, evening and weekend working. Most categories of atypical working and more flexible working time arrangements affect female workers disproportionately. Gender gaps remain stubbornly large throughout much of the EU, especially in the Mediterranean countries notwithstanding the gradual retreat of the “male breadwinner” model.

Income is relatively evenly distributed in the EU by OECD standards, in part reflecting high levels of social protection. Just over a fifth of Europeans receive less than 60 per cent of the EU median income, and the highest concentration of these are in the poorest (newest) Member States. In a majority of Member States the largest segment of the population at risk of poverty remain those in traditional “male breadwinner” households, though demographic changes mean that single parents, the retired and the chronically ill’s share is increasing in most countries. Increased international migration and asylum have generated growing pockets of poverty amongst those immigrants unable to integrate into their local labour markets, whilst intergenerational transfers of disadvantages remain stubbornly strong in Europe, especially amongst marginalised ethnic groups such as the Roma.

Given these current trends in labour market behaviour and social cohesion, we next turn to review how theory has evolved to analyse the links between employment policies and social cohesion in Europe.

5.3. The Evolution of the linkage between employment policies and social cohesion in Europe

Whilst the development of social protection policies in Europe in the 19th and 20th century reflected the diversity of prevailing national political and social philosophies and labour market behaviour and customs discussed above, the development of national employment policies was much more determined by trends in economic theorising. The emergence of major regional and active labour market policies from the 1960s reflected the concern that in European economies there was a large amount of structural unemployment which even more competitive labour markets could not speedily remove. This belief was initially enshrined within a Phillips’ Curve framework within which effective government intervention targeting mismatch unemployment could improve the trade-off facing governments between inflation and unemployment. Accordingly in the 1960s in many European economies there were major expansions of regional, training and job search assistance policies.

Regional policies at this time were predominantly based upon the proposition that footloose industry should be provided with incentives to move to high unemployment regions. Similarly during the 1960s, national training policies were developed initially concentrating upon perceived failures in training markets and again providing financial incentives for firms to increase their on-the-job training levels and join centrally-accredited certified training schemes. The same economic philosophy lay behind the expansion of employment services in which state monopolies targeted informational mismatch in the labour market by providing a job placement service. At this time the emphasis was

very much on labour market efficiency and the belief that large scale and standardised government interventions could address such problems. There was little concern with the explicit targeting of these schemes at the socially-excluded or those peripheral to the primary labour market. These employment policies were effectively developed separately from the emerging equal opportunities policies, which were largely based at this time upon equity and political, rather than efficiency, considerations, and which were exclusively targeted at the growing number of female workers.

The emergence of high and persistent unemployment in European economies from the mid 1970s coincided with mainstream European economists rejecting previous Keynesian orthodoxies, including the simple Phillips curve framework. The new orthodoxy accepted the concept of a unique equilibrium or sustainable rate of unemployment determined by the extent of labour market imperfections. In terms of the dominant Non-Accelerating Inflation Rate of Unemployment (NAIRU), the role of Active Labour Market Policies (ALMPs) was to lower wage-push forces to enable the economy to achieve a higher sustainable rate of employment. In turn this required that the unemployed were now to be targeted by employment policies. Accordingly, policy-makers began to target their training, job-search and the newly emphasised job-creation policies on the young and long-term unemployed. This effectively produced a linkage between employment policies and social cohesion, since the linkage between the two was at this time predominantly associated with reducing the incidence and concentration of unemployment. The latter reflecting a belief in, at that time, state and duration dependence amongst the unemployed, reflecting their decreasing probability of leaving unemployment for employment over time. As Pastore (2007) recounts, whilst this was initially interpreted as reflecting a chronic lack of labour turnover and net job creation in Europe, causing a depreciation of human capital, later research suggested that European long-term unemployment was predominantly a consequence of poor motivation and low search intensity.

By the mid-1990s there was a widespread consensus amongst economists, encapsulated in the 1994 OECD *Job's Study*, that European labour markets were over-regulated. The term “eurosclerosis” was used to describe the combination of slow growth, low employment rates and rigid labour markets which characterised many European labour markets. For example, the extension of employment protection legislation in Europe protected “insiders”, those in employment, whilst through raising hiring costs it reduced job creation, thereby lengthening the unemployment spells of the “outsiders”. Moreover, the resulting labour market rigidities created their own constituency of workers in unproductive jobs which created strong political resistance to labour market deregulation (Saint-Paul, 2000).

Well before the Delors Presidency, the European Commission had adopted a belief that continued and sustainable European integration required a philosophical and policy commitment to social cohesion. In turn, the achievement of the latter was supposed to rely upon workers seeing the tangible benefits of increased European economic integration in the form of a levelling-up of the levels of social protection. Political support for continued integration also required that the social partners were brought into European policymaking and, through the Amsterdam Treaty, employment objectives were formally incorporated into the Union's objectives. The Commission's interpretation of the new context was to

promote the existence of a triadic relationship between the Union's economic, employment and social objectives. Henceforth, employment policies and social cohesion policies were to be evaluated against their consistency with the Union's economic objectives, whilst sustaining a social consensus favouring continuing economic integration. We discuss the resulting emergence of the Luxembourg Process, European Employment Strategy and the Lisbon Strategy in the following section.

Meanwhile in the face of persisting high unemployment, inflationary pressures and the increased level of competition following increased European and global economic integration, individual national European governments were trying to develop employment policies consistent with their own economic and social priorities. Theory and empirical studies provided insights into the "scarring" effects of unemployment and unemployment hysteresis. These led to economists to advocate a further movement away from universalism towards policies encouraging the "churning" of the unemployment stock. The belief being that the overall employability of the unemployed would be increased if ALMPs were targeted at the long-term unemployed, since the resulting higher proportion of short-term unemployed would increase the overall outflow from the unemployment stock. Hence converting the benefits of the long-term unemployed into marginal employment subsidies was advocated, rather than the job-preserving and general job creation schemes previously preferred (Snower, 1996).

Similarly, advances elsewhere in the social sciences on cycles of deprivation and the inter-generational transfer of poverty and their links to the dynamics of social exclusion, encouraged researchers to champion both earlier, pre-labour market entry interventions into schooling and tackling the concentration of unemployment by household and location through targeted employment policies. Together with the activation of passive policies, "Make Work Pay" reforms also included training programmes now targeted at raising the potential in-work wages of the low-productivity workers. Strengthening or re-establishing the links of the poor to the labour market was now seen as a more productive and sustainable approach to reducing poverty and promoting social inclusion than the previous reliance on passive income-support policies with their unavoidable moral hazard effects.

Advocates of Workfare policies also stressed their relevance to reducing the incidence and risk of poverty amongst single parents, early retirees and those on disability pensions. Hence those who had advocated work-sharing solutions to high and persistent European unemployment were now viewed as having been seduced by the "Lump of Labour Fallacy" and the new consensus saw increasing overall EU employment rates as the solution to social exclusion. Belated recognition of the serious impact of ageing on the sustainability of the high European levels of social protection worked to strengthen the view that a six point rise in the overall employment rate from 2000, together with reforms to the predominantly pay-as-you-go state pension system, would solve most of Europe's economic and social problems.

Recognition that much of the employment gap with the US was due to the lower rate of marketisation of household services in Europe (Freeman and Schettkat, 2002), raised new concerns regarding the quality of the additional jobs and the impact of the closure of this gap on the stubborn gender pay gaps. Moreover, labour economists, who

had effectively been driving the reforms of employment policies in Europe, had been slow to incorporate job satisfaction, employment security, work intensity and overall work/life balance considerations into their analysis and policy recommendations. Somewhat belatedly the supposed benefits of more flexible European labour markets were subjected to a more critical examination and “high” and “low” roads to retaining competitiveness through more flexible employment practices were identified (Michie and Sheehan, 2003), and the causes of the increasing work effort investigated (Green, 2004). “Bad flexibility” was viewed as employer-led and resulted in a loss of worker’s control over working time, place and conditions, as well as increased insecurity which lowered overall job satisfaction (Clark, 2005). At the same time the growing dispersion in earning ability amongst European workers, reflecting the effects of skill-biased technical change and increased globalisation, caused others to champion the switching of government support away from ALMPs towards investment in early childhood schooling, given the generally higher returns accruing from such interventions (Esping-Andersen, 2008).

A further contribution of theory to understanding the links between employment policies and social cohesion was provided by the analysis of policy complementarities (Coe and Snower, 1997). These complementarities require that policy reforms be co-ordinated and mutually consistent. For example, successful activation of passive policies requires that policies that are harmful to efficiency and social cohesion in the long-run are dismantled and replaced by more efficient and effective employment policies which broadly achieve the same distributional objectives. This in turn necessitates that the design of complementary modernising reforms has to be conducted at national not supranational level. Currently debates about the modernisation of European Social Policy and the merits of “flexicurity” systems have encouraged additional formal analysis of the interaction between unemployment insurance and employment protection policies and the need for policy complementarities to be recognised in policy reforms (Blanchard and Tirole, 2007).

The Eurostat-New Chronos database includes 23 indicators of social cohesion which can be grouped into six domains of which three are related to employment: regional dispersion of employment rates, long-term unemployment and jobless households (Eurostat, 2008). The adoption of these specific indicators reflects the prevailing belief, noted above, that the dominant linkage between employment policies and social cohesion is through policies targeting the unemployed and the inclusion of people furthest from the labour market through income support and activation policies. Consistent with the importance of raising the employability of the unemployed, a key indicator has been the proportion of the unemployed who are long-term unemployed and the percentage of adults and children living in jobless households. The increased emphasis upon activation strategies has also been reflected in the central role of targets for aggregate employment rates and those for females and older workers in the Lisbon Strategy (discussed in the following section).

The new concern with the quality of employment and the pursuit of a high road to flexible labour markets has generated interest in additional indicators such as the proportion of the employed on non-standard contracts, who work shifts and at weekends and measures of access to training and learning opportunities and patterns of occupational

health and safety. However, longitudinal data tracking labour market transitions over time is scarce and the proxies available to trace changes in the quality of European employment over time remain inadequate. The renewed emphasis on gender gaps in European labour markets has also increased attention paid to indicators of gender pay gaps and also to employment segregation, through measures of the share of female managers and indices of gender segregation by occupations and economic sector. In addition, time use data has begun to be used to analyse the time spent on different activities: paid work, domestic work, child and elderly care, civic activities, travel and leisure. For example, Fontainha (2005) uses such data collected by Eurostat to construct measures of social cohesion by gender, based on time allocation.

5.4. The evolution of employment policies in Europe

In the second half of the 20th century employment policies in individual European economies responded to the changing fashions outlined in the previous section, though their responses were moderated by each country's prevailing economic, political and social philosophy (Aiginger and Guger, 2006 provide an overview). However, from the end of the 1990s European-level initiatives began to drive national policy-making and lead to some convergence of national employment policies. The Amsterdam Treaty introduced a new title into the EC treaty requiring the development of a "co-ordinated strategy for employment". At the Luxembourg jobs summit in November 1997 a common employment strategy was agreed with specific targets being transposed annually by each Member State in National Action Plans for Employment. The resulting European Employment Strategy has periodically been reformed to reflect labour market developments, changing policy priorities and its frequently disappointing achievements and missed targets. In April 2005, the European Commission announced a further shake-up in response to the failure to make the required progress towards achieving the strategic goals set at the Lisbon European Council (2000).

The Lisbon Strategy seeks to create "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". This Strategy envisaged the modernisation of the European Social Model and improved co-ordination between the EU's economic, employment and social policies to achieve specified goals. The overall aim of the associated economic and employment policies was to close the employment rate gap with the US through setting a target of a six point rise in the EU's employment rate to 70 per cent by 2010, two-thirds of this rise being anticipated to be in female workers. At the following Stockholm Council intermediate targets were added for 2005 and a new target set for the employment of older workers (ages 55-64). This emphasis upon the overall employment rate represented a radical departure for European employment and social policies. Previous concerns with full employment and social cohesion were now subordinated to the achievement of higher employment rates. Given that employment rates among the young were expected to be static or fall over the period of the Lisbon Strategy as participation in post-compulsory schooling increased, then in addition to reducing unemployment the emphasis was upon increasing employment amongst the elderly, mothers and the, at that time, 14 per cent of the working-age population classified as having some form of disability.

The uneven progress achieved in the first five years of this strategy (the overall 2005 employment rate target was missed), encouraged the Council to support the Commission's "Partnership for Growth and Jobs" which re-launched and refocused the Lisbon Strategy. The Integrated Guidelines Package for 2005 to 2008 provides a further comprehensive strategy of macroeconomic, microeconomic and employment policies to target slow economic growth and a low job creation rate in Europe. The Broad Economic Policy Guidelines and the Employment Guidelines were belatedly merged, effectively completing the reforms begun in 2003 towards a more "operational" European Employment Strategy. Member States were now required to design a three-year national reform programme, with the Commission annually monitoring progress. The Barroso Commission's new Social Agenda provides the social policy dimension of the refocused Lisbon Strategy and has as its two priority areas of action: moving towards full employment and combating poverty and extending equal opportunities.

We briefly review the nature of these employment guidelines before critically appraising their relevance to the main employment and social policy issues confronting the EU. The macroeconomic dimension of the integrated guidelines largely concerns securing stability, sustainability and the adoption of taxation and expenditure policies that promote dynamic efficiency. Hence there is a supply-side emphasis, with macroeconomic policies focussed on producing a stable context within which growth can take place, rather than those policies actively promoting growth. The main targets of the microeconomic guidelines concerned the stubbornly low European expenditure on R&D, the slow pace of transposition of the Internal Market legislation and the overly complex and rigid systems of regulation at EU and national level. Reflecting the key recommendations of Wim Kok's Employment Taskforce, the new Employment Guidelines were based upon three broad headings: (1) attracting and retaining more people in the labour market and modernising social protection systems; (2) improving the adaptability of workers, and enterprises, (3) and increasing investment in human capital through better education and skills. In line with the previous 2003 reforms, the focus was on fewer and simpler policy objectives and priorities and on achieving specific targets through implementation of reforms and better governance.

5.4.1. Attracting and retaining more people in the labour market and modernising social protection systems

The first of these guidelines concerned implementing employment policies aimed at achieving full employment whilst improving productivity and the quality of employment, and strengthening social and territorial cohesion. Whilst unemployment appears too often to be viewed as yesterday's European problem, high unemployment rates still persist in several Member States and current forecasts suggest, at best, only a modest fall in the coming years. The incidence of long-term unemployment remains high and job creation, especially in start-ups rather than existing organisations, remains too low. At the same time, though productivity growth in the EU exceeded that in the US in the fifty years up to 1996, since then US productivity has grown faster suggesting that Europe's performance in creating "good" jobs is no longer superior. In turn, this relative decline in productivity growth can

be linked to the slower emergence of the knowledge economy in Europe (van Ark et al., 2008). Whilst the European Social Model has continued to provide relatively high levels of social protection, significant pockets of deprivation persist especially in some of the new Member States. Moreover, the recent emphasis in European-level policies upon the quality of employment is yet to be matched by adequate indicators of that quality and concerns about the rising intensity of work in Europe are yet to be reflected in these Guidelines.

The promotion of a lifecycle approach to work, that is tackling the problems faced by different age-groups in the European workforce remains another area where rhetoric leads actual policy implementation. Notwithstanding long-standing commitments to active ageing the low employment rate of older workers in Europe, just over 40 per cent, remains a key source of the employment gap between the US and Europe. The Lisbon target of 50 per cent by 2010 now looks unreachable, as does the ambitious target of increasing the average exit age from the labour market (currently 60.9 years) by five years between 2000 and 2010. Whilst researchers are beginning to understand the determinants of the exit age, the sensitivity of these to policy changes has yet to be fully explored. Progress in area of gender equality also remains slow, with female employment rates below 50 per cent in four Member States and a stubbornly persisting 15 per cent pay gap. Whilst some progress has been made in reconciling work and private life, this has predominantly taken the form of Member States' commitment to improve the provision of childcare facilities, though once again few of the resulting targets have been met.

Only about half of Member States saw an improvement in youth unemployment between 2000 and 2006 and only six have reached their target of 10 per cent or less of school leavers having completed only lower secondary education. Policies to combat youth unemployment have continued along four main axes. Firstly, through vocational and training pathways designed to be more reflective of current labour market opportunities for entrants. These include increased targeting on specific guidance and pathways for at-risk school leavers. Secondly, the adoption of increasingly personalised guidance and job-search support for labour market entrants. Thirdly, expansion of job creation schemes targeting young entrants and finally reforms to taxation and social security systems to make work pay for youths. Member States at the 2006 Spring Council Meeting agreed that they should provide a "new start" to the young unemployed within six months by 2007 and four months by 2010, though only about 15 Member States appear to have met their initial target.

A further element of this Guideline is ensuring inclusive labour markets, enhancing work attractiveness and making work pay for job-seekers, including disadvantaged people and the inactive. European countries are increasingly using specific activation measures and placement support from employment services to increase the integration of those at the margins of the labour market. Increasingly it is being recognised that in the knowledge-based economy these need to incorporate programmes to develop the basic literacy and numeracy of adults, especially immigrants. Longer-term initiatives include programmes targeting the better integration of the children of immigrants into the local educational system. In general, European countries have been concerned to raise the effectiveness of their ALMPs rather than their scale in recent years. Measures taken include tightening the eligibility conditions for unemployment benefits, increasing the effectiveness of job assistance and the better targeting of training programmes for the unemployed. Activation

has also increasingly taken the form of the promotion of self-employment and training in entrepreneurial skills for the long-term unemployed. Employment subsidies continue in some European countries, but in general these have become more targeted on the disabled.

A final category of policies within this first Guideline concerns the need to improve the matching of labour market needs. Many European countries have moved away from a public employment service monopoly and now rely on a variety of providers to assist the young, socially disadvantaged and others at risk of exclusion to cope with their job search and identification of their training needs.

5.4.2. Improving the adaptability of workers and enterprises

The second Guideline covers the promotion of flexibility combined with employment security and the reduction in labour market segmentation. Identifying the types of flexibility that can raise competitiveness without generating two-tier labour markets in Europe remains a key issue for reform. The “low road” to raising flexibility through increasing employment of temporary and agency workers has not proven to produce sustainable increases in competitiveness in the globalised economy and alternative “high” roads need to be identified. Whilst employment policies were initially slow to address this issue directly, the widespread debate on the merits of the Danish flexicurity system has changed this, with the Commission publishing a *Communication on flexicurity* in June 2007 (European Commission, 2007b). According to the *Joint Employment Report 2007/8* about half of the Member States have now developed, or are in the process of developing, comprehensive flexicurity approaches and combining efforts on contractual arrangements, lifelong learning, active labour market policies and reform of social security systems.

We explore the Danish flexicurity model in more detail in Section 5.5.1, below we review the trends across Europe in implementing flexicurity measures. Policies to strengthen labour market flexibility have included the promotion of part-time and tele-working, whilst attempting to reform permanent work contracts and employment protection legislation. At the same time, increased security has been targeted through extensions of social protection to workers on temporary contracts and those employed through employment agencies. However, whilst many Member States have used the label of “flexicurity” to describe their reform and retargeting of employment policies, few have followed its essence in switching from job to employment security. Thus Spain has continued attempts to reduce segmentation in its labour market by reversing policies which created a huge expansion of the numbers on time-limited contracts (see Section 5.5.4 below). In many of the newer Member States segmentation takes the form of a large informal labour market where social protection is almost wholly absent. Most of these countries suffering from high levels of undeclared work are attempting to increase labour inspectorates and increase incentives for firms to switch to the formal, monitored sector (see Section 5.5.6 below).

A further component of this second Guideline concerns the need to ensure employment-friendly wage and other labour cost developments and wage-setting mechanisms. Efforts to reduce non-wage labour costs are now widespread in Europe and their focus has been

particularly on young workers and those with disabilities. Prior to these newer guidelines the emphasis on promoting competitive unit labour costs had been through raising productivity and lowering employer's social charges, rather than through wage moderation and restraining other costs of employing labour. In the current inflation environment the latter seems a strange priority, since increased wage dispersion is frequently viewed as providing increased incentives to invest in human capital, itself a key requirement of the Lisbon Strategy.

5.4.3. Increasing investment in human capital through better education and skills

The final two Guidelines cover the need to expand and improve investment in human capital and adapt education and training systems to new competence requirements. As mentioned above, EU benchmarks have been set for reducing the number of early school leavers and most Member States have addressed this issue through curriculum reforms and targeted incentives to continue in full-time schooling. However, currently every sixth young person in the EU27 aged 18-24 left compulsory schooling with no more than lower secondary education and has not participated in any kind of education or training after this. In addition, benchmarks covering improving secondary level attainment were set, by which at least 85 per cent of 22 year olds should have completed at least upper secondary education by 2010, though again this target is likely to be missed. A final benchmark was set for the participation of adults in education and training with at least 12.5 per cent of Europeans aged 25-64 participating, though here again the target currently appears likely to be missed. The latter target was to be achieved by favourable tax treatment of such expenditures and re-directed public spending. The responsiveness of both firm and worker investments in human capital to tax breaks remains a relatively unexplored research area. Participation rates remain lower for most of the targeted groups, the inactive and unemployed persons, older persons and those with low educational attainment. Tax incentives have also been used to stimulate on-the-job training investment by firms, though overall lifelong learning strategies remain under-developed and generally poorly integrated in Europe.

One key area that has been receiving more attention in Europe has been early education. American research evidence suggests relatively high social returns to early interventions through establishing a basis for learning throughout life for those at risk of social exclusion. The belief that such benefits apply in Europe has formed the basis for curriculum reforms in early-education, an expansion of the training of pre-primary teachers and extension of compulsory schooling in many Member States. National qualifications frameworks consistent with the European Qualifications Framework have now been developed by most European countries, with the intention of promoting the expansion of high-quality education, training and flexible learning pathways, and facilitating regional and national labour mobility. Generally these frameworks promote a greater emphasis upon learning outcomes, with the expectation that this will increase the relevance of the learning to the labour market, and hence be reflected in the future earnings of participants.

Taken together these Guidelines largely represented a re-packaging of the previous European Employment Strategy, though the Integrated Guidelines for the first time

specifically mention the need to modernise European social protection systems. However, there seemed little agreement as to what form this modernisation should take and most Member States had already activated many of their passive policies and targeted reversing the growth of those of working age on disability pensions. Member States were again urged to promote inclusive labour markets in which employment policies were to be combined with active inclusion policies in order to combat poverty and promote social cohesion. Making work more attractive than benefits is to be achieved through a balanced approach in which individually-tailored measures, minimum wages or target payroll tax cuts were co-ordinated with increased employment opportunities which enabled those at the margins of the labour market to find employment and climb the occupational ladder.

The Lisbon Strategy has also led to a re-focusing of equal opportunity policies on raising the employment rates of women and elderly workers: the two main groups where higher employment could close the employment gap with the US. It was recognised that to achieve these increases not only would support through increased childcare provision be required, but greater economic incentives in the form of reduced pay and employment discrimination were also required. Gender mainstreaming was adopted by which each policy decision was to be evaluated in terms of its impact on gender gaps in the labour market and the Commission was required to produce an annual report on gender equality (European Commission, 2008). In turn, as Hardy and Adnett (2005) explain, this led to new interest in work-life balance issues and concerns to regulate for parental leave and restrictions on unsocial working hours, albeit from the narrow perspective of raising employment rates (Fagan et al., 2006).

In recent years the growth of immigration of predominantly low-skilled workers has affected most of the EU15 Member States and raised new dimensions of social cohesion. Whilst the nature of these migratory flows is very diverse across countries and time, there are indications that the employment rates of immigrants are relatively low, reflecting skills, education and linguistic deficiencies, as well as direct labour market discrimination. Fermin and Kjellstrand's (2005) study of current national policies suggests a need for improvements in the targeting of language tuition and individualised employment services aimed at the active promotion of employment for immigrants and ethnic minorities

5.5. European employment policies and best practice

Given the diversity of labour market behaviour, norms and social customs in Europe together with the different weights attached to the various dimensions of social cohesion, identifying a "best practice" employment policy is problematic. Initially we start with an analysis of a key employment policies choosing one from each of the four (as adopted by Rovelli and Bruno, 2008) social policy models prevailing in the EU16: Nordic (Denmark, Finland, Sweden and the Netherlands), Anglo-Saxon (Ireland and the UK), Continental (Austria, Belgium, France, Germany and Luxembourg) and Mediterranean (Greece, Italy, Portugal and Spain). From the Nordic model we examine the current infatuation with "flexicurity", whilst from the Anglo-Saxon we investigate the contribution that a national minimum wage can make to the promotion of social cohesion. The Continental model is represented by a study of the evolution of ALMPs in Germany and how belated systematic

evaluations of policies have begun to underpin reforms and favoured the expansion of policies promoting self-employment. Finally, the Mediterranean model is represented by an assessment of the consequences of the encouragement given to temporary employment in Italy and Spain in response to persisting high youth unemployment. The subsequent evolution of European policies targeting youth unemployment and social exclusion is then briefly outlined. We then turn to discuss the adoption of employment policies to promote equal opportunities, looking at a European level initiative for parental leave and how individual European countries have developed their own policies in this area. We conclude this section with an examination of undeclared work, a particular problem in the new Member States of Central and Eastern Europe.

5.5.1. The Nordic Welfare Model: the evolution of flexicurity

As noted early in this chapter, the Nordic/Scandinavian Welfare Model has been viewed for several decades as a successful approach to promoting labour market efficiency, high employment rates and social cohesion. The core principle of this model is that entitlement to public sector provision is individual while the financing is collective: that is social protection is financed through taxes. A key feature is that the standard of public provision is high relative to the average position of those in regular employment. The Scandinavian welfare model is very employment oriented, reflecting a relatively large public sector employment, but also the orientation of that sector towards promotion of employment and integration into the workforce (e.g. through the provision of childcare facilities and promotion of a high employment rate amongst mothers). It follows that a key determinant of the sustainability of such a system is its continuing ability to combine generous welfare arrangements with strong incentives to work. As Rovelli and Bruno (2008) point out, the Nordic model countries are characterised by spending a high proportion of GDP on both passive labour market policies (unemployment benefits, redundancy and early-retirement payments) and ALMPs.

As Andersen (2008) explains, in recent decades this model has faced several challenges which have required a further evolution of the system. These challenges include: increasing dependency rates primarily reflecting increased longevity; increased demand for services, such as post-compulsory schooling and health care, and the effects of increased globalisation through raising the degree of competitiveness and hence increasing both the sensitivity of employment to unit labour costs and of factor mobility to international differences in taxation. To these challenges can be added the risk of losing the prevailing national social consensus, since it is this consensus which enables the high degree of cross-subsidisation to be politically sustainable. To meet these challenges the Scandinavian countries have to maintain higher employment rates, though not working hours, than elsewhere in Europe. Andersen estimates that a drop in employment of 1 per cent would imply, through reduced tax receipts and increased transfers, an overall deterioration in net-public finances of 0.8 per cent. Hence, a key policy motivation is the maintenance of incentives to work, particularly amongst those with high replacement rates, which explains the long history of activation and workfare policies in these countries. At the same time the compressed wage structure in Scandinavian countries, together with the high tax burdens on workers, reduce the

returns to education. Whilst the relatively cheap highly-qualified labour may generate some competitive advantages, incentives to promote high educational investments are weak.

Blanchard (2006) argued that the efficiency costs of generous, but well-designed, social insurance need not be large, if such policies are combined with strong competition in the goods market and the active use of macroeconomic policy. The essence of his argument is that insurance should protect workers not jobs, whilst employment protection should switch towards requiring employers to internalise the social costs of laying-off workers. At the same time unemployment insurance should be conditional on active job search, engagement with training and job acceptance where possible.

In some ways the Danish “flexisecurity” model, introduced in 1993 by social-democratic politicians responding to very high unemployment, meets Blanchard’s requirements. Flexible rules for hiring and firing of workers are combined with a generous unemployment insurance scheme; together these provide a balance between numerical employment flexibility for employers and income security for workers. However, as Andersen (2008) points out, the main components of the Danish model were in place thirty years ago when double-digit unemployment was present. What has changed is a greater emphasis upon activation with a shorter duration of unemployment benefits and expanded workfare elements in the unemployment benefit and social assistance schemes. For example, Graversen and van Ours (2007) report how a mandatory activation programme requiring more intensive contacts between the unemployed and the Danish public employment service resulted in significantly higher job finding rates. This programme leaves a high degree of freedom in planning and implementation to local Job Centres, but within the constraints of outcomes being benchmarked at the regional and national level. These activation programmes not only have beneficial effects on unemployment through those directly affected by the schemes, but by making the outside options less attractive this “threat effect” of participation promotes wage moderation, increased job search and shorter durations of unemployment (Andersen and Svarer, 2008, Rosholm and Svarer, 2008). In turn, this and other ALMPs require a macroeconomic policy stance supportive of job creation and a process of social dialogue in which the social partners resolve disputes without endangering the dynamic efficiency of the labour market.

The Danish model has proved influential in current modernisation debates about reconciling economic and social objectives in Europe, not least in the Netherlands whose employment strategies share the Danish focus on enhanced numerical flexibility and work security (Wilthagen, et al., 2003 and Bekker and Wilthagen, 2008). However, as noted above, successful adoption of the Danish flexicurity package requires a high degree of social cohesiveness and general acceptance of social norms sympathetic to income redistribution within an egalitarian wage-setting system. Countries lacking these characteristics need to customise their reforms to reflect their social norms and customs and the nature of their wage-setting processes.

In contrast to Blanchard’s argument and the interpretation provided above, Anxo and Niklasson (2006) claim that the renaissance of the Swedish model and the improved economic performance followed the adoption of more restrictive macroeconomic policy. This together with the reorientation of ALMPs towards supply-orientated measures and

structural reforms to taxation and social protection systems to increase work incentives during the 1990s enabled, these authors argue, the Swedish co-ordinated collective bargaining system to re-discover an effective corporatist approach to promoting efficiency and equity.

5.5.2. Introduction of a National Minimum Wage: the UK experience

Over recent decades labour markets in developed economies have faced pressures which have tended to increase labour market inequality. The latter has taken the form of increasing wage inequality in the US and UK, but initially was reflected in rising unemployment amongst the low-skilled elsewhere in Europe. However, widening wage structures are now appearing in countries like Germany reflecting the impact of skill-biased technology and declines in both the minimum wage and trade unions (Machin and van Reenan, 2007). In-work poverty has been addressed in Europe through both minimum wage laws and, increasingly, through negative income taxes and/or tax credits. Here we consider an example of the former through an examination of a recent European “experiment”: the introduction of a national minimum wage (NMW) in Britain in 1999. The initial fixed rate (£3.60 per hour) covered 1.2 million adult workers, initially giving those in the bottom decile of the national earnings distribution an annual increase of around 10 per cent (double the growth in median earnings in that year), this improvement in relative pay being greater for part-time workers. Subsequent upratings of the NMW have more than compensated for price increases and have raised the minimum wage to around 52 per cent of median hourly earnings and it currently covers around 2 million workers. Overall, the NMW reversed previous trends and actually reduced wage inequality in the UK, as well as contributing to a significant fall in the gender pay gap (Dickens and Manning, 2006).

To assess the overall impact of the British NMW on poverty and social cohesion we also need to address the impact on employment opportunities. Metcalf’s (2007) survey of research findings concludes that there is no evidence that the introduction of the NMW influenced the level of, or trends in, UK employment and unemployment. Similarly, Metcalf finds no evidence of any employment effects in the low-paying sectors of the economy or amongst different age-groups of workers, though there was a small reduction in the number of paid working hours of those workers affected by the NMW. This absence of adverse employment effects seems to be largely due to this partial adjustment of hours rather than employment (Stewart and Swaffield, 2008) and a re-distribution from profits to wages (Draca et al., 2008).

Overall, the introduction of a NMW in the UK shows that even given unfavourable labour market trends (large inflows of relatively low-skilled immigrants, weakening trade unions and collective bargaining and the growth of performance-related pay), it is possible to raise the real and relative pay of low paid workers through the adoption of a NMW without off-setting employment consequences. However, the transferability of such policies depends, as always, on both labour market and taxation contexts. Müller and Steiner (2008) show that a NMW would be likely to prove ineffective in reducing poverty in Germany, given that country’s current means-tested income support.

5.5.3. Refining and evaluating ALMPs: the case of Germany

Active Labour Market Policies include a range of policies aimed at raising the outflow from unemployment through lowering the duration and concentration of unemployment spells. These include the provision of job search assistance in the form of information and support provided by public employment services, as well as the reduction of skill mismatches in the labour market through subsidised training programmes. Whilst these two policies initially absorbed the dominant share of European governments' expenditure on ALMPs, there has been widespread experimentation in Europe with other ALMPs such as direct job creation schemes, employment subsidies, start-up incentives and job-rotation and job-sharing schemes. Policymakers' preferences for specific ALMPs have changed over time and these changes have not always been based on a firm evidence base. Over the last thirty years or so Germany has had perhaps the most varied experience with ALMPs, covering up to 80 separate programmes, and we now survey the results of recent evaluations of these policies.

The 2002 Hartz reforms have led to a consolidation of German ALMPs based on a thorough evaluation of the merits of individual programmes. These reforms restructured the Federal Employment Agency's placement activities by making increased use of private service providers and redesigned the German Social Codes with an emphasis upon the effectiveness and efficiency of individual programmes. Many of the resulting evaluations suggested that on average previous programmes, and even some of the new ones introduced with the Hartz reforms, failed to increase participants' chances of finding regular, unsubsidised employment (Lechner and Wunsch, 2007). Overall, spending on ALMPs in Germany declined by a third in the three years after 2002, the only areas of expansion were support for business start-ups and partial retirement. However, Eichhorst and Zimmermann's (2007) review of these evaluations concludes that some programmes, notwithstanding their large deadweight losses, had proven positive effects on the speed of re-integration into employment. These included the use of placement vouchers, training (partly a switch towards higher quality and shorter duration programmes leading to recognised vocational qualifications), wage subsidies (marginally) and business start-up grants. We next briefly explore the latter policy.

Policies aimed at turning unemployment into self-employment have become a major focus of German ALMPs in recent years. In 2004 they accounted for around a sixth of total German expenditure on ALMPs covering in total 350,000 business start-ups. The original scheme was a bridging allowance whose aim was to cover basic living costs and social security contributions during the initial six months of self-employment. The unemployed are entitled to this assistance conditional on their business plans being approved externally, usually by the regional Chamber of Commerce, such decentralisation being a common trend in modern ALMPs. In January 2003 a start-up subsidy was also introduced aimed at providing a fixed and declining support for start-ups over a three year period. Baumgartner and Caliendo's (2008) evaluation of these two start-up programmes finds reduced unemployment rates amongst participants and positive effects both on the probability of being in employment and on their income. Moreover, Caliendo (2008) reports that even in a labour market with severe

structural problems, the region studied was East Germany, start-up subsidies seem to be effective.

Surprisingly, meta-analysis at the European level suggests that the effectiveness of ALMPs depends not on contextual factors such as national labour market institutions or the business cycle, but on the programme type (Kluve, 2006). Direct employment programmes in the public sector appear to have overall detrimental effects, whilst the use of targeted wage subsidies and targeted employment services can be effective at increasing participant's employment probability. Hence, the recent renewed interest in the extension of marginal employment subsidies targeted at the long-term unemployed (Knabe and Schöb, 2006 and Brown et al., 2007). Bergemann and van den Berg's (2006) survey of empirical research finds that ALMPs have a positive effect on employment outcomes for women, the effects being larger than for men particularly in countries with a relatively low female labour force participation. These conclusions are strongest for skill-training programmes.

5.5.4. Youth Unemployment: from temporary employment to activation

The emphasis on more flexible labour markets as a response to persisting high European unemployment was based on a belief that increasing the job finding rate was the solution. The low rate of job creation in Europe was, as explained above, frequently blamed on strong Employment Protection Legislation (EPL). Though, Messina and Vallanti (2007) find that more stringent firing laws in European countries dampen the response of job destruction over the cycle and reduce both the creation and destruction of jobs in the declining sectors relative to expanding ones. Research suggests that the less skilled (Cahuc and Koeniger, 2007) and younger workers bear most of the adverse consequences of strong EPL (Bertola et al., 2007).

Accordingly several European governments started to reduce their level of employment protection towards the end of the last century, in particular by lowering hiring costs through the widespread encouragement of fixed-term contracts. In Spain whilst the high levels of protection enjoyed by insiders were maintained, in 1984 temporary employment contracts allowing unrestricted dismissals were introduced. This unwillingness to dismantle Franco-era EPL resulted in a third of Spanish workers, overwhelmingly the young, being stuck in, at best, fixed-term employment. Whilst it was initially hoped that fixed-term employment would be a "stepping-stone" to regular employment, the reluctance of employers to expand their core "protected" workforce led to the expansion of precarious work experience, with most Spanish labour market entrants experiencing a succession of fixed-term contracts, interrupted by recurrent spells of unemployment (Pastore, 2007). In turn this insecurity of employment dissuaded youths from acquiring job-specific training, which further weakened their ability to compete with insiders. Overall, Dolado et al. (2002) conclude that the expansion of temporary contracts led a widening of the wage distribution, lower labour productivity, lower long-term but an unchanged overall unemployment. Whilst Kahn (2008) concludes that reforms to EPL in Europe since 1995 have encouraged a substitution of temporary for permanent employment with no overall positive effect on total employment.

Other European countries such as Austria, France, Germany, the Netherlands, Ireland and the UK have managed to achieve the “stepping stone” outcome, here around a half of those in temporary employment find permanent employment within a year, partly reflecting these countries higher rates of job creation (Zijl and Van Leeuwen, 2005). In Italy, fixed-term contracts of employment were not allowed until 1997, when they were also introduced as part of programme targeting youth unemployment. Here the Spanish experience was not replicated (Picchio, 2008), partly because of a greater emphasis on training opportunities for labour market entrants and partly because employers were encouraged to use temporary employment as a short-term response to demand uncertainty. In contrast, where flexible temporary agency work regulations have been introduced, a substitution of permanent with temporary employment seems to have resulted (Nunziata and Staffolani, 2007).

In contrast to the policies pursued in Spain and Italy, studies reported in Hammer (2003) investigate the relatively generous benefits and high coverage of the Danish welfare system, discussed in section 5.5.1. They find that the Danish young unemployed reported lower levels of financial deprivation, were coping better with unemployment, had better mental health and well-being and were better integrated into employment than similar youths in Spain and Italy. More generally, the 1990s expansion of activation policies in Europe targeting the young unemployed, whilst initially typically being national level policies, became increasingly dependent upon local level providers as they evolved into more client-focussed schemes. This generated new forms of local linkages between employment, social services and the voluntary sector, though these organisations were not always able to respond to the diverse working identities and aspirations of their clients (Warner Weil et al., 2005, Walther et al., 2006).

5.5.5. Parental Leave: redistributing the costs of motherhood?

The persisting gender pay gap in Europe is in part a family pay gap, since it is mothers who generally face the biggest pay gap (Plantenga and Remery, 2006). In the UK one cause has been the large pay penalty of mothers working part-time, this penalty has been increasing reflecting the growing polarisation of part-time jobs in low-wage occupations (Manning and Petrongolo, 2008). Hence there is a danger that the growth of low-status, part-time service sector jobs in Europe will create a “career trap”. This occurs when mothers get caught in jobs which continually under-utilise their human capital and previously acquired workplace skills and competencies. In countries with a more compressed wage structure family pay gaps are larger, these being especially large in Southern Europe (Dupuy and Fernández-Kranz, 2007).

The above studies identify the large costs to mothers of career interruptions and transfer to part-time employment and in turn these findings have encouraged policymakers to target improved leave arrangements for employed parents. However, to avoid dysfunctional effects resulting in increasing the family pay gap, that leave should not be too long and should, at worst, be evenly divided between parents (Plantenga and Remery, 2006). To achieve the latter outcome the leave must either be paid or some weeks have to be reserved for fathers otherwise the, typically lower paid, mother will continue

the practice of taking unpaid carer's leave. Such an outcome would tend to increase rather than reduce both gender pay gaps and occupational crowding. The above characteristics of an effective parental leave policy have been incorporated into the Scandinavian model, with a paid leave period of about a year and a father quota (though this was abolished in Denmark in 2002), which reserves a specific time period for fathers to stay home with their children. The compensation rates during maternity and parental leave vary between 66 per cent in Denmark to a maximum of 80 per cent in Sweden, Iceland and Norway, and the leave can often be taken as part-time over a longer period.

Paid parental leave has been a characteristic of the Scandinavian model and Anxo et al. (2007) show that this policy, as part of a coherent and integrated set of policies for time and income management, over the life course results in a much lower level of gender inequality in time allocation. Del Boca et al. (2008) find that the availability of optional parental leave has a particularly large effect on the fertility and participation decisions of women with lower educational qualifications in Europe. In response to its low participation rate in employment of mothers, Germany has recently introduced such a paid parental leave policy. Here the previous means-tested benefit was replaced by a wage-related benefit of 67 per cent of net earnings for a stay-at-home parent in the first year after birth, there is also a father quota and the total duration of leave is up to 14 months. Initial research suggests that mothers will significantly increase their working hours and their labour market participation as a consequence (Spiess and Wrohlich, 2006).

5.5.6. Combating Undeclared Work

Undeclared work includes any paid activities that are lawful but not declared to the public activities. Due to both its nature and diversity the measurement of the extent of undeclared work is extremely difficult and the best available estimates were that it was responsible for up to 20 per cent of GDP in some Southern and Eastern European Countries in 2004 (European Commission, 2004). The Eurobarometer survey (Eurobarometer, 2007) confirms the existence of a large market for undeclared work in the EU. Notwithstanding its severe methodological and definitional problems, the survey suggested that across the EU around 5 per cent of employees admit receiving cash-in-hand wages, with the ratio higher amongst students, the unemployed and the self-employed. However, Williams (2004) finds that undeclared work is increasingly prevalent amongst the more affluent segments of the labour market. The survey found that the construction and household services sectors have a high incidence of undeclared work, as do the economies of Southern and Eastern Europe.

From the perspective of this chapter the main concern with a large declared work sector is that it may crowd out compliance with social protection regulations in the regular labour market (i. e., promote social dumping), whilst preventing that protection reaching some marginalised groups over-represented amongst undeclared workers (e.g. illegal immigrants). Given the complexity and heterogeneity of undeclared work there is no simple solution to reducing its incidence. Bovi (2005) investigates the relatively large undeclared work sector in Italy and concludes that it behaves independently of developments in the regular labour market. He takes this finding as indicating the ineffectiveness over the

previous two decades of Italian labour policies in converting black economy employment into regular employment. Given the chronic problems in measuring the incidence of undeclared work, it is virtually impossible to directly evaluate the effectiveness of alternative policy responses, accordingly below we summarise recent innovative policies in the EU.

Within the EU the emphasis has been on policies to: reduce the financial attractiveness of undeclared work; reduce the costs of compliance with regulations; strengthening of surveillance and sanction mechanisms; increased trans-national co-operation and awareness-raising activities (European Commission, 2007c). The Making Work Pay reforms in most EU countries have improved the attractiveness of taking low-wage regular employment, though the average gross tax wedge remains high at around 40 per cent. At the same time significant increases in the statutory minimum wage rate in many EU countries have also encouraged a movement back into declared work. Attempts have also been made to reduce the administrative burden and encourage the transformation of undeclared into regular work, for example simpler registration procedures introduced for family (Greece) and seasonal workers (France). Many Member States (e.g. France, Germany and Italy) have sought to increase their detection rates of undeclared work, strengthening the compulsory registration of workers (Germany again) and improving the monitoring of their social security systems (Belgium, France, Ireland, Italy and Portugal). Social partner agreements have been concluded in several Member States (Germany, Finland and Italy) targeting the reduction of undeclared work, especially in the construction industry, whilst in many new Member States large-scale awareness campaigns have been introduced, focusing on both the negative effects of undeclared work and the penalties faced by those workers if detected. Whilst the overall impact of these policies is impossible to measure accurately, the expansion of measures to combat undeclared workers in Germany resulted in over 81,000 criminal procedures being started in 2005 with penalties for each conviction of up to 300,000 Euro (Ludwig, 2007).

5.6. Conclusions

Our above review of the development of European employment policies aimed at promoting social cohesion has shown that their targets, instruments and indicators have evolved over recent years. The initial equation of social cohesion with concentrated and persistent spells of unemployment led to a targeting of the long-term unemployed and entrants into the labour market. The more recent emphasis upon joblessness and in-work poverty have broadened the range of targets to include single parents, the disabled, ethnic minorities and recent economic immigrants and political refugees. At the same time, the initial preference for universalism in employment policies, that is with mass, nationwide, broadly-targeted policy instruments has, in the face of evidence suggesting huge deadweight and displacement effects, shifted in favour of more narrowly focussed, decentralised programmes tailored to the needs of the individual. This is notwithstanding the increase in administration costs associated with such a switch. Finally, much recent research has pointed to the limitations of reliance on cross-sectional indicators when discussing unemployment, poverty and social cohesion in general. As European countries

plot their own pathways towards a flexicurity future, it is becoming clear that in addition to the static indicators of social cohesion, new dynamic indicators are required that provide a longitudinal perspective on the labour market transitions of individuals (Wilthagen, 2008). The development of such indicators is crucial if the modernisation of employment policies in Europe is to be firmly based on rigorous evaluations.

Recent European experience has shown the limitations of adopting ambitious targets at macro-regional level which lack the political support and policies at national level necessary for their achievement. Whilst Member States have been encouraged by European level initiatives to improve their monitoring and evaluation of their own employment policies, the inappropriateness of such a breach with the principle of subsidiarity is now evident to all and the ambition of promoting a hard law-based, uniform European Social Model has effectively been abandoned.

A near truism is that employment policies work best at promoting social cohesion in environments conducive to rapid net job creation. In sclerotic labour markets employment policies can promote “churning” thereby redistributing employment, but their overall effects on poverty and income inequality will be weak. Accordingly, even the promotion of “good” flexibility in labour markets will have little beneficial affect in the absence of macroeconomic policies aimed at stimulating employment growth. In addition, to be effective in addressing social cohesion, employment policies need to co-ordinated with complementary initiatives in taxation, education and health. There are examples of such successful co-ordinations in Europe. Overall “Make Work Pay” programmes in several countries have resulted in the improved co-ordination of taxation, benefit and employment policies which have eliminated or reduced poverty and employment traps. Similarly, the recent emphasis upon flexicurity reforms has seen some dilution of employment protection legislation and a switching to taxation and benefit reforms to protect the living standards of those temporarily displaced from employment. However, there remains one key area where integrated social cohesion policies in Europe are needed. Given the structural changes in European labour markets favouring more educated and skilled workers, effective employment policies are at best only able to partially compensate for those entering or re-entering the labour market with few qualifications. The benefits of early interventions to raise educational attainment in at-risk groups, and sustaining employment opportunities for elderly workers through further training, are now beginning to be recognised by European policy-makers, though as yet little funding has been switched to such programmes from the essentially counter-cyclical ALMPs and co-ordination remains weak.

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6. Employment policies and social cohesion in Europe: a comment on implications and relevance from a Latin American perspective

VICTOR E. TOKMAN

The chapter written by Adnett (2008) presents an interesting analysis of employment policies and social cohesion in Europe. The chapter focuses on joblessness as key to poverty and social exclusion and traces the evolution of policies from targeting on long term unemployment and new entrants to the labour market, to a broader approach including other most affected. It also traces the evolution from universal emphasis to policies focused on decentralized programs addressing the needs of individuals. The analysis of European employment policies and best practices identify four social policy models for EU-15. It concentrates on flexicurity in the Nordic, the contribution that a national minimum wage can make to social cohesion in the Anglo-Saxon, the evolution of active labour market policies in the case of Germany in the Continental and in the Mediterranean, the promotion of temporary employment in Spain in response to high unemployment. This comment will concentrate on the evolution of the strategy and policy implications for Latin America (LA) taking into account similarities and differences with Europe.

The approach of the chapter has the advantage of identifying specific policies but at the cost of conveying the impression that the strategies are different. In fact, as the author also recognizes, the flexicurity model is more comprehensive and has been adopted by a large number of members of the European Union (EU). This does not mean that the same model is operational in each country, but rather that the combination of protection in employment by labour law and the protection of workers is key to understand the policy orientation in each case. The search of consistency between flexibility needed for efficient adjustment and compensation of those affected, as well as permanent learning, constitutes the basic feature of the strategy. Differences among countries emerge from a varying intensity in the use of the specific instruments. This has been analyzed by several authors (ILO, 2005 and Boyer, 2007, among others) identifying also four models: the Danish (including Denmark, Finland, Ireland, Holland and Belgium), the Anglo-Saxon (including the UK and the US), the Social-Democrat (including France, Sweden and Germany) and the Mediterranean (including, Italy, Spain, Portugal, Greece and Japan). While the first is the commonly identified with flexicurity, combining flexible employment, high workers protection and active labour market policies, the others present different combinations of these instruments. The Anglo-Saxon is based on a combination of low employment security and low workers protection but results in rapid adjustment due to dynamic labour markets. It is also important to identify perceptions of those affected by the strategy since social cohesion is also the result of subjective judgments and feelings

(ECLAC, 2007). The Danish model coincide with the highest perception of security; while although the Anglo-Saxon is perceived as more insecure, it is still felt as more secure than the Mediterranean that combine high security of employment with low social and labour protection.

Several similarities and differences can be identified between the European and Latin American contexts. The first is the coincidence of a major change in employment policies orientation in the 90's. In the former case it was based on a diagnosis of "euro sclerosis", describing the combination of slow growth, low employment rates and particularly, rigid labour markets. This was attributed to an overregulated labour market and to inadequate high wage policies. The same claims in a different language were made for Latin America in the framework of the Washington Consensus during the same period. Overregulated labour combined with high labour costs per unit of production was an obstacle for adjustment and access to international markets. Both were based on the comparison with the US on labour regulations and with South East Asia on labour costs. The policy recommendation was also similar introducing new fixed term labour contracts to promote employment of specific groups like, the youth, women and the disabled. As the chapter notes this was the case of Spain with the 1984 reform and a similar situation is found in several countries in Latin America (Chile in the 80's and Peru, Argentina, Colombia among others in the first half of the 90's). The objective was to reduce hiring and firing costs and the results were precarization of labour and disincentives to investing in training. More recently the policy failure was recognized returning to the permanent labour contract but adapted to the increased requirement for flexibility, as happened in Spain with the 2006 reform and with the 1998 and 2000 reforms in Argentina (Tokman, 2004 and 2008).

A second similarity relates to the adaptation of labour market policies in both continents, although here several differences can be found. While the evolution in the EU countries was to shift emphasis from passive to active policies, Latin American countries have only incorporated active labour market policies but with resources and institutional development clearly lagging behind the European levels. Passive policies, like unemployment subsidies or insurance, have been introduced in only in a few countries like Uruguay, Brazil, Argentina and Chile and in most cases, coverage is limited.

A third similarity can be found in targeting and the evolution to specific programs focusing in most needed groups. The chapter presents an interesting analysis of these programs addressed to new entrants, to increase opportunities for women, including innovative policies for parental leave and to emphasise programs addressed to vulnerable groups. This coincides with the tendency registered also in most LA countries⁸⁸, with two exceptions. The priority on long term unemployment, justified for EU countries, is practically inexistent in LA countries. Unemployment is mainly of short duration partly because unemployment compensations are marginal. The opposite happens in relation to policies dealing with undeclared work and workers employed under non standard labour contracts that while they are less important in the EU, they constitute a main priority in LA. What policies should be applied in LA countries to improve the situation of people employed in the informal economy is crucial for poverty alleviation and to improve income

88. An interesting return to universal protection without abandoning targeting can be found in the recently introduced health and pension reforms in Chile.

distribution; but also because they constitute a severe constraint to the effects of the labour market policies. We will briefly refer to these two issues.

Employment in the informal economy in LA represents 63.5 per cent of non agricultural employment varying from close to 90 per cent in Bolivia to 38 per cent in Chile. Workers under non standard contracts reach 13 per cent, while employment in the informal sector account for 50.7 per cent, reaching and in the case of Bolivia 71 per cent. The latter includes self employment, entrepreneurs and workers in micro enterprises (less than 5 workers) and domestic services. Most of the employment in the informal sector is non-registered, while even a proportion of workers in formal enterprises do not have a written labour contract. More than two thirds of the workers in the informal sector do not have a legally recognized employment relation, while one fourth of workers in formal enterprises are in the same situation and one third in those enterprises work under atypical contracts. Only 13.5 per cent of the self-employed and micro-entrepreneurs have access to social protection, while only 21.7 per cent of workers in those enterprises are covered and if employed in formal enterprises under atypical contracts the coverage increases only to 29 per cent. To work without a contract in the informal sector means almost absolute exclusion from protection. Only 10 per cent among them have some access to social protection (Tokman, 2008a). Labour market structures in LA are significantly different from those prevailing in EU countries and although some policies included in the chapter are still relevant they will be unable to deal properly with an important segment of the people involved in these activities. There is need for a different set of policies and particularly, for a more comprehensive strategy towards formalization⁸⁹.

The magnitude of employment in the informal economy affects the potential effects of labour market policies. This does not mean that they are not relevant; they can contribute to improve the present situation, but their impact will be lower than expected. To illustrate the differences we will come back to the models identified in the chapter and particularly, on flexicurity. The four models identified for developed economies can also be found in LA countries. Potential effects in each of them will depend on the importance of the structural constraints. A set of indicators can illustrate the importance of these constraints. In relation to the labour market structure several indicators can be used to capture three processes: urbanization rates, importance of wage employment and magnitude and size of the informal economy. The smaller the first and second indicators and the larger the third one, the smaller will be the expected potential effects. The importance of organized labour and employer organizations and their attitudes and commitment to collective bargaining and social dialogue are also important to consider evaluating the feasibility of the policy proposals. Similarly, fiscal policies are related to the capacity of government to collect taxes to finance social expenditure focused on social and labour protection and on labour market policies. Tax burden rates and shares of public expenditures allocated to the latter constitute useful indicators to evaluate the potential impact of fiscal policies.

When these indicators are compared between countries in the EU and in LA differences can be identified. However, such differences are not homogeneous between the regions, but rather respond to country specificity and in particular, to the labour policy model applied, the institutional development and the magnitude of the structural constraints. The fourth

89. For a discussion on strategy and policies for the informal economy see Tokman (2008).

models identified for LA are comparable with those in the EU. Flexicurity have a larger potential effect in Uruguay, Chile, Argentina and Costa Rica countries that have a lower level of structural constraints and a larger capacity of fiscal financing; while relative to other LA countries they present the less regulated labour markets and the larger share of social expenditure allocated to the labour market. At the same time the organization of the social partners is relatively advanced. The small and open economies of Central America and the Caribbean are closer to the Anglo-Saxon model, since labour flexibility is the second largest in LA and the share of social expenditure is the lowest. However, they present the highest levels of structural constraints and the effects of the labour market policies will be smaller. Intermediate situations can also be identified with the same methodology that corresponds to the Social Democrat model (Brazil and Venezuela) and those that are closer to the Mediterranean model (mostly Andean countries).

This can help to identify similarities and differences between the regions and among countries and contribute in labour policies designing, while moderating expectations according to realities. The combination of policies can be similar and the ordering within regions can be use for analysis, but it is important to bear in mind that even what are apparently similar groups of countries they differ significantly in relation to crucial parameters and particularly, on fiscal capacities and degree of homogeneity of labour markets. While countries like Denmark, Belgium, Finland and Ireland allocate between 3.5 and 5 per cent of their GNP to active and passive labour market policies, the corresponding levels for the comparable countries are around 1.5 per cent. The same happens in relation to the labour market structure, since although the LA countries comparable countries are largely urbanized (82 per cent of employment is urban) and wage-work account for 73 per cent of employment, the levels of their peer countries in the EU have advanced further in the process, 96 and 92 per cent respectively (OECD, 2002).

A strategy for inclusion of those working in the informal economy constitutes a requirement to advance in social cohesion in Latin America. We have proposed a five pillars strategy with that objective (Tokman, 2007, 2008 and 2008a). They include adapting regulations and procedures to facilitate doing business, introducing a compulsory minimum threshold on labour issues for informal enterprises, reducing insecurity and vulnerability in labour contracts, improving recognition and regulation of ill-defined labour relationships and ensuring social protection for informal workers. Policy experiences can be found in most countries of Latin America, although they do not still configure a strategy (Tokman, 2008a).

Many countries have introduced policies for easing doing business by simplifying procedures and reducing bureaucratic steps by unifying registrations regimes and administrative steps. In addition, providing proof of property of ownership by other means of recognition such as long term usufruct, witnesses and others are being introduced to recognize property titles. A minimum floor of labour standards for informal firms has been recommended recently by the Commission on Legal Empowerment of the Poor (2008) of the United Nations and in particular, in Chile by a Presidential Commission on Work and Equity (2008). The floor includes the fundamental labour rights adopted in the Declaration of the International Labour Organization (ILO, 1989) enlarged by additional rights related to minimum wage, hours of work and illnesses and accidents at work. In

addition, new approaches for labour inspection combining education and penalties are being introduced.

Increased security and stability of labour contracts in formal enterprises is being pursued, as explained earlier in this chapter, by reforming early labour reforms that eroded long term labour contracts introducing excessively atypical contracts as in the case of Argentina. Multi-firms labour relationships are also increasingly regulated, particularly in the case of subcontracting and temporary personnel placement agencies. A recent law for this purpose was introduced in Chile in 2006 and has proven to be effective in ensuring the recognition and responsibilities of labour obligations by the different firms involved. Finally, innovative policies for improving social protection for informal workers in health, pensions and maternity are being applied. Universal public systems in pensions only exist in Bolivia and for rural workers in Brazil, but the combination of contributory and non-contributory systems is increasing, as illustrated by the recent pension reform in Chile that introduced a guarantee minimum pension for low income people. Innovative instruments like the “mono-tribute” also constitute a successful recent experience in Argentina, Uruguay and Brazil. It unifies all taxes, including contributions to labour protection for small businesses and introduced a flat tax. Subsidies to self employed contributions to social security also exist in Mexico, matching the by-partite contribution involved as workers and employers in systems designed for wage workers.

To conclude, Adnett’s chapter contributes to the knowledge and identifies innovations of labour market strategies and policies in the EU. It also highlights the evolution of approaches, the diversity of national strategies and the changes in the EU orientation in relation to employment and social cohesion. Most of them can be incorporated in LA countries, since the influence of policy design in the EU has always provided useful guidance to LA policies and in particular, to labour market policies. The problems present many similarities. There is need, however, to understand the structural differences in labour market structures and in fiscal capacities to finance social protection. They require additional answers, which although raised in the chapter, should be expanded and probably redefined to respond to the LA specificities.

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7. Health and social cohesion in Europe

MANFRED HUBER⁹⁰

7.1. Introduction

Implementing effective policies to increase social cohesion and to fight poverty and social exclusion remains a major challenge for the European Union and its Member States. There is evidence that social inequalities have increased over the past decade in the European Union, and differences across countries have become more important with the accession of twelve new Member States. For example, according to Eurostat data, the number of people affected by poverty and social exclusion has in recent years grown in many EU countries. Overall, the average at-risk-of-poverty rate in the EU was 16 per cent in 2004, with a gender gap of two percentage points (European Commission, 2007).

There is growing evidence that poverty and material deprivation are often mutually reinforced by inadequate access to healthcare, in particular for a range of marginalized groups such as migrants, persons with mental health problems or older people with chronic conditions (Huber et al., 2008). However, the pathways between barriers to access and social exclusion for certain groups of the society can be complex, and this is still an under researched area of social and health policy, in spite of progress that has been made in the past 15 years (CSDH, 2008).

Following the definition provided by the Council of Europe's Strategy for Social Cohesion that "social cohesion is the capacity of a society to ensure the welfare of all its members, minimising disparities" (Council of Europe, 2005), this chapter has a focus on health policies that aim at reducing disparities in access to health care services and in health status. Besides, this chapter summarises two important policy fields to increase social coherence that are crosscutting with other policies: disability policy (employment and sickness leave) and health literacy (education and information policies).

Access to good quality healthcare services is generally considered an important prerequisite for the social integration of individuals. It is also important for achieving wider goals of integrating vulnerable groups in the regular labour market and thus to contribute to the overall employment goals of the European Union and its Member States by exploiting synergies between health and social inclusion goals (European Commission, 2008a).

In section 7.2 are outlined concepts and frameworks of health policy from a social cohesion perspective. What are relevant definitions for "social cohesion", what is the role of "health and social cohesion" in the health policy debate at European level? What are the most prominent conceptual models about interlinks between social and health care factors?

90. The views expressed in this paper are those of the author and do not necessarily reflect the views of the European Centre for Social Welfare Policy and Research, Vienna or of its member countries.

The interplay between health policy and overall cohesion policies is reviewed, mainly drawing on existing European and international frameworks from the EU, the Council of Europe and the work of the WHO CSDH.

Section 7.3 is an overview on a range of individual policy fields to foster health by addressing questions of social cohesion, including questions of sustainability and the role of decentralisation (re-centralisation) and inter-sectoral policy approaches.

Section 7.4 provides good practice examples from recent research of the HealthQUEST project, supplemented by other European and national initiatives. Section 7.5 presents conclusions.

This chapter heavily draws on findings from the recent European Commission funded HealthQUEST report (Huber et al., 2008a) that studied the interplay between risks of social exclusion and access to health care and the contribution of health policy to break some of the vicious circles that this interplay often creates. Other main sources are the 2007 and 2008 health reports of the *Social Observatory* of the Commission; the EU project Determine and the European health inequality network. The chapter has also profited from various draft reports of the WHO Commission on the Social Determinants of Health (CSDH).

7.1.1. The challenges of inequalities in health status and in access to health care in Europe

The extent of health inequalities in Europe has over the past ten years increasingly received attention both in individual countries, and in a European comparative perspective. Some prominent findings are summarised below.⁹¹

— INEQUALITIES IN MORTALITY

In all countries that have been studied, rates of premature mortality are higher among those with lower Socio-Economic Status (SES), measured by levels of education, occupation or income. These inequalities have been found among all age groups, and for both men and women (but seem to be less pronounced for women). These inequalities have also been confirmed for many specific causes of death, such as cardiovascular disease, cancer rates, and injury. As a result, differences of life expectancy at birth across SES strata are between 4 to 6 years for men and 2 to 4 years among women (Mackenbach, 2006).

— INEQUALITIES IN MORBIDITY

Rates of morbidity (either measured as self-assessed health, chronic conditions, or rates of disability) tend to be higher among those with a lower SES. Regarding chronic condition, inequalities exist for most chronic conditions, such as cardiovascular disease, diabetes, arthritis and mental illness. According to Mackenbach (2006), inequalities in morbidity by socio-economic position have been fairly stable over the past decades,

As a result of both inequalities in mortality and in morbidity there are large inequalities in indicators of healthy life expectancy that measure the number of years people can expect to live in good health.

— INEQUALITIES IN ACCESS TO HEALTH CARE SERVICES

Even in European health care systems that in principle grant universal, or near universal rights of access to health care, barriers to access persist for a significant number

91. See Mackenbach (2006) for a comprehensive report on trends in Europe.

of individuals. This can be the case for person on social assistance benefits or be due to language or cultural barriers. Low educational status, for example, often results in lack of knowledge and information on basic rights and the ways of access to health care. For others, the presence of barriers of access to health care is one of the multiple facets of their overall threat of social exclusion as is the case for drug addicts or homeless people.

7.2. The role of health in social cohesion policies: concepts and framework

This section provides an overview on health and social policy developments on the linkage between the concept of social cohesion and health policy. Which role does health policy play for overall progress in social cohesion? Where do policies in European countries converge, and what accounts for differences or divergence?

7.2.1. The Council of Europe guidelines on social cohesion

The Directorate General of Social Cohesion of the Council of Europe⁹² has issued guidelines on social cohesion that broadly distinguishes four measurable domains (called “levels”) of social cohesion. Health plays a prominent role in each of these:

- General trends in social cohesion: Equity in health (e.g. in life expectancy); level of social (health) spending; suicide rates; subjective perceptions of health;
- Social cohesion globally: Social budgets (per capita health budget); access to health care (as “social right”); labour market outcome of disability policies;
- Social cohesion by area of life: Health and social cover (e.g. health services availability); public coverage; quality of care; efficiency; morbidity; mortality; basket of health services and goods; freedom of choice; protection of vulnerable groups; satisfaction with the health system;
- Social cohesion for vulnerable groups: Acknowledgment of the specific cultural characteristics of minorities in health services, conformity with human rights; extent of discrimination; comparative life expectancy for groups at risk.

This social cohesion framework of the Council of Europe uses a very broad concept. It includes many aspects of population health and of the governance, financing and organisation of health care systems, including outcomes of health care rather comprehensively. For the purpose of this chapter, a focus has been more specifically on the inter-linkage between health status, health care and social inclusion policies. An overall review of health policy developments is beyond the scope of this work.

7.2.2. Social cohesion in health care and social protection is a key element in EU policies

Fostering of social cohesion is at the core of European Union policies. The objective of economic and social cohesion is prominently specified in Article 2 and Article 3 of the

92. [http://www.coe.int/T/E/Social_cohesion/].

Treaty Establishing the European Community (TEC). Article 136 explicitly refers to fundamental social rights in this respect.⁹³

Since 2000, the so-called Open Method of Coordination (OMC), provides an instrument of policy consultations under which Member States “agree to identify and promote their most effective policies in the fields of Social Protection and Social Inclusion with the aim of learning from each others’ experiences” (European Commission, 2008b). For social cohesion and health care, the OMC objectives that are listed below were agreed.

That health inequalities are increasingly recognised as an important public-health issue throughout Europe is also illustrated by the prominence that this policy field received under the 2006 UK Presidency of the EU.⁹⁴

7.2.2.1. Objectives of the OMC for social protection and social inclusion⁹⁵

The communication “Working together, working better: proposals for a new framework for the open co-ordination of social protection and inclusion policies”⁹⁶ set forward detailed proposals for the streamlining of the Open Method of Co-ordination (OMC) in the field of social protection and inclusion. The existing OMC’s in the fields of social inclusion and pensions, and the current process of co-operation in the field of health and long-term care, were brought together under common objectives –in continuity with the Nice and Laeken objectives– and simplified reporting procedures.

The overarching objectives of the OMC for social protection and social inclusion are to promote:

- Social cohesion, equality between men and women and equal opportunities for all through adequate, accessible, financially sustainable, adaptable and efficient social protection systems and social inclusion policies;
- Effective and mutual interaction between the Lisbon objectives of greater economic growth, more and better jobs and greater social cohesion, and with the EU’s Sustainable Development Strategy;
- Good governance, transparency and the involvement of stakeholders in the design, implementation and monitoring of policy.
- Accessible, high-quality and sustainable healthcare and long-term care by ensuring⁹⁷:
 - Access for all to adequate health and long-term care and that the need for care does not lead to poverty and financial dependency; and that inequities in access to care and in health outcomes are addressed;
 - Quality in health and long-term care and by adapting care, including developing preventive care, to the changing needs and preferences of society and individuals, notably by developing quality standards reflecting best international practice

93. See the EUROPEDIA web pages for a summary of the legal basis:

[http://www.europedia.moussis.eu/books/Book_2/5/13/02/?all=1].

94. See for example Judge et al (2006) for a UK commissioned review of national-level policies and strategies; and Mackenbach (2006) for health inequality trends in EU countries.

95. See also [http://ec.europa.eu/employment_social/social_protection/index_en.htm].

96. [http://ec.europa.eu/employment_social/social_inclusion/objectives_en.htm]

97. In their original numbering.

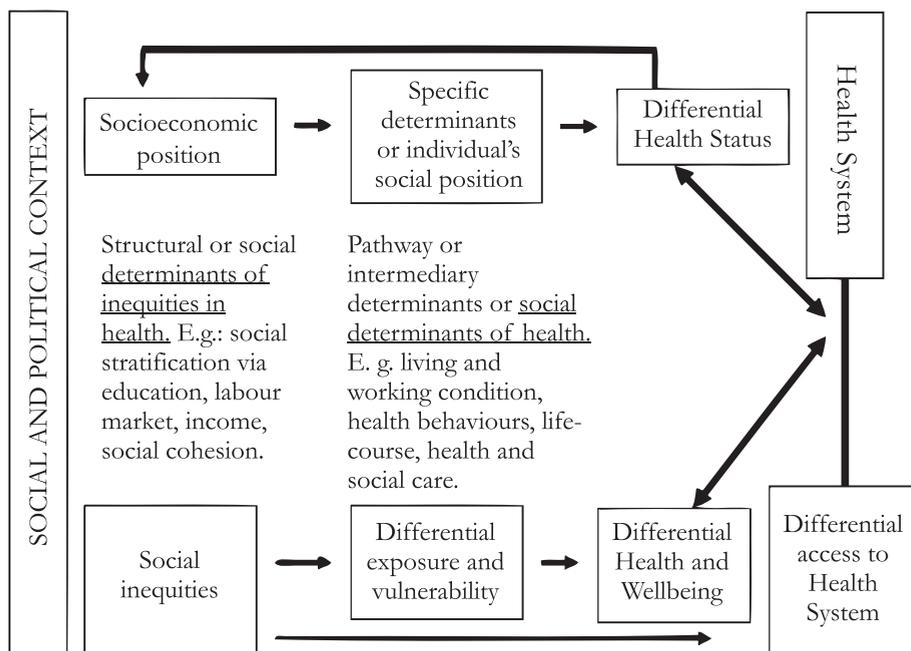
and by strengthening the responsibility of health professionals and of patients and care recipients;

- That adequate and high quality health and long-term care remains affordable and financially sustainable by promoting a rational use of resources, notably through appropriate incentives for users and providers, good governance and coordination between care systems and public and private institutions. Long-term sustainability and quality require the promotion of healthy and active life styles and good human resources for the care sector.

7.2.3. Explaining the relationship between health inequalities, poverty and social exclusion

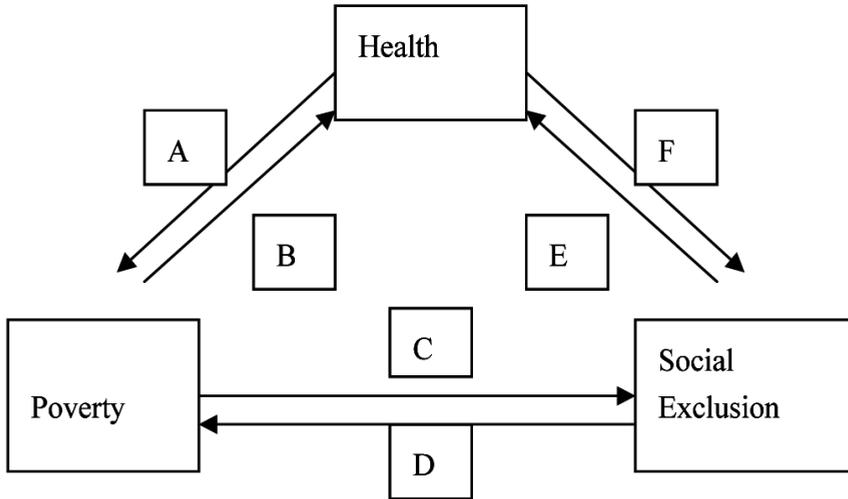
Figure 7.1 shows a simplified version of the conceptual framework of the Commission on Social Determinants of Health (CSDH 2008). It distinguishes between structural and social determinants of health disparities and pathways or intermediary determinants of health (such as living or working conditions, life-style factors, and health care). In this framework, the health system is only one of several health determinants. This picture also indicates feedback-loops and interdependencies between health and socio-economic status.

Figure 7.1. The conceptual framework of the Commission on social determinants of health



The concept of pathways between health, poverty and social exclusion has also been at the centre of a literature review on health, poverty and social inclusion in Europe undertaken by Stegemans and Costongs (2003). This is summarised in Figure 7.2 that traces the relationship between health, poverty and social exclusion as mutually reinforcing loops.

Figure 7.2. The pathways between health, poverty and social exclusion



This chapter will be particularly concerned with relationships A and F (preventing poor health leading to poverty, and preventing poor health leading to social exclusion) and with the contribution that access to good quality care can make to this process. The following paragraphs will briefly review the broader cyclical relationship between health, poverty and social exclusion.

7.2.3.1. Poverty and health (links A and B)

The strong association between health and SES has already been quoted above. There is in general a strong association between poverty and health. Health plays apparently an important role in the pathway that leads from poverty to social exclusion and vice versa. SES is important to health not only for those in poverty, but at all levels of SES. On average, the more advantaged the individuals, the better their health –whether measured in terms of disease and mortality or in terms of self-assessed physical and psycho-social health.⁹⁸

Moreover, there is now a common understanding that poor health is both a cause and a consequence of wider socio-economic difficulties. Among the links between health and poverty (or lower social economic status more generally), there is evidence that the link

98. There are a few exceptions, such as higher HIV infection rates among higher socio-economic groups, e.g. when comparing insured people under the German public health care system with the more wealthy people insured under private health insurance.

from poverty to poor health (health causation) is stronger than the link in the other way (health selection), pointing to the specific policy challenges to break links from poverty to ill health by either targeted policy measures, or by overall policy design that does not discriminate against people of lower SES. Among the pathways along link B are material, behavioural and psychological factors (such as the concept of self-efficacy).

7.2.3.2. Health and social exclusion (links E and F)

The (social-psychological) pathways from social exclusion to bad health (link E) partly resemble to those described in the section on poverty and health causation above. However, a number of specific socio-economic disadvantages can be involved, such as neighbourhood violence and crime, unemployment, poor educational achievement, being a member of a minority group and being a lone parent or teenage mother. This direction of the link from E to F seems to be especially relevant for migrants, and to people with mental health problems.

The impact of health on social exclusion (Link F) is best studied for specific groups of the population that share similar risk factors of social exclusion. Although some mechanisms described above which lead to the associations between poverty and ill health are similar to those that link social exclusion to ill health, specific pathways exist for a number of socially defined groups: older people with functional limitations; people that are chronically ill or disabled; (undocumented) migrants; and people with mental health problems. For some of these groups, social exclusion can be a direct result of health problems or physical limitations, as will be discussed in the section two.

7.2.3.3. Poverty and social exclusion (links C and D)

Social exclusion is a broader concept than poverty per se, as the discussion above has illustrated. The link between poverty risk and health is an important consideration for the design of health care financing of public programmes. For example the risk of so-called “catastrophic” health spending (defined as expenditure that exceeds 40 per cent of household income) is still real in many countries, including in Europe.

Different dimensions of exclusion are often themselves interrelated, e.g. between employment and income, housing and employment, formal sector employment and insurance under public programmes. In studying the impact of health policy on social inclusion, it is therefore important to consider both how to break links between health and social exclusion, but also to pay special attention to the ways health systems can reinforce or mitigate the complexity of social exclusion issues.

7.2.3.4. Barriers to health care: a checklist of policy issues

Figure 7.3 shows barriers to health care that were studied in the recent HealthQUEST study and that are of particular relevance for people at risk of social exclusion. This matrix representation shows the interaction of group characteristics for people at risk of not getting the health care they need versus characteristics of health care systems that

correspond to specific barriers for accessing health care services. The sequence of barriers is further elaborated in the policy sections below. The question at the intersections in this matrix are typical examples that illustrate the type of policy issues that have been identified and that are persistent for a range of EU countries that represent different health care systems (Scandinavian countries, southern European countries, “classical” social insurance countries, National Health Systems).

This list of topics can also serve as a checklist of issues that can guide health care reform: do specific reform measures mitigate individual access problems identified or do they worsen the situation? In consulting such a checklist, it is important to keep in mind that changes of health care systems that were designed to mitigate certain types of problem areas may create other access problems as unintended side effects. Examples that are briefly reviewed in this paper are measures that result in complex administrative procedures for patients that require good overall literacy to “navigate the system”, knowledge of individual rights, or a good overall ability to negotiate with administrations or health care providers (patients’ “voice”). Examples are complex rules of exemptions from cost-sharing which require action to realise individual rights.

Figure 7.3. Barriers to health care: a checklist of policy issues

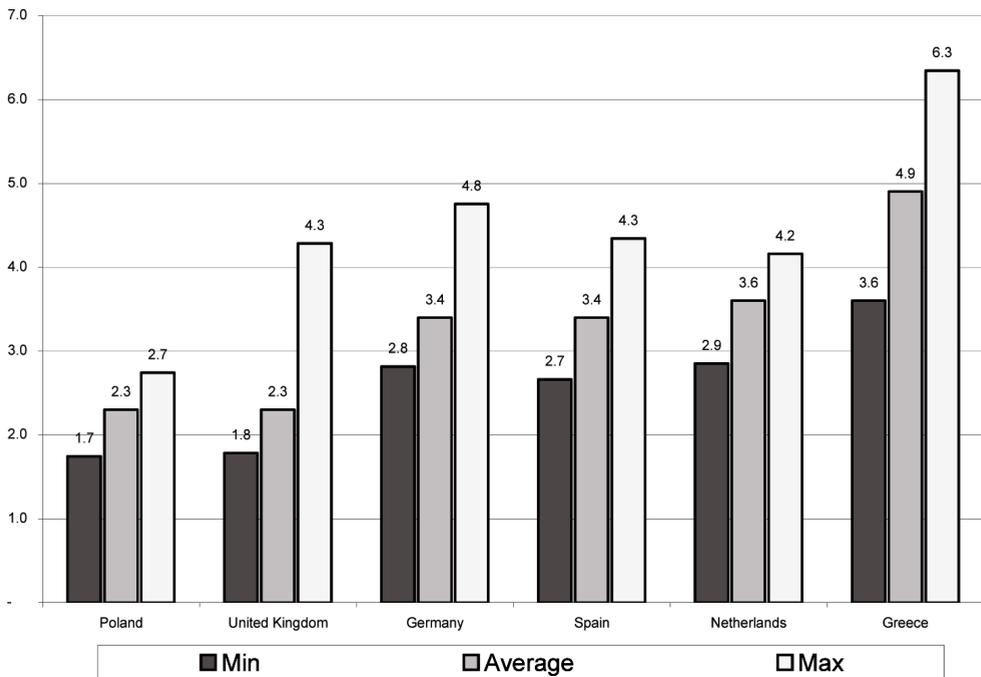
Group characteristics	Age, gender, migrants, mental health, dependency	Specific health problems and high health care demand	Low income, high poverty risk	Health literacy, voice and health beliefs
Population coverage	More likely to be excluded from coverage?	Do people not covered delay or forego care they would need due to high cost?		Effects of obligations for individual contracting and choice?
Health basket	More affected by cost of services not offered?			Knowledge about right of supportive services?
Cost-sharing	Do exemptions and ceilings take these characteristics into account?		Additional financial burden? Consequences for service uptake?	Bureaucratic hurdles of exemption rules?
Transport, geography, regional variations, etc.	Do regional disparities limit access to services?		Do access problems worsen social exclusion in rural areas?	Difficulties to find information on providers, transport services?
Organisational barriers	More affected by waiting lists?		By-passing waiting lists with private money not affordable?	Difficulties to negotiate with providers?
Supply-side responsiveness	Risk of discrimination and stigma?	Are services tailored to needs? Gaps in medical and social services know-how?		Difficulties to negotiate with health care professional their way through the system?

7.2.3.5. Regional variations and social cohesion

Geographical variations in access to health care remain large between EU countries and they can also be important within countries. For example, in Finland, expenditure per capita can vary by a factor of two or larger between municipalities (Huber et al. 2008a). Geographical variations are particularly critical for primary care and other community services, such as home care for older people. It is less clear, to which extent specialised hospital care needs to be organised in bigger centres, in order to ensure the quality of care and safety of patients, calling for further concentration of services.

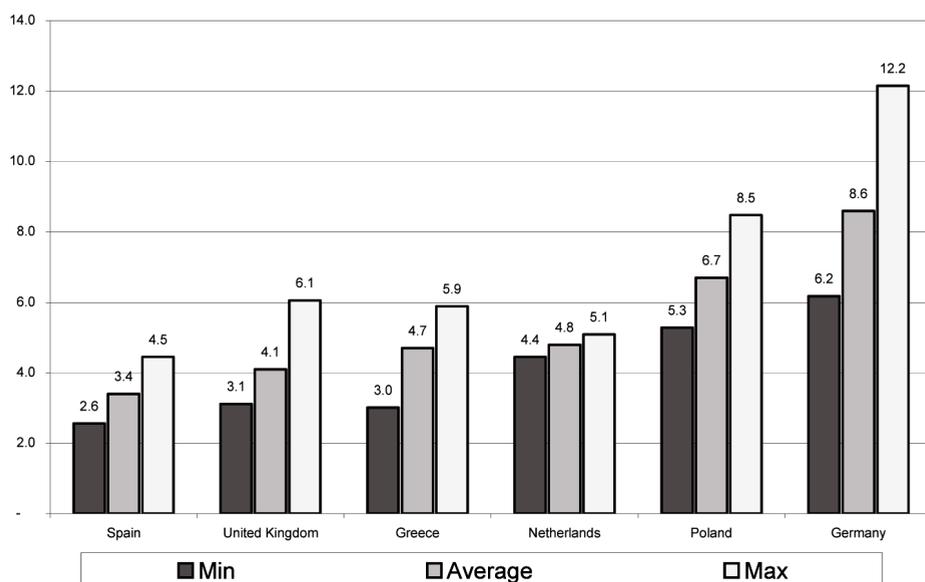
The following two graphs illustrate regional variations for numbers of practicing physicians and for hospital beds. Disparities seem to be smaller in small and more densely populated countries, like the Netherlands. There seems to be some (positive) relation between absolute levels and the extent of variation. A closer look at these data shows that there is some link to the economic profile of regions, with the “better off” regions having markedly higher density of health care resources in the country, often following overall geographical patterns (such as a North-South gradient in Italy).

Figure 7.4. Regional variations in practicing physicians per 1,000 population (2004)



Source: OECD (2007a)

Figure 7.5. Regional variations in hospital beds per 1,000 population (2004)



Source: OECD (2007a)

7.2.4. Indicators to monitor disparities in health and inequalities in health care coverage, access and use of services

This section provides some of the main definitions and indicators that have been used to monitor disparities in health and in access to services. Indicators of equity and disparities in health status and health care access are still an emerging field of health data, and many data gaps usually persist in countries. Comparability across countries is limited. There has, however, been recently increased interest in including these indicators in regular reporting, both at national and at European level.

7.2.4.1. Indicators on socio-economic inequalities in health status⁹⁹

Mortality-based indicators are among the most widely used indicators. They are based on death registers and have the advantage of being routinely available. The most prominent are:

- Life expectancy by SES
- Total mortality rate by SES
- Infant mortality rate by SES

Morbidity-based indicators require special health surveys, which are often not available on a routine basis. Another limitation is the fact that they are usually based on self-rating health questions¹⁰⁰:

99. Summary measures of population health are comprehensively reviewed in Murray et al (2002)

100. Different populations tend to use "subjective" scales that can differ substantially. Techniques and data sources that would allow for the "calibration" (or transformation) of these subjective scales for better comparability are currently in their infancy.

- Self-rated (general) health by SES
- Self-rated disability by SES

Summary measures of population health combine data of the above-mentioned sources in various ways:

- Disability Free Life Expectancy (DFLE) by SES usually combines measures of life expectancy with self-rated disability
- Health Adjusted Life Expectancy (HALE) by SES combines life expectancy measures with self-rated health measures. It can be interpreted as the equivalent number of years in full health that a person can expect to live based on current rates of ill health and mortality across sex, age and SES groups.
- Disability Adjusted Life Years (DALY) by SES is a demanding indicator in terms of data and underlying modelling. For one of its components –years lost due to disability–, it requires estimating numbers of incidents for different cases of disease/disability, corresponding disability, weights and average duration of the case until remission or death (in years), all of which broken down by SES (in addition to age and sex).

7.2.4.2. Indicators on inequalities in health care access and use

The inequalities in access to health care are more difficult to measure because data for utilisation rates are needs-adjusted and are only rarely collected (Doorslaer et al., 2004). According to the HealthQUEST report, there is surprisingly little research on the corresponding inequalities in access. The European Observatory on the Social Situation (2006), however, states that “differences in access to healthcare services across socio-economic groups may exacerbate existing health inequalities (...) therefore consideration of the extent of inequalities in accessing health care services is essential in understanding the broader goal of health equity” (p.91).

The most frequently used variables are:

- Share of the population without health insurance coverage by SES, which either needs special surveys or can be approximated by reconciling population data with administrative data. Disaggregation by SES is often limited to income group.
- Health service use by SES is an indicator that has been monitored for different service groups, such as doctor visits, screening rates, hospital utilisation, or dental care. Ideally, these would be derived from surveys while in some cases administrative data can be used. SES has sometimes been measured indirectly such as by area of residence/type of neighbourhood (by postal code). A major issue is the need to adjust raw data of health service use by “health needs” for analytical purposes, which can be a challenging task as the results may depend on the type (or model) of needs-standardisation used.
- A more direct measure of unmet health care needs has been included in some countries in surveys, but these often lack standardisation and are often done

on an ad-hoc basis with limited comparability over time and across countries. Examples at European level are questions in the SHARE and in the EU-SILC questionnaires, and in occasional editions of the EUROBAROMETER survey.¹⁰¹

- Out-of-pocket expenditure as a share of household income by income group is an indicator to measure financial barriers to access.

For disaggregating by SES, the most commonly used dimensions are income, education and occupation.

7.3. Policies to tackle health inequalities and to strengthen social protection against consequences of ill health

Against the background of increasing social inequalities in health in many European countries, there is growing interest in the EU to assess the extent to which the health care system can play a role. As has been sketched in the first section, differences in access to health services across socio-economic groups may exacerbate existing health inequalities. Therefore, it is important to understand inequalities in accessing health care services within the broader policy goal of health equity.

This section reviews policy strategies to tackle health inequalities and inequalities in access to health care for important domains identified in the previous section. Following paragraphs also review policy initiatives that have been taken by the EU Member States to realise the objective of access for all. It highlights and describes some of the most effective policy measures to ensure access to health care for the most disadvantaged. The implications of health policy on other social policy areas, and their interlinkages are further elaborated in the sub-sections on health literacy (education and health care policy) and in the section on health and disability policies.

7.3.1. Universal access to health care in Europe: mission accomplished?

Universal coverage of the population for a fairly comprehensive package of medical services is a fundamental policy goal within the EU. Governments are not only committed to pursuing the efficient delivery of high quality medical care, but also to ensuring equitable access to these services.

Universal coverage of the population for a comprehensive package of medical services that allows citizens to profit from the fast medical progress and technological advance in health care is a fundamental policy goal that is broadly shared by European Governments (see Council of Europe 2005, European Commission 2008a).

However, even in European health care systems that in principle grant universal, or near universal rights to health care, some barriers to access still exist for a significant number of individuals and specific segments of the population. This can be the case for persons who have not registered with social health insurance. This can also be due to language or cultural barriers. Low educational status, for example, often results in lack of knowledge and information on basic rights and the ways of access to health care.

101. See e.g. Eurobarometer 2007 "Health and long-term care"

This section has first a focus on barriers to access to health care services, which vulnerable groups in society often face, and especially those most exposed to social exclusion. It follows the sequence of barriers identified in Figure 7.3.

7.3.2. Ensuring nobody is left behind with coverage under public programmes

In a majority of EU countries, publicly funded health care is universal, in particular when it is tax-funded. In a few cases, health insurance coverage is mandatory, but individuals are requested to register with an insurance company of their choice. Examples are the social insurance system in Germany, and the newly established “mandatory private” health insurance system in the Netherlands.¹⁰²

In only few countries is there a choice to opt out of the public system for specific groups of the population, such as higher-income earners in Germany or in Spain. Coverage under public programmes has grown over time, either gradually, or by introducing universal tax-funded system to replace existing, more fragmented systems. In tax-funded systems, usually everybody with a residency status is covered. There are, however, cases where getting insurance coverage requires individual choice of an insurance fund and personal registration. People who do not understand these rules and requirements may be faced with fines and/or retrospect payments in case they request health care but are not able to prove that they are insured. It is important that administrations set systems such that people with low literacy (or with language barriers) can comply with, or to put in place social services for people at risk of not getting insurance coverage, helping them with counselling, translation, and paperwork.

Health coverage can be complex, when several systems operate in parallel, covering either different parts of health care needs, or offering higher quality or more expensive services under complementary (often voluntary) programmes. The main group not covered in many countries are non-registered immigrants and asylum seekers without residence permit.

7.3.3. Financial sustainability and the public-private mix of expenditure

The policies on health and social security that this section summarises have to be seen against the background of lasting concerns in EU Member States about rising health expenditure. Although health spending as percentage of GDP was on average stable over the years 2003-2005 across OECD countries, total health expenditure has grown about 5 per cent of GDP to almost 9 per cent in 2004 (European Commission, 2007). As the main drivers of expenditure growth (medical and technological advance and their fast dissemination in the health care market, growing expectations of access to high quality care) will continue to exert cost pressure, expenditure ratios are likely to soon grow again.

102. The new Dutch system has both elements of a public (mandatory insurance; no risk-rating) and a private system (individual insurance contracts and individual payment obligations for premiums that are a mix of mandatory basic package and voluntary complementary insurance). It remains to be seen, to which extent this system might soon converge to a more classical public social insurance system, such as by allowing group contracts on regional basis (see the corresponding Dutch good practice example).

The history of past episodes of cost-containment in health care spending suggests that the latest measures (such as containing pharmaceutical spending in a number of countries) may not have a lasting effect. Previous periods of cost-containment were the years following the first and second oil-price shock in the 1970s, and increased cost-sharing requirements during the 1980 and 1990s in many EU countries. Overall, the private expenditure share has increased since then, also due to the exclusion of some treatments from public coverage in several countries.

Based on OECD and WHO data, private expenditure on health care as a share in total health expenditure has over the last fifteen years increased in almost all EU27 countries (except for Denmark, Ireland, Portugal and the UK). Moreover, there is still a wide range of private expenditure shares in the EU: from around 9 per cent in the Czech Republic to more than 50 per cent in Cyprus (European Commission, 2007). The private expenditure share is on average higher in a number of New Member States as well as in several Southern countries.

Table 7.1. Private health expenditure as a percentage of total expenditure on health, 19 EU countries

	1980	1985	1990	1995	2000	2006
Austria	31.2	23.9	27.2b	27.4	24.2	23.8
Belgium	na	na	na	21.5	24.0	na
Czech Republic	3.2	7.8	2.6	9.1	9.7b	12.0
Denmark	12.2	14.4	17.3	17.5	17.6	na
Finland	21.0	21.4	19.1	25.9b	26.6	24.0
France	19.9	21.5	23.4	20.3b	20.6	20.3
Germany	21.3	22.6	23.8	18.4	20.3	23.1
Greece	44.4	na	46.3	48.0	39.1b	38.4
Hungary	na	na	na	16.0	29.3	29.1
Ireland	18.4	24.3	28.3b	28.1	26.5	21.7
Italy	na	na	20.5	29.2	27.5	22.8
Luxemburg	7.2	10.8	6.9	7.6b	10.7	9.1e
Netherlands	30.7	29.2	32.9	29.0	36.9	na
Poland	na	na	8.3	27.1	30.0	30.0
Portugal	35.7	45.4	34.5	37.4b	27.5b	29.4
Slovak Republic	na	na	na	na	10.6	31.7
Spain	20.1	18.9	21.3	27.8	28.4	28.8
Sweden	7.5	9.6	10.1	13.4	15.1	18.3
United Kingdom	10.6	14.2	16.4	16.1	19.1	12.7d

Notes: b= break in series; e= estimated; d= difference in methodology
Source: OECD Health Data, October 2008

It is currently not clear to which extent reforms towards more cost-effective health care and for more quality will result in more “value for money” in health care, or even contribute to slowing excess-growth of health spending over economic growth rates. Disease-based and other integrated care approaches seem to be among the more promising recent reform initiatives, in particular where they attempt to improve cooperation between health and social care for people with chronic conditions, such as mental health patients and older people in need of long-term care. Overcoming the current fragmented way health care is delivered will arguably remain the most important challenge for health policy.

This includes moving from solo-practice primary care providers to team-based approaches, reforming referral systems, and the introduction and efficient use of electronic patient records. Controlling pharmaceutical expenditure has received special attention in health policy of many EU and other OECD countries with some measurable effects in terms of spending (European Commission, 2007).

Policy strategies for increasing efficiency and effectiveness are increasingly given priority over, -or are complementing- cost-containment strategies because of increased awareness in many countries of the detrimental effect that the latter can have on equity of access.

7.3.4. Addressing the looming crises in the health care work force

Attracting and maintaining a highly qualified and motivated workforce has become a major concern in EU (and OECD) countries. Shortages of health care workforce and their ageing are questioning current work force policies, and exert additional financial pressure on health care systems. This concern also has an international dimension (European Commission 2007). As a recent OECD report (OECD 2008) concluded “In several OECD countries, immigration jumped sharply at about the time that shortages were identified at the end of the 1990s. Continuing or even greater reliance on migration of health professionals could make health systems in certain OECD countries too dependent on immigration” (OECD, 2008) The report also recognises the “excessive burden” that migration of health personnel often puts on the poorest countries in the world, even in the case of countries where training of health professionals may be aimed at “exporting” health professionals.

7.3.5. Closing gaps in health baskets under public programmes

Countries differ widely in how precisely health baskets are defined for the population. This can range from very detailed service catalogues to broad commitments of administration to offer “appropriate care”, the definition of which may then be left to local authorities. The main gaps in coverage usually concern dental services (mainly for adults; services for children are usually covered) and in many cases social services at the interface between health and social care, such as home care and accommodation expenditure in nursing homes. Filling these gaps from household budgets can be very expensive, and prevent many people from requesting these services in a timely manner. For social care, social assistance covers cost usually only after household assets have been spent down.

7.3.6. Protecting people against financial risks of cost-sharing in health spending

Private expenditure plays an important role in many European countries. This can be expenditure to buy goods or services directly on the private health care market, or as co-payments that are requested under public programmes. Many countries now recognise the need to protect low-income households or households that are high consumers of health care (chronic care patients) from the adverse effects that cost-sharing can have for take-up of services and as a factor that can increase the risk of poverty.

For this reason, young people, older people, and people with low income are often exempted from cost-sharing. Exemption rules can, however, be complex, and may require paperwork with health administrations and providers that many people at risk of social exclusion or with low SES may find difficult or confusing. Again, as with coverage, these households and patients may need special guidance to realise their rights.¹⁰³

7.3.7. Inequality in access to health care among the elderly population: health policies for ageing populations

There is growing evidence that older dependent people in many situations receive fewer services than they need and that those are often not best suited to their special needs and have deficits in quality. The interface between health care and social services (services of long-term care) is often not functioning well, which is now widely recognised among EU countries as a policy field for priority action for ageing populations (Billings and Leichsenring, 2005). Among the specific problems that have been identified are shortages of services of prevention and rehabilitation, quality deficits of medical support in nursing homes and serious health and safety concerns in many institutions, and gaps in training of personnel (such as in gerontology and geriatrics).

7.3.8. Addressing the situation of people with mental health problems

The situation of mental health services has improved over the past three decades in many EU countries, such as by de-institutionalising much of mental health that was previously confined to institutions. People with mental health problems suffer, however, from high somatic morbidity and have on average higher mortality risks, which points to important shortcomings of the somatic health care services that they need. Discrimination and stigmatisation still are important barriers to mainstream health care and there is evidence that those residing in institutions often do not have adequate access to needed services of somatic medical care.

Moreover, mental health problems are still among the most important risk factors that can lead to early exit from the labour market or to social exclusion. For example, in four countries recently reviewed in OECD country studies of disability, more than half of all beneficiaries of disability pensions in the age group of 35 years or younger, the cause were

103. Although data are difficult in this area or completely absent, it is likely that many people do not realise their rights, if one draws an analogue conclusion from the high non-uptake rates of social assistance benefits that have been observed in a number of countries (e.g. Austria, Germany).

mental health problems. Improving the mental health situation is an important policy field to improve social cohesion in European countries.

7.3.9. Improving the situation of migrants, asylum seekers and ethnic groups

As the HealthQUEST report concludes (Huber et al. 2008), migrants are relatively more affected by a number of health problems, such as higher risk of TB, cardiovascular diseases, coronary health disease, but also mental health problems like depression. A higher risk of poverty and social exclusion often contributes to worsen their situation and health status. Asylum seekers and migrants without a residency status are at particular risks for social exclusion and for heightened health risks. Policies to improve the situation of migrants have included targeting of reception centres (e.g. Poland and Spain). For example, in the Netherlands, the central agency responsible for accommodation of asylum seekers also contracts preventive health services for their clients and they are seen at arrival by specially trained health staff to assess their needs for health care services.

However, in order to address particular barriers faces by asylum seekers, it is often essential to reduce hurdles in obtaining (residency) documents and to improve material conditions and economic security more generally (HealthQUEST Report).

7.3.10. The crucial role of education and health literacy

One of the pathways from lower SES to greater health burden is via poorer access to information, communication technologies, and important shortcomings of overall literacy levels or general language barriers that many people face. As health care administrations and health provider organisation tend to become more and more complex, it is critical that those with reduced capacity to navigate complex modern health care systems are not left behind. However, there is evidence that many people do not understand vital health and health care information, and are therefore limited in their capacity to make the best choices for themselves and their families on health care services, but also on healthy life styles more generally (Healthy People, 2010).

The WHO Health Promotion Glossary defines Health Literacy as follows: “Health literacy represents the cognitive and social skills, which determine the motivation and ability of individuals to gain access to, understand and use information in ways which promote and maintain good health.”

In spite of its importance as pathway towards health inequalities, health literacy has only recently received more attention in research and policy strategy on European levels (Kickbusch et al. 2004a, b) and much of the evidence is based on findings from the US and Canada.

Davis et al., (1996), for example, estimated that 75 percent of persons in the United States with chronic physical or mental health problems were found to have limited literacy. Another study from the US found that older people are more likely to have lower (health) literacy with the result that many are not able to read and understand basic materials such as prescription labels and appointments (Williams, 1995).

As the OECD International Adult Literacy Survey (IALS) has shown, health literacy is closely related to overall literacy levels. This is the only international survey that used both general literacy scores, together with specific question related to the ability to understand health information and administrative procedures. The OECD findings conclude that a worrying number of people have limited capacity to understand and to interact with social programmes and administrations that have a tendency of become increasingly more complex in many countries (OECD, 1999).

These findings are in particular important because a number of recent health care reforms in both European and Latin American Countries followed strategies to give households and individuals greater choice and personal responsibility. Examples from Europe are the new mandatory private health insurance in the Netherlands, and the latest enlargement of mandatory insurance coverage in Germany (Huber et al. 2008a).

As this study put it more generally: “Several country studies report that an important reason why some people do not get the health care they need, or do not get insurance coverage in a timely fashion is likely to be due to lack of understanding of administrative procedures and requirements, which can be compounded by language barriers, a low literacy level in general, or difficulties to organise regular payments to insurance funds. Where applying for reimbursements of cost-sharing is an individual responsibility, many people in vulnerable groups may not understand how to do so, or be deterred by the bureaucratic procedures needed” (Huber et al. 2008). The fact that social benefits often are not reaching out those most in need is a growing political concern, based on the finding that a high percentage of people entitled to social assistance benefits do not realise their rights.

7.3.11. Improving the coherence between employment and health policies for people with disability. Disability policies in Europe: a story of lost opportunities?

Expenditure on disability-related social programmes has been among the fastest growing social spending items in EU countries. For example, expenditure on disability and sickness together are higher than expenditure on unemployment programmes for all OECD countries with available data (OECD, 2008).

In spite of this high spending, disability policies have done little to enable persons with disabilities to fully participate in society, and to participate in the workforce, if they wish to do so. In fact, there is evidence that a majority would prefer to return to work if they were able to find an adequate job instead of remaining on disability benefits for the rest of their pre-retirement age, which is the situation that most face according to research undertaken by the OECD. As the 2003 OECD report put it “Research in 20 countries found none to have a successful policy for disabled people”.

Although EU (and OECD) countries have over the past years intensified their cooperation to monitor the situation and to share good practice with overcoming this situation, there is evidence that much remains still to be done at this crucial interface between health, employment and overall social cohesion policy for people with disabilities. There is now a widely shared agreement about lost opportunities and challenges ahead to

improve the interlinkage between health and employment policies in this respect. Relative employment rates for people with disabilities have in fact been shrinking in a number of countries.

In many cases, a large share of inflow into disability is for mental health reasons, especially for the youngest group of working-age people (20 to 34 years), which is, for example, reported to be more than 50 per cent in the four countries that have recently been reviewed by OECD.

Other challenges identified by the OECD are:

- Tackling lower incomes of people with health problems;
- Reducing the inflow of people into sickness and disability benefits;
- Addressing the increase in mental health conditions;
- Raising the outflow from usually permanent disability benefits;
- Strengthening cooperation and coordination across institutions.

7.3.12. Tackling health inequalities directly: national public health policies in Europe and inter-sectoral policy-making

There is increasing awareness that policies to reduce health inequalities need to move beyond developing ad hoc health policies to tackle the complex interlinkages between health-related behaviours (smoking, alcohol consumption, diet, obesity) and health care factors (access to good quality services), by also including psychosocial factors (psychosocial stressors, social support, social integration) and material factors (housing conditions, working conditions, financial problems) (European Observatory on Health Systems and Policies, 2007).

To achieve this, joint inter-sectoral strategies are needed to bring together actors from different sectors. This can be at various levels, e.g. among national ministries (national level) or at local level, for example in community development projects (see the good practice example of the Netherlands below). In fact, many of the good practice examples have their origin at local level, which seems to be an apt environment and appropriate scale for many cases of “social experimentation” before these can be rolled-out to wider implementation.

There is also the case for working together across levels: for example, to spread good practice to other communities/regions, the commitment from a higher level of government could be instrumental in particular to help ensure financial sustainability of actions that often start with small seed money, and on time-bound budgets. National centres of public health research as “centres of excellence” can also have an important role in spreading good practice, such as by providing evaluation and indicators tools.

There have also been attempts to put in place an inter-sectoral coordination commission (e.g. in Latvia) aimed at monitoring risk factors for public health, environmental protection, food safety, animal health, consumer protection, free movement of health practitioners, health and safety at work, pharmaceuticals, social security systems, research and information technology on an ongoing basis, with a particular focus on the differing and unequal health status of different population groups. Strategies for inter-sectoral actions are also increasingly part of multi-year national public health action plans.

7.3.13. Addressing the regional dimension of social cohesion: the role of decentralisation and re-centralisation policies

The debate about the effects on social cohesion of “rescaling” policies of health care systems (decentralisation versus re-centralisation) is complex. This is an emerging field of study and hence there is today only limited evidence for policy making. This section reviews some of the trends that have emerged (see Saltman et al., 2007 for an overview).

The regional dimension of health policy has to be seen in the context of broader reforms of restructuring local/regional government. Finland, for example, has recently introduced reforms to restructure municipalities and their services by mergers and mutual co-operation, mainly driven by the financial difficulties faced by municipalities. Like in other European countries, there is a trend of depopulation of rural or remote (or economically deprived) areas, leaving behind an imbalance between an ageing higher-risk population with fewer tax resources than other regions, which act as “centres of attraction” of more mobile, younger, and more healthy populations. This has not only been observed in countries with a large rural “Hinterland” but also for a large industrialised country like Germany –where the economic East-West gradient still poses specific challenges, although arguably less so for the access to health care than for other aspects of social cohesion.

As the example of Finland in recent years has illustrated, fiscal redistribution in favour of poorer regions may in itself not be sufficient to remedy quality deficits or other access problems to health care. In addition, mechanisms of stronger central steering were deemed necessary, such as the enactment of maximum waiting times and the supervision by a national authority. This process of restructuring started in 2007 and is still ongoing and involves also other social services. There is some evidence that a system of “national standards with local implementation” has gained more attraction in other countries as well.

As Saltman conclude, a “small but growing number of countries [...] appear to be retreating from key tenets of decentralisation and are, instead re-centralising important health system functions” (Saltman et al, 2007, p.3). This trend is found in particular among Nordic countries, such as Finland (see the example).

Policy example: Restructuring municipalities to guarantee sustainability in Finland

Finland has recently introduced reforms to restructure municipalities and their services by mergers and mutual co-operation. The driving force behind the recent re-centralisation trend has been the financial difficulties of municipalities to provide high quality health and social care to their residents. Especially small municipalities in rural areas suffering from depopulation are facing major financial constraints due to decreased tax income. In order to support depopulated and poor municipalities, there has been an increase in the central government transfers to the municipalities during the latest years. In spite of this, it has been perceived that municipalities in some cases have provided sub-standard services, leading to a plea for more centralised steering of health care to ensure provision of high quality care all over the country. The enactment of maximum waiting times and the extension of the supervising functions of the National Authority for Medico-Legal Affairs should be interpreted as government efforts to reduce geographical inequalities and to ensure that all municipalities provide high quality health services.

The purpose of the restructuring municipalities is also to create a firm structural and financial basis so that the organisation and provision of services can be secured in the future.

The project concerns not only health care but also all services organised by the municipalities, and is expected to restructure both municipalities and services.

In 2007, the Act on Restructuring Municipalities was introduced to support financial mergers of municipalities. The act states that primary health care and social services closely related to health services should have a catchment area of at least 20 000 inhabitants. Currently only about one in four health centres has a population base of 20 000 or more. The legislation does not necessarily imply mergers of small municipalities, because they can create the necessary health centre catchment area by for example forming municipal joint federations. Municipalities had to formulate a plan on how these goals would be achieved.

Source: Finland HealthQUEST country study

7.4. Good practice examples

This section reviews good practice examples from European Union countries on initiatives that aim at reducing health inequalities, including initiatives to mitigate problems of access to health care or to publicly organised health insurance.

A number of recent European Commission sponsored projects have advanced the methodological basis for the identification of best practices in public policies for health and social cohesion –at local, regional, national and macro-regional levels. This section is based on this work, as well as on good practices collected under the HealthQUEST project (Huber et al., 2008b).

7.4.1. Initiatives to mitigate access problems to health care for groups at risk of social exclusion

7.4.1.1. Helping people to cope with challenges posed by insurance coverage

In some EU countries, within the main public health programme people have the right and/or obligation to choose among a number of publicly regulated and mandated health insurance funds like Germany and the Netherlands.¹⁰⁴ This choice is intended to foster competition among insurance funds for better quality care, and to exert cost-containment on providers. Insurance funds may or may not be allowed to set the level of premiums (within certain limits), reflecting their overall economic success –although not on an individual risk basis. There is, however, an element of private insurance involved, as social insurance may be allowed to also offer additional, complementary insurance contract to increase coverage for certain goods and services beyond the mandatory minimum package.

It is beyond this chapter to discuss the pros and cons of competition among insurance funds in such a system and possibly threats to the viability of these systems (e.g. risk of cream skimming by insurance funds or the notoriously difficult task of risk-adjusted redistribution of premium income among insurance funds).

104. In the Netherlands, the recently introduced system has been called "mandatory private health insurance", although this label can be questioned, because the elements of public regulation, mandatory insurance, and non risk-related premiums might be still labelled as "social insurance scheme under the UN System of National Accounts rules".

There are, however, very practical aspects of implementing individual choice that must not be forgotten: many people, especially those of low SES or at risk of social exclusions often do not understand their obligations of privately signing up with insurance funds, or be unable to organise their financing in ways to ensure timely payment of premiums, if these have to be paid individually (as is the case in the Netherlands). For example, some people may have no access to a bank account. Both in Germany and in the Netherlands, initiatives have been taken to deal with these issues. Local authorities in the Netherlands provide a good practice example of local initiatives to improve coverage for health insurance.

Policy example: Local government facilitating access for people on income support through collective contracting

Local authorities are responsible for managing elements of the national social benefits package in the Netherlands. In 2006, around 325 local authorities entered the market on behalf of their clients on social income support and negotiated collective contracts that often included complementary coverage. Some local authorities will subtract the insurance premium from the benefit allowance, but other authorities may not do so. In the latter case the clients will still need to make regular insurance payments themselves. Approximately 80 per cent of all people on social income support were covered through this type of collective contract. This percentage is much higher compared to other lower-income groups, including older people or people with a disability allowance. For their clients, there may be many advantages to this:

- coverage will be cheaper (as discounts tend to apply for collective contracts);
- they do not have to enter complex choice processes;
- they may have broader coverage as their collectively arranged package may also include services that would normally be part of complementary packages;
- depending on whether their premium is directly subtracted from their allowance, they do not have to budget in advance for premium payment, fill in forms to apply for the Health Care Allowance, cannot neglect their payment duties and thus do not risk their right to coverage.

Source: Netherlands country study; quoted from the HealthQUEST study

As a general lesson, it is important to consider questions of access for vulnerable groups of the population, when public programmes are installed that request individual choice of people and/or complex administrative procedures to be followed and individual initiative that needs to be undertaken.

7.4.1.2. Expanding coverage of services

People in vulnerable groups of the population are often among those who benefit most from policies to close gaps in health baskets of public programmes. Coverage of dental services is a typical example. This is illustrated below for the case of dental services in Finland.

Policy example: Expanding coverage of dental services in Finland

Finland, in order to improve adults' access to dental care and to lower cost barriers to the use of dental services, the age limits restricting access for adults to public dental services were removed in 2001-2002 and reimbursement for private dental care was expanded to cover all age groups. The implementation of the reform was pushed forward by legislation ensuring access to

public health care in 2005, defining a maximum waiting time of 6 months for non-urgent dental care.

According to national statistics the use of public dental services increased and the number of persons receiving reimbursement for the cost of private care doubled. Due to the reforms, improvements were seen in the supply of emergency dental services in the public dental services across the country. In 2000, 22 per cent of adults used public dental services and in 2004 the user rate was 24 per cent. The percentage of those aged 0–17 years who visited the public dental services remained on the same level (76 per cent) throughout the years. In 2000–2004, the proportion of adults receiving reimbursements for private oral health care increased from 12 per cent to 25 per cent. At the same time, the total running costs of dental care in Finland increased by 19 per cent .

A survey evaluating the effects of the reform reported that self-reported oral health improved and perceived need for dental care decreased in the period 2001-2004. Simultaneously, the proportion of persons visiting dental care during the past 12 months increased from 57 per cent to 61 per cent. The utilization of the public dental services increased slightly, but the total number of private patients remained at the same level as before the reform. The increase in the use of services was among persons with middle level education. An increase was also seen in those with a low level of education but their use of services still remained at a lower level compared with that of persons with higher educational levels. Thus, the dental care reform contributed to the goal of achieving greater equity in access to dental care.

Source: quoted from Finnish HealthQUEST country report

7.4.1.3. Reaching out to remote areas

In the framework of the Open Method of Coordination (see above), EU countries are regularly asked to state and evaluate their national strategies for social protection, including health care. The need to reduce differences in access to health care across geographical regions is one of the recurrent topics raised in many countries. Regional variations have been observed for type of care provided, waiting times and the uneven distribution of health care facilities. As the HealthQUEST report observed, “The process of decentralisation can in some cases challenge the cohesion across country regions in terms of access to health care” (Huber et al., 2008, p.108). The following good practice example from Spain illustrates policies to address these issues.

Policy example: High Resolution Specialist Centres in Spain

In Spain, some Autonomous Communities have created High Resolution Specialist Centres to improve the access to diagnosis and treatment of population living in remote areas. These centres are oriented to achieve a maximum diagnosis resolution in a minimum time period for patients in remote areas. Diagnosis, emergency units, rehabilitation and, in some cases, primary care are also provided. The objective is to guarantee that citizens have access to an integrated and high-resolution health care service in less than 30 minutes. This model attempts to solve the problem of waiting lists, improve access for people who live far away from large cities, reduce the ever-increasing costs of hospitalisation and address medical problems whilst causing minimal inconvenience to patients.

Source: Spanish HealthQUEST country report

7.4.1.4. Reducing waiting times

Long waiting times for elective surgery have become a major concern of health policy in the past ten years, and have been addressed in a number of EU countries (eg. Denmark, the UK) with various policy measures, including substantially increasing public health care spending (UK). Waiting times can, however, also be an issue for other specialist care. Greece provides an example of policies to improve access to specialist care for cancer patients.

Policy example: Reducing waiting times for cancer patients in Greece with the introduction of one-day clinics

Cancer patients face serious access problems in Greece due to elevated waiting times. Severe problems with waiting lists for oncology services have been registered, especially in the metropolitan areas since such services are only provided in the urban areas. There are only three specialized hospitals providing oncology services for the whole country. Waiting lists for the first appointment for outpatient care in these cancer centres, including the choice of doctor, are at about 6-8 months. Young cancer patients are given priority to hospitalisation, with minimum waiting time at least one month. In the case of non-malignant surgical cases, waiting times are longer than three months, depending on the choice of hospital and medical department.

To solve this situation, one-day-clinics were introduced in these hospitals in 2006. This has helped to significantly reduce waiting lists for surgical and medical cases by up to 2-3 weeks.

Source: Greece country report

7.4.1.5. Policies to address health literacy issues

Health literacy issues have been addressed in national information strategies in a number of EU countries. For example, this was undertaken to improve the information available to groups of the population, such as on available services, including prevention.

Good practice examples include Spain (with a number of large-scale programmes, such as the Cancer strategy and the Diabetes strategy) and health literacy and health promotion measures strategies in Germany to improve access to health services. Initiatives in Germany included statutory health insurance pilot projects that are targeted at people with mental health disorders, the elderly and people from low socio-economic backgrounds.

Social marketing has been used in the UK as an effective health literacy-enhancement tool to raise awareness about specific issues such as stigmatisation and discrimination and provide health information about the existence and relative advantages of health interventions/services (e.g. Flu immunization campaigns).

Policy example: Social marketing campaigns in UK

Social marketing campaigns have been used in UK for raising awareness on a number of issues.

Some campaigns addressed stigma and successfully brought these issues to health services attention. Such anti-stigma campaigns along with comprehensive workforce training schemes, such as the English NHS workforce plan, have led to great improvements in the ability of health professionals to deal with and provide tailored health care to people suffering from mental health disorders.

As another example, the Department of Health in UK has since 2003 been delivering an annual flu immunisation campaign. Combined with carefully targeted media relations and stakeholder engagement the campaign has resulted in consistent increases in the number of at-risk people receiving their flu jab thus accessing health services. The campaign has also secured active engagement from many business and voluntary sector partners and reached and high media coverage.

Source: UK HealthQUEST country report, quoted from Huber et al, 2008a

7.4.2. Good practice initiatives to reduce health inequalities in EU countries

The European Portal for Action on Health Equity has collected a database on policy initiatives to reduce health inequalities in EU countries.¹⁰⁵ This Portal has been set up as a tool to promote policies to reduce health inequalities amongst different socio-economic groups in the European Union.

This portal itself shows how to approach search and evaluation of “good practice” in a systematic way, and to build an inventory of policy examples. The web page has been accompanied by a *Good practice support manual*¹⁰⁶ that provides guidance.

Selection Criteria for Good Practice:

To be nominated as a Good Practice an intervention has to exhibit the following characteristics (or a sub-set of them).¹⁰⁷

Content. The intervention: (i) must set the reduction of health inequalities as its clear aim; (ii) should target mainly persons or groups in a relative social disadvantage (e.g. measured by education, occupational status or income, neighbourhood or ethnicity etc.); (iii) has been initiated directly by public health or health promotion field OR is a result of inter-sectoral collaboration with other fields.

Effectiveness. The intervention has the intended or expected effect.¹⁰⁸

Documentation. The intervention must be documented (design, aims and working methods) and this document should be accessible for interested parties.

Diversity. The selected interventions should: (i) be geographically well distributed (they should come from different regions of your country); (ii) cover different features with regard to a) target groups (age, gender, social disadvantage), b) environment (urban, rural) and c) type of activities (individual life style, social networks, living and working conditions, general socio-economic, cultural and environmental conditions).

Timing. Preferably the intervention should be ongoing.

Quality. The intervention should fulfil a minimum of three of the following eleven quality elements in an exemplary way (further defined in the Good Practice Guide of this project): needs assessment; low barrier method; participation & commitment of target group; empowerment of target group; setting approach; collaborative capacity building/

105. [<http://www.health-inequalities.eu/>].

106. See [<http://www.health-inequalities.eu/?uid=45ffafc5dd14da18f7299db812f7a016&id=main2>].

107. This is an abbreviated version of this Good Practice Guide used for “Closing the gap”.

108. That does NOT mean that it has to be evaluated. In order to determine the effectiveness of the intervention, the project leader is asked to rate in how far the intervention's aims have been achieved. In this context it is important to be concerned with differential effects of the intervention in socio-economic groups. In the worst case an intervention can result in an unexpected increase of health inequalities. Therefore it is important to discuss whether the expected effects in the socio-economically disadvantaged groups have actually been observed.

partnership; snowballing/multiplier/intermediaries concept; quality management; evaluation; proportionality; sustainability.

The documented initiatives have, however, been selected according to the quality criteria listed above, which implies in particular that these led to collaborative capacity building/partnership approaches and involved snowballing/multiplier or intermediary concepts. By fulfilling these quality criteria, it can be expected that –even where initiatives have started locally– it should be in principle possible to scale up lessons drawn from these initiatives.

Among the topics covered, physical activity and mental health (as well as drugs/alcohol) were the most prominent, pointing to their importance for reducing health inequalities. It is interesting that among the quality criteria that led to the inclusion/reporting of initiatives as “good practice examples”, participation and commitment of target groups as well as “setting approaches” are frequently mentioned. This is in accordance with other findings from public health promotion and prevention research about the importance of these factors for successful interventions.

A striking finding is the gaps in formal evaluation approaches and follow-up studies, which may be seen in connection with the frequent gaps in the “sustainability” dimension. Too many initiatives seem to be dependent on short-term financing, such as time-bound grants, or have to prove their “novelty” in order to attract funding - which then leaves the questions open of how funding for a “routine” operation can be secured. Again, this seems to be in line with findings from other research in public health initiatives, in particular where these refer to regional initiatives. Overcoming the ambiguity of high impact and innovativeness versus often fragile long-term sustainability, seems to be key for improving the outcome and impact of good practice initiatives at local level.

7.4.3. From disability to ability: policy initiatives to improve the situation of people with disabilities

People with disability continue to be at high risk of poverty and are often at risk of social exclusion in many EU countries. It is now widely recognised that policies of income protection for people with disabilities should be complemented by policies of active social inclusion, including in the labour market, which seems to be what many people with disability wish.

Among the general policy trends continued in several EU countries are policies of de-institutionalisation and towards independent living, such as supported by direct payment schemes to empower people with disability.

According to recent country reviews undertaken by the OECD this is a policy field where it is still difficult to talk about “good practice examples” when it comes to policy shifts towards the concept of “working ability” and more participations (OECD 2007c).

There are however, some overall trends that suggest that countries are about to change their policies and have started to take a more active role in supporting people back into work by investing more resources in activation measures.

Among these measures are (OECD 2007c): (i) Ii-work compensation payments to people with partial work capacity (Denmark, Luxembourg, the Netherlands and the United Kingdom); (ii) substantially larger wage subsidies paid to employers (Poland); (iii) a

broad range of employment and rehabilitation programmes (e.g. Denmark and Norway); (iv) new employment and rehabilitation measures, e.g. the condition management programmes in the United Kingdom.

It should, however, be noted that the detailed country reviews that the OECD undertook in recent years remain quite critical with respect to the achievements of individual programmes and activities in the countries studied.

Among the strategies that according to the OECD are needed for further progress priority is given to overcoming fragmentation of benefit provision. This strategy has been followed, for example, in Norway, by merging the Public Employment Service (PES) and the National Insurance Authority into a single, new public administration “to ensure streamlined and better co-ordinated services in order to minimise the probability that people are being shifted between benefits” (OECD 2007c). Similar strategies of “one-shop” approaches have been followed by other countries, including in the UK.

7.4.4. Good practice in evaluation and performance measurement: advancing evidence for social and health policy

The past ten years have seen some promising advance in more systematic approaches towards evaluation and performance measurement. There is a clear trend to move away from ad-hoc approaches to better reflected frameworks and links to policies. “Good practice guides” like the one sketched above from the “Closing the gap” project illustrate this trend.

Moreover, there are now important lessons available that have been drawn by researchers who have monitored the implementation and impact of large-scale performance measurement approaches that have become central toolboxes in some EU countries during the 1990s, most prominently in the UK. These examples offer a number of lessons on how performance measurement needs to be tailored to the political targeting processes that they are intended to support, asking which on what were success stories –or pitfalls– and the reasons for this.

A good practice example in this respect is the UK “Working Party on Performance Monitoring in the Public Services”. The influential report “Performance indicators: good, bad, and ugly” of this group provides a protocol in the form of a toolbox to set up and validate the construction of performance indicators. This is especially relevant for the health sector (Bird et al., 2005), where “gaming” of providers has been a reaction to new targeting measures that has been observed in several instances. The report both provides recommendations as well as lively illustrations.

7.4.5. Good practice examples for promoting research in indicators and evidence for policy making to reduce inequalities in health and in access to health care

Regional, territorial and social cohesion is currently one of the research strands under the European Commission 7th Framework Programme for Research. These are substantial resources for large-scale projects to tackle social inequalities, their implications and policy options.

Because the links between barriers to health care access and social exclusion are complex and there are currently significant gaps in the evidence base to address these issues, it is important to improve survey and data systems for basic reporting on indicators of social inclusion. The Laeken indicators are one area where some advancement is being registered. However, the micro-data needed for the statistical study of their link with population health and health access issues are still in their infancy. Progress with the new survey instruments of EU-SILC and the SHARE project are the key to improve the situation in this respect.

7.5. Conclusions

Health policy has over the past years become a more important part in social cohesion policies in many European countries. The problems associated with health inequalities across the European Union –and within Member States- have become more prominent on the policy agenda of many countries, supported by international policy initiatives and recent research evidence from the European Commission and WHO. Most EU countries now endorse the goal of reducing inequalities in health at various levels of national or regional governments.

Corresponding health strategies are now an established part in the broader European frameworks on which this chapter reports. Inter-sectoral activity on various levels of government and across “silos” of administrative competence has become part of explicitly formulated strategies in a growing number of national and regional multi-annual public health plans.¹⁰⁹

Increasingly it is recognised that social cohesion, including through better health policies, requires what has been called “a joint-up approach that cuts across policy departments”¹¹⁰, which is characterised by more emphasis on multi-sectoral partnership, moving away from a more traditional hierarchical approach of administrations. In fact, as the overview on good practice has shown, many good practice initiatives that are now available have their origin at the local or regional level, close to the clients they serve.

Universal health care coverage is considered a cornerstone of social cohesion in the European Union and in other European countries. Health care coverage under public programmes is mostly universal and mandatory for people who need a legal a residence status. This chapter has summarised a number of reasons why some groups may fall through this safety net or face other barriers to access good quality health care. Among these there can be migrants without residency status or people living on social assistance. Where health insurance is mandatory but requires private initiative to register or pay insurance coverage, some people may find it difficult to comply with these rules. For those not covered under public programmes, risk of poverty can be seriously increased if they are in need of health care.

People at risk of social exclusion may also face other access problems to health care. The groups that are most at risk of not getting the appropriate health care they need are

109. See the 2007 wave of National Action Programmes on Social Inclusion and Social Protection under the OMC of the EU.

110. Press release of the OECD Conference “Partnership for Social Inclusion”, Melbourne 15-16 October.

(besides those without legal residence status) older people with disabilities, people with mental health problems and ethnic minorities in some countries. Regional inequalities exist in many countries when it comes to scope of available services, with some evidence that the rural-urban split is becoming more important in some countries.

This chapter has provided a snapshot on the heterogeneity of public policy goals and targets that have been formulated in individual countries to address health inequalities and to improve access to health care. The section of good practices has highlighted the importance of local and regional initiatives in this respect.

However, although most European countries now report under the OMC that reducing inequalities in health has become part of overall strategies to increase social cohesion within national action plans, coordination across sectors and levels of government has become a tradition in only some countries, e.g. Ireland, Sweden and the UK. (See also European Commission, 2007).

It is widely recognised that health inequalities and various barriers to accessing services are still important challenges for new Member States in particular and more needs to be done, including formulating specific objectives in national health strategies.

In some countries, people at risk of social exclusion need better protection against financial burden of the cost-sharing requested, including out-of-pocket payments for services that require private payments (sometimes as informal payments).

Problems of affordability also arise where health baskets have gaps in coverage, most prominently for dental health, and for appropriate services for older dependent people. There are also gaps in affordable mental health services that have the potential to prevent social exclusion, or the early exit from the labour market.

The access of people with mental problems to mainstream (somatic) health care still poses serious problems in many countries and needs to be urgently addressed. Mental health in general needs more attention because of its interconnections with other health and social problems.

The situation of migrants has received special attention in only some countries, while corresponding policies are underdeveloped in others. People without formal residence status often are confronted with serious access problems to health care.

Finally, it is important to keep in mind that there are still severe limitations as to the evidence base for policy making in the field of interlinkages between social cohesion and health policies. Although progress has been made in this respect in some countries (like the UK, Denmark or Finland), data from surveys that allow for cross-country-comparisons is largely missing. Moreover, the initiatives listed under the “good practices” section usually lack rigorous evaluation of programme effectiveness. The increased funding from the European Commission to support research in this policy area should result in improved evidence base for the future, including more comprehensive and better comparable data sources.

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8. Comments to Manfred Huber on: “Health and social cohesion in Europe”

ANA SOJO

To use a counterpoint, my comment will focus on how certain aspects that have been analysed by Huber, are sensible and relevant in Latin America as well as in the Caribbean region, one of the most unequal regions in the world, although under a different scale and form. As stated by the Economic Commission for Latin America and the Caribbean (ECLAC), the agenda of the European Union lacks a clear definition of the concept of social cohesion. However, the agreements on social cohesion embrace a broad set of policies and indicators, aimed at reducing the income gap as well as at providing greater access to employment, education and health care. In that sense, inclusion and belonging can be considered as the cornerstones of the idea of social cohesion which are organized around the principles of welfare state (ECLAC, 2007, p.16). The analysis by Huber is based on the evidence that over the past decade, social inequalities have increased in the European Union and that differences among countries have become more relevant with the accession of twelve new Member States. His chapter was written before the worldwide economic crisis affected both the socio-economic status of people and the social expenditure devoted to health.¹¹¹

8.1. The link between health and poverty and between health and inequality

Huber intends to develop the strong association between health and socio-economic status, as well as between poverty and health. Apparently, health plays an important role in the pathways that lead from poverty to social exclusion and vice versa and on average, the more advantaged individuals are, the better their health –whether measured in terms of disease and mortality or in terms of self-assessed physical and psychosocial health.

In Latin America and the Caribbean, the importance of the link between health and poverty and between health and inequality is surmounting. For instance, in the 1990-2007 period –two thirds of the way to the deadline which was set for meeting the Millennium Development Goals– Latin America and the Caribbean made substantial progress in terms of health of their populations, especially children. With reference to this population group, mortality substantially fell and life expectancy at birth increased. In 2007, the region’s child mortality rate was the lowest in the developing world and had fallen faster than in any other region, whence its relatively high global ranking. Although the average figures show a decline in mortality among all population groups, there are still divergent trends that

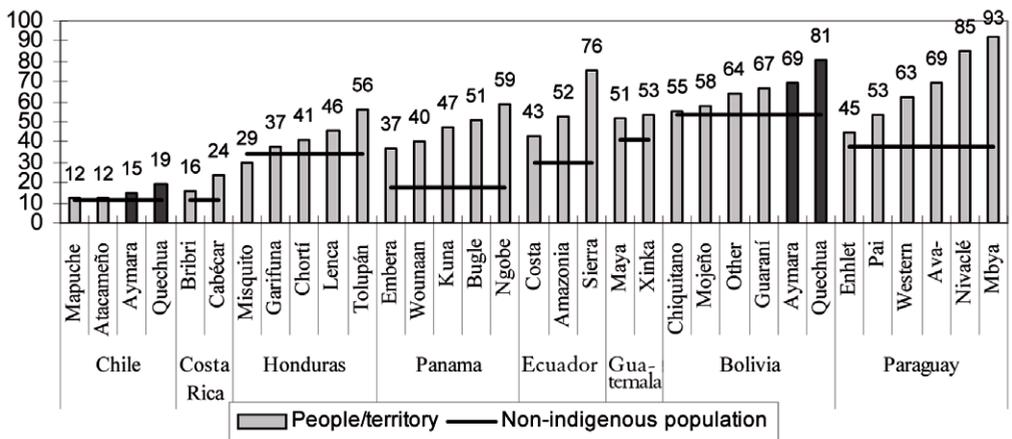
111. This is clearly outlined by the author who says that “expenditure ratios are likely to grow soon again during the current economic upswing”

reveal the effects of socio-economic divides between different population groups defined by ethnic origin, area of residence, household income and the mother's educational level (ECLAC, 2008).

With regard to the European case, Huber shows that the geographical variations in the access to health care remain large between EU countries and might be relevant within countries. These are particularly critical on primary care and other community services, such as home care for older people. For example, in Finland, expenditure per capita can vary by a factor of two or even more between municipalities.

In Latin America and the Caribbean, territorial factors continue to weigh heavily: more urbanized regions have generally attained a higher level of socio-economic development and have better control on the main determinants of health. In the case of child mortality, schooling (in particular for mothers), medical coverage and access to basic infrastructure services play an essential role. While it is a matter of fact that infant mortality has substantially decreased among the populations affected by discrimination, there are still large divergences between indigenous or African-descendant people and the rest of the population, and between the city and the countryside: the incidence of mortality is still higher among indigenous and African-descendant children, in both rural and urban areas (see Figure 8.1).

Figure 8.1. Infant mortality by country and indigenous people/territory, 2000 census, per 1,000 live births



Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Social Panorama of Latin America, 2006* (LC/G.2326-P), Santiago, Chile, 2007. United Nations publication

Huber outlines regional variations in the numbers of practicing physicians and hospital beds. Disparities seem to be smaller in smaller and more densely populated countries, like the Netherlands. The “better off” regions markedly have higher density of national health care resources, often following overall geographical patterns (such as the North-South gradient in Italy).

In Latin America and the Caribbean, inequalities have clear geographical gradients. With regard to maternal mortality, skilled care during pregnancy and childbirth, family planning services and prompt referral to services such as those for the treatment of sexually transmitted diseases, are crucial. Compared to Africa and Asia, where in 2005 the coverage of this type of care ranged from 45 per cent to 75 per cent and from 38 per cent to 83 per cent, the relative position of Latin America and the Caribbean is good, as 89 per cent of births resulted to have been attended by skilled personnel. However, this falls far short of European and North American levels (99 per cent), thus showing strong inequalities within countries. Births attended by skilled personnel are substantially lower in rural areas. In extreme cases as Haiti, professional care is about four times more prevalent in urban areas than in rural areas. The socio-economic status is also decisive: in Peru, skilled personnel attended just 28 per cent of births to women in the poorest quintile, while virtually all births in the wealthiest households were assisted (ECLAC, 2008).

8.2. The extent of social health insurance and access to health care

Huber explains that even in European health care systems that in principle grant universal or near universal rights to health care, barriers to access still exist for a significant number of individuals and specific segments of the population, i. e. persons who have not registered with the social health insurance due to language, educational or cultural barriers. In most EU countries, publicly-funded health care is universal, in particular when it is tax-funded. In a few cases, health insurance coverage is mandatory, but individuals must register with an insurance company of their choice, as in Germany or in the newly established “mandatory private” health insurance system in the Netherlands. When getting an insurance coverage which requires the individual choice of an insurance fund and a personal registration, some people need support with counselling, translation and paperwork.

The extent of social health insurance in Latin America and the Caribbean is extremely different to Europe, because of the low extent of social health insurance in many countries and of the segmented nature of many insurance systems, which reflects how discrimination patterns prevail in those societies (Table I). People who are not affiliated to a contributory system or lack in payment capacity or both, generally rely on the services provided by the public sector as the only source of coverage, and, to a very small extent, also on specific services provided by non-profit organisations.

Among other aspects, fragmentation reflects the relations between contributory and non-contributory financing of health services, i. e. between social security and public systems, whose form varies from country to country, as outlined in Table 8.1.

Table 8.1. Latin America and the Caribbean: interaction between public funding and social security contributions in the health sector

Type 1 Financing: general revenues, integrated systems based on non-contributory financing	Type 2 Financing: integration of general revenues and social security contributions	Type 3 Financing: little or no integration of general revenues and social security contributions
Services vary structurally between public and private providers	In all cases there is a certain degree of explicit separation between financing and service delivery functions. The level of integration of financing also varies	The structure of public services is heterogeneous and different types of relationships exist between public and private sectors
Public and private service provision: Bahamas, Barbados, Belize, Brazil, Dominica, Grenade, Guyana, Haiti, ^a Jamaica, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago, Venezuela (Bolivarian Republic of Venezuela) ^b Service provision through the public system only: Cuba	Type 2A: Integrated, maintaining contributory financing and uniforming the set of services delivered via social security: Costa Rica Type 2B: Integrated with coverage, differentiated by contributory status: Antigua and Barbuda Colombia, Dominican Republic Type 2C: Dual model with partial integration: Chile	Argentina, Bolivia, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay

Source: Economic Commission for Latin America and the Caribbean (2006), *Shaping the Future of Social Protection: Financing, Access and Solidarity* (LC/G.2294 (SES.31/3), Santiago, Chile.

Note: All countries, except for Cuba, also have a private subsector which provides health services.

a In Haiti there is no effective social security, and the provision and financing of health services are basically undertaken by the public sector and Non-Governmental Organizations (NGOs).

b The reforms implemented in recent years have elicited greater participation and coverage in the public system.

c Both Antigua and Barbuda and the Dominican Republic are experiencing a transition period and implementing health reforms aimed at greater integration of financing.

Throughout the EU, the universal coverage of the population for a fairly comprehensive package of medical services is a fundamental policy goal, which commits governments not only to pursuing the efficient delivery of high quality medical care, but also to ensuring equitable access to these services. The universal coverage of the population for a comprehensive package of medical services that allows citizens to profit from the fast medical progress and technological advance in health care, is a fundamental policy goal which is broadly shared by European Governments, as Huber states.

In Latin America and the Caribbean, in countries with poorly developed health systems, with very low levels of insurance benefits for the poorest sectors of the population and with polarized processes of epidemiological transition, some benefits are guaranteed at primary health care level, with particular attention to mother and child. Although these benefits

have a relatively low cost, they represent a great effort compared to the starting point. In these cases, as regards the overall reorganization of the health system, the guarantees of benefits have a very limited effect. In the case of Guatemala, the separation of the functions initially submitted, has been set aside. In Guatemala and Bolivia a package of benefits is provided, but without specifying and guaranteeing timely attention and access, as this has no repercussions on the health insurance architecture (Sojo, 2006).

The system of guaranteed health benefits in Chile is the most advanced in the region, since the guaranteed benefits introduced in 2005 cover some high cost benefits and include guarantees of timeliness, access, financial protection and quality. This also has repercussions on the combined public-private health attention, because it partially addresses the basic duality of the insurance system by limiting the adverse selection practices of the private health insurance institutions (ISAPREs) and increasing the transparency of the coverage offered by them. The progress made through these reforms bears witness to the political difficulties which have prevented the adoption of measures that would provide greater solidarity to the dual insurance system, such as the introduction of a solidarity fund. The evident need has emerged to improve the management of the system in order to provide, *inter alia*, a system of early warning and detection of shortcomings and to adapt health service networks to the users' needs (*ibid.*).

In Mexico, with the aim of progressing towards universal coverage, guaranteed benefits were introduced through a partial reform of the insurance system, without however altering its segmentation. In order to limit the expenses faced by households in catastrophic health situations, a new form of insurance was introduced (the so-called People's Health Insurance) with new resources, which is connected to the traditional service suppliers, not in terms of financing. The complexity of financing is noteworthy, due not only to the diversity of the funds used to finance the new insurance, but also to the different financial mechanisms associated with it. The reform has meant changes in the public-private mix, since it has increased the share of private service providers. Unlike Chile, the coverage has not been strengthened by additional guarantees (*ibid.*).

8.3. The role of private expenditure

As analyzed by Huber, private expenditure play an important role in many European countries, namely to buy goods or services directly from the private health care market, or as co-payments that are requested under public programmes. Low-income households or households that are high consumers of health care (chronic care patients) must be protected, since cost sharing can shorten the demand for health services or increase the risk of poverty. Moreover, where to apply for reimbursements of cost sharing is an individual responsibility, many people belonging to vulnerable groups may not understand how to do so or they can be deterred by the bureaucratic procedures.

In Latin America and the Caribbean, household health expenses provide interesting pointers to the provision of health services and highlight the need to move towards equity in their financing and supply. Household spending on health services as a percentage of the total domestic consumption represents the costs of health-care services directly paid for by families (also referred to as out-of-pocket expenses), or the indirect expenses relating

to prepaid medical care plans, private medical insurance, and contributions to public insurance. Households make these direct payments on a fragmented basis, generally to the service provider. Direct out-of-pocket expenses are considered one of the most inefficient and unfair methods for financing health care, and can lead to family impoverishment. Out-of-pocket health expenditure encompasses direct outlays by households on health-related expenses, such as hospitalization, outpatient procedures, and the net cost of medicines, i. e. once the reimbursements received from the health system or the insurance system to which the person is affiliated, have been deducted.

A worrying feature in the region is the number of poor households who lacks health-care coverage and seems unable to finance their health expenses. So, while catastrophic expenses are associated more with high out-of-pocket expenses than with low payment capacity, the key constraint of those families with low payment capacity is outlined as the inability to make out-of-pocket health expenses, even when they are not insured. By maintaining the unequal distribution of income or the high levels of inequality in chronic malnutrition, Latin America and the Caribbean also demonstrate extreme inequity in out-of-pocket expenditure on health-care as a proportion of household incomes (ECLAC, 2008).

8.4. Policies beyond the health sector

As Huber notices, policies to reduce health inequalities need to move beyond the ad-hoc development of health policies to tackle the complex linkages between health-related behaviours (smoking, alcohol consumption, diet, obesity) and health care factors (access to good quality services), by also including psychosocial factors (psychosocial stressors, social support, social integration) and tangible factors (housing conditions, working conditions, financial problems). To achieve this, joint strategies across the sectors are needed to bring together actors from different sectors.

Individual health is not an isolated phenomenon; its main determinants are of social nature, in particular poverty, malnutrition and poor employment conditions. Other influences include gender, ethnicity and race, aspects that are intertwined. The determinants of health and the inequalities prevailing in this area underline the need to recognize that advantages and disadvantages in each life dimension tend to be seconded by advantages and disadvantages in other areas, which are structured longitudinally to people's lives. Disadvantages tend to reciprocally cluster and reinforce and may produce significant social gradients in individual health and specific vulnerabilities among certain population groups who call for analysis and action on many levels (CDSS, 2007).

Eradicating extreme poverty and hunger, and reducing child mortality are goals closely related to the nutritional status of children. Malnutrition is disproportionately prevalent in the lowest socio-economic strata: in policy terms, the glaring inequality that exists in chronic malnutrition and its high prevalence among the poorest population groups needs tackling from the standpoint of its unequal distribution: Hence, the importance of understanding not only its causes, but also its socio-economic distribution over time, and of identifying the relevant socio economic, environmental and biomedical variables involved.

In Latin America and the Caribbean, from the public policy standpoint, this stems from isolated health policies which can only partially reduce the problem when individually considered; they need to be comprehensively applied to areas such as education, housing and income, as well as to stable macroeconomic environment which promotes economic growth and a better distribution of the fruits of development. When the socio-economic distribution of malnutrition is so unequal, its reduction brings strong socio-economic determinants in terms of basic social infrastructure. The socio-economic situation of families determines not only the level of chronic malnutrition among their children, but also its causes. On one hand, the more concentrated the income is and the bigger the slides in the housing conditions, possession of assets and available services as drinking water and adequate sanitation, the more this deprivation is concentrated among poor households. On the other hand, parents' education level and in particular, the mother's, has a decisive influence on the level and distribution of chronic malnutrition. Education improvements must be targeted to favour the poorest households. Despite the little progress made, countries such as Bolivia, Colombia, Guatemala, Haiti and Nicaragua are still far from achieving universal primary school enrolment.

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9. Education and social cohesion in Europe

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9.1. Introduction

Historically, education has always been supposed to promote social cohesion. As the French sociologist Emile Durkheim puts it (1922): “Society can only exist if there exists among its members a sufficient degree of homogeneity. Education perpetuates and reinforces this homogeneity by fixing in the child, from the beginning, the essential similarities that collective life demands”.

This is especially true for the late 18th and the early 19th century Europe, when mass public education appeared. It was then seen as a tool for building cohesive national identities, and national public education systems were implemented with the political objective of state formation, as pointed out by Green and others (1999). The education institutions were meant to train state functionaries, but also, more broadly and more importantly, to promote loyalty and acceptance of the dominant ideology among masses. It is only much later on, from the mid-19th century onwards, that the focus shifted to the specific role of education to provide training in order to acquire the new skills and knowledge required by the industrial revolution, and, even more recently, by the so-called knowledge-based economy. In 2000, the European Union heads put forward what is now called the Lisbon strategy, aimed at making Europe “the most competitive and dynamic knowledge-based economy in the world”. The concept underlines that today the most effective economies are those that produce most information and knowledge. In the meanwhile, the vision of education as a tool for nation building has become less significant.

With this top objective of economic growth, the unifying perspective is not forgotten but education will have to be adapted to the various demands of economy. For individuals, this means getting specific trainings, which will induce a new stress upon diversification, as put also by Durkheim, for the society as a whole. Not only are these two different perspectives –to unify, but also to diversify, still present together today, but there is a third one, i. e., a modern form of the two previous aims, which has emerged in the last years. The latter one emphasizes the social outcomes of education upon individuals and upon social cohesion at the macro-social level.

The overall objective of this chapter is to investigate the role education can play in fostering social cohesion. In the second section, we summarise what research shows in this respect, which leads to stress educational equality rather than educational expansion in itself. In the third section, we review the policy implications which can be drawn from designing educational policies with the priority objective of reinforcing social cohesion; this includes a variety of perspectives, for instance, giving priority to pre-school education or fighting against the detrimental impact of segregation between schools; it requires

also a large span of collaboration. Last, in the fourth section, we present some examples of practices which have proven efficient in achieving more social cohesion; these should be precisely targeted –towards the pupils most at risk of exclusion or towards the most disadvantaged schools– and precisely monitored, so that this justified decentralisation of action not to bring with it an increase in pupils’ achievement which would in turn be detrimental to social cohesion.

9.2. The link between education and social cohesion: increasing expectations, puzzling facts

The notion of social cohesion is analysed in other chapters. Let us recall here that there may exist among countries different regimes of social cohesion. However, there exist a few core traits that are positively linked with social cohesion, such as trust in others, trust in institutions, and civic co-operation, and others that are negatively linked to it, such as crime. The link between social cohesion and others traits, such as the importance of association or tolerance, are more uncertain. In any case, two evolutions must be underlined: a growing concern for social cohesion, and an increasing recourse to education in this respect.

Following a six-month process of consultation, the European Commission with its “Lifelong Learning Memorandum” (2000) put a strong stress upon education both for training and for promoting social cohesion. It was followed by the concrete “Lisbon goals”, which expressed the reliance upon education for “sustainable economic growth with more and better jobs and greater social cohesion”. So, it is only recently that such a concern for social cohesion has been put forward, besides the objective of growth, and that education has overtly been called upon for that.

Social cohesion is supposed to help prevent the possible detrimental effects of globalisation. But it also emerges in a particular ideological context; as many authors have noted (Green and Preston, 2001, Donzelot, 2007), the macro perspective which gives priority to the role of the state fades when confronted with the increasing role of individuals themselves to take the greatest advantage of what the system has to offer them. So, this notion is conceived in a quite individualised manner: rather than striving to reduce social inequalities, the most important thing is to implement “enabling policies” and to warrant equality in individual opportunities. Access to education is one of these opportunities, and everyone should be able to make the most of it.

This broad trend is embedded in an overall evolution towards more individualism. But there exists a variety of discourses or at least some nuances in the latter concerning the role education may play in promoting social cohesion between the European Union, the Council of Europe, and the OECD (Jeannotte, 2000). The latter has the most limited definition of social cohesion, with the stress being put upon access to job, material security and economic integration; consequently, the training dimension of education is put forward. Moreover, the OECD emphasises the costs that all the phenomena expressing exclusion entail for societies. However, an evolution of its definition is visible in the recent years¹¹² towards the

112. Notably, in 2005, the OECD’s Centre for Educational Research and Innovation (CERI) launched a project titled “Measuring the Social Outcomes of Learning” to investigate the link between learning and well-being. Thirteen countries took part in this project focused on health and on civic engagement.

one less centrally focused on economic considerations, which brings the OECD conception closer to that prevailing in the European institutions. On the one hand, the Council of Europe has a broad vision of social cohesion, including democratic, cultural, social and economic dimensions. On the other hand, the European Union puts special emphasis upon the institutions, specific to the European model, which are supposed to protect individuals against the multiform threats of the modern world, such as, unemployment, poverty, cultural and social exclusion. In all those respects, education may be a strategic tool.

9.2.1. A variety of expected effects, not straightforward to assess

Many recent OECD Reports (for instance, 2007, *Understanding the Social Outcomes of Learning*), and a bulk of studies (Mac Mahon, 1998), have listed the supposed outcomes of education upon individuals or more broadly, upon society. This distinction does matter, because the total benefits of education are supposed to be greater than the sum of what individuals gain from their educational attainment. In this literature, these effects most often refer to education in a broad sense, without specifying which level or which kind of education is concerned. In any case, this is a growing preoccupation, since the learning efforts are nowadays reaching very high levels. Thus, in a context of growing scrutiny concerning the use of public resources, it is becoming more and more important to assess the effective outcomes of education.

At the level of society, education is supposed to have an impact on a variety of dimensions, such as, health, job participation, the use of International Technology and Communication (ITC), cultural practices. More broadly, it would have an impact on the knowledge and skills necessary for the present economic life and, equally importantly, on the attitudes required to take part in a satisfying manner to the present social life. Even more importantly for the future, education is supposed to foster innovation and an ongoing growth and development. This conception is very influential in Europe, as we will see later when we come back to the Lisbon strategy.

The problem is that those effects are not straightforward to assess. Several problems of measurement, which are of different nature, arise. First, assessing specifically the impact of education, which may be considered as a large package of institutional arrangements, on social cohesion, which itself entails a large combination of societal phenomena, is very difficult. One could even say it is impossible. Education can never be assessed “all else being equal”, since it interacts with many other factors of the whole social context. In particular, it is risky to work with correlations that bring together term for term a given performance and a given educational system’s characteristic, since what is probably at work is the whole set of traits that constitute each country’s societal coherence. Ideally, comparison should include all of these overall structures, and of course one should always remain cautious with correlations, as they do not always mean causality.

A second set of problems arises from the fact that there exist different models envisioning the impact education may have on individuals and on the society as the whole (Campbell, 2006). One model is called the “absolute education model”. It suggests that what individuals gain from education sums up at the aggregate level. Consequently, an overall expansion of education leads to a proportional increase in the expected outcomes at the country level.

The second configuration is the “sorting model”, based on the assumption that education is useful to individuals mostly as a marker of their social status. In other words, education does not have an impact because it brings something specific to individuals (e.g. supplementary skills or attitudes), but because it changes their position in the hierarchy of social positions (and in the queue for jobs). In that case, increasing the mean level of education will not necessarily bring an overall increase in the global social or economic outcomes. Rather, in contrast to the positive-sum resulting from the first model, here one will face a zero-sum case.

Lastly, the third model is called a “cumulative” one. It suggests that the effect education has on individuals depends on the others’ average level. That is, certain outcomes associated with education will be effective only if people are surrounded by others with similar levels of education. This cumulative model evokes what economics refers to as externalities associated with education: there might be a variety of effects that do not concern only individuals who have invested in education, but also (and unintentionally so) the others. In that case, the results of expanding education will be more difficult to foresee.

Moreover, the issue of linearity of the (possible) relationship between education and social cohesion is very important. That is, education may operate only above a certain threshold (due to the “cumulative effects” just recalled), and cease to play any role above that threshold. As far as the effects for society are concerned, there may exist some saturation point, while at the individual level, education may go on bringing economic and social advantages because the impact of the ranking itself has been maintained.

9.2.2. Which effects can be considered as demonstrated?

Until now, the research has produced little evidence about the reality of those alleged effects, and especially about whether and how education impacts the social cohesion (and which type of education has which outcomes).

At the individual level, education, when it proves to be successful, boosts self-esteem and the sense of self-efficiency (Schuller et al., 2004). But this kind of research hints that while some effects may be judged as valuable at the individual level, they might be less favourable at a more aggregate one. For instance, while education fosters self-esteem and personal aspirations, it may make social life more competitive. Similarly, while it fosters autonomy and weakens the respect for authority, it may contribute to the fragility of families, and so on. Therefore, those authors conclude that “education is a risky business”, as the effects of education appear ambivalent.

Another well documented effect is the impact of education on the rates of employment and on the jobs and wages obtained. But this very robust relationship is not necessarily determined by the length of the schooling career. For instance, in France, it is better to leave school with some vocational diplomas than with some tertiary general degrees. Moreover, this effect at the individual level does not necessarily exist at the macro level. In other words, it is not because more-educated people earn more or are less often unemployed that increasing the mean level of education in a country will result in higher wages or less overall unemployment. It is because these characteristics are rooted in the functioning of the job market or even the whole economy, both of which depend on a number of macro

parameters and various policies. It is also because the opportunities people have on the job market are linked to their rank in the line for (good) jobs, so that these opportunities may remain identical, even if everybody has got an higher level of education (according to the sorting model presented above).

These results demonstrate the complexity of assessing the effects of education at the macro level.¹¹³ The issue of the impact of expanding education is especially relevant and lively debated in Europe. To implement the “knowledge society” of tomorrow, and survive the international competition, more and more schooling would appear necessary. But the expansion of education has not always brought the expected economic benefits: in particular, it did not result in a decrease of the unemployment of young people. Experts and politicians have justified their positions by presenting misleading international comparisons showing that, in a large sample of countries, there was a relationship between the mean level of education and economic parameters, such as, growth or labour productivity. But this kind of relationship is much more uncertain if only the richest countries are taken into account (for a discussion, see Coulombe and Tremblay, 2006). In other words, above a certain threshold, notably when the adults’ level of literacy is already at a satisfying level, developing even more education does not automatically produce significant economic benefits. Even the OECD publications have recently expressed some doubt in this respect.¹¹⁴ In any case, one must again distinguish between the micro and the macro level.

This remains the same as far as other social effects of education are concerned. Using a variety of macro-social indicators of social cohesion (general trust, civic participation, cheating on taxes, crime, tolerance), Green, Preston and Janmaat (2006) did not find any significant correlation with the level of education (assessed by the mean literacy score at the upper secondary level). For instance, while crime is negatively linked to individual’s level of education, the findings showed that at the macro level some countries may have a very high mean level of education and at the same time a very high crime rate. This is certainly because the overall features of societies, such as social integration, result from a combination of characteristics and not only and automatically from the average level of education.

However, although no clear relationship emerges when comparing countries above a certain level of economic development and where the mean level of education is high, we cannot exclude the possibility that the mean level of education may be associated to social cohesion in poorer countries, when they achieve universal literacy, for instance. At the same time, we also cannot exclude the possibility that in some less economically developed countries, social cohesion may be strong even with a weak level of formal education, but yet achieved through other channels.

Moreover, recent studies show that in this respect, the distribution of education may be more important than the mean level (Green et al., 2003). In other words, educational inequality (assessed by the ratio between the mean literacy score of adults with tertiary

113. We will not deal here with the effects of education on health, which are well established (see OECD-CERI, 2007).

114. For instance, in *Education at a Glance* (OECD, 2006, p.157), one reads: “cross-country growth regressions assume that the impact of education is linear and constant across countries. However, research suggests that the assumption of constant growth effects of education across countries is unfounded. There is also evidence of diminishing effects on growth above an average of 7.5 years of education. This is well below the OECD average of 11.8 years in formal education”.

education and those with lower secondary education) may have some specific detrimental effects upon social cohesion. The same is true when income inequality (assessed with the Gini index) is taken into account, given that income inequality is itself linked to educational inequality (OECD, 2007).

As Green et al. demonstrate educational inequality impacts through the way it distributes skills and hence income. Moreover, it increases the cultural distance between individuals, making communication and trust more difficult. The growing credentialism that characterises educated societies (stronger relationships between diploma and jobs) fosters status anxiety and competition stress, and may have an overall negative impact for social cohesion.¹¹⁵ Consequently, the increase in the overall level of education might not have any direct effect on national levels of crime, tolerance or, more globally, social cohesion. But it may have indirect effects, if it allows reducing exclusion, poverty, unemployment or income inequality.

In any case, improving educational equality is now considered a priority (versus only increasing the average level of education), at least as far as social cohesion (more than growth *stricto sensu*) is put forward.

For instance, in the OECD report (2007), equity in education is fore-grounded for several kinds of reasons –as an end in itself, and also because of the heavy costs unequal results in education entail–, including all that refers to social equity (equality of opportunities and intergenerational mobility) and *in fine* social cohesion. But reading the report, it seems obvious that the additive model prevails: because it gives a wider range of opportunities to individuals, education also brings out more social equity. Yet, it is not so sure: despite more education results in a stronger meritocracy and more social mobility at the individual level, and if, at the society level, the distribution of places evolves less rapidly than educational quantities, this may result in a more mismatch in the job allocation, and also more social mobility, but in the two directions (up and down). So if increasing education may be a sure policy choice to increase intergenerational mobility, it may also foster a tighter competition and a higher level of frustration.

At that point, one may remark that in most studies, education remains considered as a “quantity” of a uniform good, while we have few insights concerning the kind or style of education most prone to promote the desired social outcomes. The 2007 OECD-CERI report notes that some forms of learning seem to be more efficient in this respect. Notably, the education stressing responsibility, open dialogue and group-orientated work fosters civic engagement more efficiently than “civic education” lectures. In other words, classroom climate matters more than curricula contents. One could also suggest that subjects like science may, again, disseminate critical thinking or tolerance better than civic education. One important issue is that since it is impossible to lengthen the schooling career without limits, it would be very useful to find out whether education impacts mainly as an engine of social stratification (in which case, more education is not likely to promote any social outcome, such as, social cohesion), or whether it acts because of its content and the transformations it encourages in individuals, and if the latter is true, the point is to find which forms of education are most efficient to achieve the most desired outcomes.

115. The fact that it is inequalities themselves (whatever the average level) which would be detrimental is not only observed in relation to social cohesion; it would be the same in relation to health (Wilkinson, 2005).

To conclude, one may add that this growing concern about education is revealed by an increasing number of indicators aimed at assessing the outcomes of it. A current example is the recent program focused on the measurement of the social outcomes of education (OECD-CERI, 2007), which has been conducted jointly with the OECD's Indicators of Education Systems (INES) program. This program conceives and promotes statistically comparable data on education systems across countries; it produces comparable indicators, published in the OECD report *Education at a Glance* annually. As we will develop in Section 9.3, the Education Council has also listed some indicators for monitoring progress towards the Lisbon objectives in education, and a number of these indicators reveal the underlying concern about social cohesion, as some indicators on civic skills or literacy among adults, for example, are included.

9.3. Education and social cohesion: what policy implications?

The policy implications to be drawn from the relationships observed between education and the variety of economic and social outcomes previously discussed are not straightforward, as there are competing interpretations in this respect. This is especially true concerning the links between education and earnings. If one favours the human capital theory, according to which, this relationship results from the fact that education provides skills that are rewarded on the job market, it will be the responsibility of the policy makers to develop the education, which satisfies these labour market requirements. Alternatively, if one favours the “filter” interpretation (or the signalling theories), according to which, better-educated persons are not rewarded because of the skills the education system has given to them, but because the latter has ranked them by ability, and signals that to others, concerns about either the level or the kind of education to be developed will be less necessary. This is just an example, but it is important to realise that the analysis of the effects of education is certainly never perfectly objective, as it gives priority to some interpretations and necessarily incorporates value judgments.

9.3.1. The evolution of the European policy agenda

In relation to the links between social cohesion and education, two strands of policies may be considered, even if they have not always been implemented with this priority in mind. The first one aims at increasing the mean level of education with numerous objectives. What appears most at stake for Europe with such a promotion of education (see European papers justifying the Lisbon strategy, for instance, Schleicher, 2006) is to retain its competitive edge and to even move up in international rankings generated by benchmarking practices disseminated through surveys like PISA. Above all, this promotion of education is accompanied by considerations about the need to better prepare pupils to meet the challenges of the future, to understand the world, to adapt to a changing professional environment, to make most of the ITC, to be able to continue learning throughout life, etc. These latter considerations mix with the objective of supporting economic growth and making it sustainable by preventing the risks of exclusion, mostly economic. The financial costs linked to the poorest-educated people (increased demand

for health-care and public assistance, higher rates of delinquency) are also increasingly emphasised.

In the often anxious considerations about social cohesion, the stress is put upon the risks of exclusion, i. e. exclusion from the so-called knowledge society, and those risks concern mostly people with the lowest level of literacy. Increased immigration is also perceived as posing new challenges for social cohesion in a number of countries.

Consequently, a second family of policies focuses on the improvement of the weakest pupils' level and more broadly on the reduction of social inequalities, since these pupils are most often from disadvantaged backgrounds, immigrant families or minorities. The latter aspect is important, since in the liberal perspective on social cohesion (evoked earlier) it is the individuals' responsibility to integrate themselves into the society, so some equality of opportunities must be warranted. In that case, efficiency and equity may go together: to focus on the weakest is both an efficient way to better the overall mean level of pupils and so doing to achieve efficiency –it would be a waste not to exploit all the talents–, and to meet the objective of equity (in its inclusion dimension), and jointly of social cohesion.

Other policies, such as developing adult training and life-long learning, are also implemented with this two-fold objective of efficiency and equity. Here, some argue (Milner 2002) that this is especially relevant for promoting social cohesion: adult learning develops “civic literacy” (as in the case of the well-known study circles of Sweden), which itself promotes political interest and engagement, alongside with other, more economically-relevant effects upon productivity.

One may remark that in either the OECD or the European discourses it seems now obvious to refer to equity, and much less to equality. It looks as if in modern countries, which have developed mass education, and continue to observe so many failures and inequalities in this field, it was not realistic any longer to aim at equality of outcomes. The main concern is to guarantee to everybody an equal access to educational resources: it is a matter of fairness. If that condition is fulfilled, inequalities at the outset would be entirely due to inequality of ability, tastes or motivation. In other words, education is a chance, individuals may seize or not, and not something guaranteed to every citizen (except for what may be the minimum for not being excluded). This perspective allows legitimising inequalities. It refers to a model of a democratic society in which mobility would be perfect, with the best-educated persons getting the most interesting jobs. Here, justice means simply not practising discrimination, and removing the obstacles some individuals face from the start, due to personal, not chosen characteristics (such as ethnic or social background, and gender). So, as we will see, a lot of policies will be designed to reduce the gap between non-native and native pupils, between the pupils from low and high socio-economic status (SES), or between boys and girls.

Coming back to the prevailing EU approach, and before examining how it influences the modelling of national strategies in education, let us say a few words about the monitoring of those strategies. Following “the Lisbon objectives in education and training” of 2002, a working program has been developed for realising these concrete objectives. Bringing together stakeholders and experts, a number of working groups have tried to assess the progress towards these objectives in successive reports (from 2004 onwards), and to support the implementation of the objectives through exchange of good practices, study visits and

peer reviews. This process is now institutionalised under the label of “open method of coordination”, i. e. voluntary cooperation on the basis of the exchange of experiences. We may note that in 2003, a group focused on indicators (the so-called Standing Group on Indicators) suggested including new ones, among which alongside with others were social cohesion and active citizenship. Concretely, a set of objectives, to be reached by 2010, has been adopted with precise quantitative benchmarks (see European Commission 2007). Among them, and focusing upon the most relevant fields of interest, we may quote participation in pre-school education, civic skills, the percentage of low-achieving 15-year-olds in reading literacy, participation of adults in life-long learning, and the level of educational attainment of the whole population. Regular reports give the figures for the 27 EU countries, identifying those performing well in particular areas so that their expertise and good practices may be shared with others.

Actually, these reports do more than just providing information: they disseminate clear messages. One should also stress the impact of the OECD, which promotes in a very assertive way the best practices from international surveys, notably the Programme for International Student Assessment (PISA) on 15-year olds, and the Progress in International Reading Literacy Study (PIRLS) on 10-year olds. At the European level, the goal of an “evidence-based education policy” is currently being put forward (see, for instance, the Frankfurt Symposium held in March 2007 under this heading). Today, the most frequently implemented policies are justified by what research in education shows, especially on the basis of PISA subsequent surveys, concerning the school factors identified as important in terms of efficiency and/or equity. Comparing inputs and outputs in education across countries, these surveys allow drawing conclusion concerning “what works” in the field, that is which input or process the policy-maker should focus his or her efforts on to improve such or such output.

But two points must be made here. First, the PISA data are based on a particular sample of countries (even if the sample is a large one). Thus, before drawing lessons from the results, one should keep in mind the fact that some factors may appear as having no impact simply because they do not vary within the sample (having a roof on each school may matter in the poorest countries, while it does not in the countries whose schools all possess a roof). In the same vein, the PIRLS or the PISA only assess the impact of the existing factors; one may imagine other ways of organizing a school, which would be more efficient or more equitable than the present ones, but have never been implemented. Another point is that, even if today there exists a strong commonality within Europe, the reforms and policies the different countries will actually promote will be nested in their particular context, within their historical traditions and sociological constraints. For example, promoting life-long learning will be especially easy in the Scandinavian countries, where it has been a tradition for a long time, or in the German-speaking countries, apprenticeship will go on being considered as the best way to integrate the majority of young people in the working life rather than keeping them in schools longer.

9.3.2. What lessons from research?

We will consider here the main School Factors Related to Quality and Equity (to take up the title of the 2005 OECD report, whose sub-title is “Results from PISA 2000”), resulting in the main existing policies aimed at fostering equity and social cohesion.

We will not deal here with the policies implemented to increase the mean level of education. It was a priority during the post World War II period. Today emphasis is placed on to lengthen schooling careers and, especially, to develop the tertiary level, which is mostly justified by economic reasons (previously evoked). To lengthen schooling careers may be considered also as an efficient way to enlarge access to education and consequently to democratise the upper secondary or the tertiary education.

But research shows that most often the emergence of social inequalities are only postponed (for a synthesis, see Duru-Bellat, 2004). Thus, it cannot be considered as a way or at least as a priority for reducing inequalities.

Consequently, one should rather focus on the quality of schooling itself rather than on the pure quantity. Quality refers to what is offered to pupils, and in that matter, the PIRLS or the PISA provides a number of interesting lessons.

9.3.2.1. Giving priority to the start (early childhood provision and pre-school education)

In the countries included in the PISA surveys, rich or emergent ones, schooling is generally universal from about 6 to 15 or 16. The issue of enlarging access to schooling consequently exists only before or after these age groups. Pre-schooling is frequently on the agenda (see the OECD, 2007b), since it is established that social inequalities are visible from the start and that primary school does not prove able to level off the playground. If nothing is done, these early difficulties accumulate during the schooling career, and it is much more costly to try to reduce them later. Consequently, some compensatory arrangements should be implemented, focused on pupils from disadvantaged and/or immigrant backgrounds, to fill at least a part of the gap they face at the earliest stages. A bulk of psychological research (for a synthesis, see the OECD, 2007b) supports pre-schooling or, more broadly, early intervention programs sometimes starting at a very early age and targeted at disadvantaged children (Feinstein and Duckworth, 2006). Effects of these programs include better achievements at school, but also better employment rates and earnings, crime prevention, satisfying family relationships and health. Therefore, they are often considered as bringing the highest returns to establish the basis not only for better success at school, but also, more broadly, for better integration over life, and thus enforcing social cohesion. However, some argue that the results of these programs are often uncertain and that it would be more cost-efficient to reduce poverty among the targeted children's families.

Subsequently, pre-primary education may be organised. It is most often not compulsory; thus for this policy to be efficient in reducing social inequalities, it requires that this form of schooling is not monopolised by the best informed and well-off parents, as is often the case. Since pupils' attendance at that level is generally linked to the provision available in the neighbourhood, some countries, like France, have developed the possibilities of schooling for very young children especially in disadvantaged areas (from 2-years old).

Even if, in most countries, the academic effects of pre-schooling are not dramatic, it proves positively related to later academic achievements among the 4th graders (according to PIRLS data), and even among the 15-year-olds (according to PISA data). Actually, these effects are mitigated if the socio-economic background of the pupils is taken into account.

However, across the board, pre-schooling seems to allow for a better start, even if some more precocious disposals or more targeted provision may be more efficient.

Research is less informative about the characteristics of primary school that may lead to a better overall performance or lesser disparities, except for repeating, whose negative impact is systematic. While repeating is still used in countries such as France or Portugal, there exists a growing trend towards more individualised forms of help for pupils with difficulties (especially in the Scandinavian countries).

9.3.2.2. In the pursuit of efficiency and equity at the secondary level

Main lessons from the PISA concern the lower secondary school. At that level, the PISA data show that both mean performance and disparities among pupils vary across countries of similar level of development. This may look trivial, but it means that a success or a failure at school measured at 15 is not a fatality, but rather relates to clearly social (and so politically relevant) factors.

Here, we should underline the fact that there is no trade-off between efficiency and equity: countries where pupils achieve a high mean level of performance are more often the ones in which the disparities between pupils are the smallest. For instance, in the PISA data, the only countries that have both the above average mean student performance and a large between-student variation are Austria and Belgium, while all the other countries with high mean level of achievement are rather egalitarian countries (that is the case, for example, of the European Nordic countries).

Coming back to the discussion about the notion of equity, one may note that while a high homogeneity of performance (and on the opposite, a weak dispersion) is arguably a factor of social cohesion, this homogeneity is especially valuable at the level of compulsory schooling. Beyond that level, it is another story, and one may assume that to achieve a high level of social cohesion, it is not necessary that everybody shares precisely the same level and kind of education. Some components of the education achieved may be linked to the variety of tastes and abilities, and the education system should offer good quality and attractive pathways, including vocational ones, and not only academic elite tracks. The “only” important aim should be –and it is not such a trivial objective– that everybody is able to share a common core culture and possess the tools necessary to find a job and to have, what Rawls would call, a good life. Here, we will focus on the performance achieved at the age of 15.¹¹⁶

Going back to disparities, as a starting point, we may note that the dispersion of performance itself varies largely across the European countries: in some countries, such as, Spain or Finland, pupils’ performances are much more homogenous than their performances in Belgium or Germany. Generally speaking, this is linked with the respective weights of between school and within school variances. That is, in the countries with low disparities, the differences between schools tend to be weaker. In such countries, little variation in students’ performance is found among schools, which may in itself be considered as a factor of social cohesion, if a certain degree of quality (here, the performance achieved)

116. Without any doubt, it would be useful to have some data at a slightly older age, but unfortunately there is not much, except the odds for dropping out at the upper secondary school level.

is guaranteed to every pupil, whatever his or her school. The magnitude of academic dispersion is also linked to the amount of social inequalities. Where a school does not succeed in ensuring equal performance of pupils, the unequal social advantages they possess play a more important part, resulting in more social inequality in educational outcomes. In other words, the homogeneity of educational quality guarantees educational equality.

9.3.2.3. The detrimental impact of separation and segregation

The question is to find the system characteristics associated with more or less unequal outcomes. Since we are focused here on the possible effects of schooling on social cohesion, we will not go into depth discussing everything related to the average efficiency of the systems. Rather, we will focus here on the main organisational factors, which are associated with a strong dispersion of performance and the correlated social inequalities. Two factors are well-documented in this respect, and consequently may be relevant concerning social cohesion issues.

The first one is the segregation between schools (which can be estimated by the proportion of student score variance or the social composition of the student's environment explained by the school attended). Research shows that social sorting between schools is associated both with lower mean level of performance and with larger disparities between pupils, academic and social ones. The fact that social inequalities in achievement among students tend to be larger in countries with strong segregation is an important policy-related conclusion. It shows that a part of the total influence of pupils' background on their level of achievement is explained by the school attended and not by some cultural disadvantages. This robust trend is related to what is now labelled as the "peer-effect", which maintains that the composition of the student body itself contributes to creating an environment of unequal quality, through the resources the classmates represent for each other. It also impacts through the climate it generates in the daily life of the class, and the teaching practices which it allows or not. For example, many studies show that pupils from working-class background attending a school with a mixed intake progress better; that is because they benefit from the contact with pupils who are more adjusted to school norms and have greater cultural resources, and thus are less prone to developing anti-school attitudes. In such environment, they also develop more ambitious educational aspirations.

A conclusion is that social sorting between schools raises a problem of efficiency and fairness. We may particularly suggest that a common sense of belonging to the same culture and citizenship would be better promoted if pupils were educated together in the same schools.

This segregation may be generated by the segregation of housing, since in most countries, pupils generally attend the school of their neighbourhood (even if a strict zoning does not exist). Another factor is the existence of choice: when the choice of a school is completely free (as in Belgium), it results in more hierarchical ranking of the schools, which are also more socially segregated. Consequently, it tends to increase social inequalities, while some forms of regulated choices may be associated with lower social inequalities (compared to the one resulting from the school zoning). We will come back to this issue later.

A third factor is whether schools select pupils, most often on the basis of their ability, but actually in relation to their social background, considering the low-SES pupils' early difficulties. Such selection is implemented wherever the system is differentiated from the outset of secondary level. The prevalence of selection by school leading to distinct tracks explains why social segregation is so high in German-speaking countries. Beyond segregation, early tracking is currently associated both with disparities of performance, and educational inequality. On the opposite, the longer all students follow the same curriculum, the smaller the degree of inequality.

More broadly, systems with distinct schools, segregation or early tracking (or grade repeating) represent ways of grouping students that allow establishing a contrast between the systems in terms of "integration" or "differentiation" cultures. Both academic disparities and social inequality, assessed at age 15 (on the basis of the PISA data), are the weakest among pupils attending homogeneous schools and classes, with a common core-curriculum, postponed selection or subject specialisation and a mixed student body.

Concerning the school characteristics that matter, one can distinguish "hardware" and "software", the latter referring to the "immaterial" factors of schooling, such as curricula contents or classroom climate. The issue of the possible impact of curricula contents is very seldom investigated. A recent study of the World Bank (Roberts-Schweitzer, 2006) brings a lot of examples of the way textbooks represent minorities or the relationships between the different groups throughout a country's history, consequently making social cohesion more or less difficult to achieve. More broadly, this study hints that curricula foster some values, which may have macro social impact.

Another "soft" dimension of schooling is the daily classroom climate, and the quality of the pupils' interactions with teachers and pairs. The PISA data bring some information about this informal dimension of schooling and, again, things appear to vary greatly across countries. In German-speaking or Eastern European countries, teachers' support for individual students seems to be rather weak, which may not be favourable to academic progress. This may be linked to the global philosophy of these "separation" systems, in which children are supposed to be endowed with rather fixed abilities (to which tracking is supposed to adapt). In the meantime, the disciplinary climate is good in these countries, which, on the opposite, are favourable to learning. The PISA also brings some original information about some pupils' psychological characteristics –motivation towards learning, self-confidence, emotional factors, such as, anxiety, and so on. Even if they are difficult to appreciate and measure, these factors necessarily affect the quality of pupils' daily lives. For instance, in highly competitive systems (and in most often high-performing ones), like the Asian ones, students display both lower level of motivation towards learning and an above-average level of anxiety. This may affect their attitude towards learning at the present time, but also, one may assume, for the future, arguably also impacting social cohesion.

9.3.3. How does education bring together different government levels and different partners?

Growing concern about efficiency and equity, and also the obsession with not increasing the costs, lead to recommend the education systems to become more "flexible" (this term is

often used in the defence of the Lisbon strategy) and decentralised. One may also consider the growing success of flexibility, the valorisation of the autonomy of the schools and the decentralisation of the education system, as influenced by ideological considerations. The underlying references here are the New Public Management principles, and the model of a perfect and so efficient market.

Concretely, the expressed motives for educational decentralisation are diverse: it is supposed to increase efficiency (limiting bureaucracy and allowing for a better financial control) and, as importantly, to raise the responsiveness of schools to local communities. That is, “consumers” would be given more power to prompt teachers’ improvement, and the latter would consequently have more incentives to improve their own practices. But even if the concern about higher efficiency is the priority, some argue that restoring the place of schools within the community can also contribute to an accrued social cohesion. At the same time, one may also argue that making a school closer to “customers” and adapting it to their needs, also gives more leeway to private interests to manifest themselves. In other words, the stimulation of responsiveness to local requirements may sometimes induce mechanisms for choices or pressures favouring groups that are already advantaged.

Educational decentralisation may concern different levels of decision-making: human resources management (appointing teachers), student policies (admittance to school), financial resources (school budget), curriculum (contents, textbooks). The European countries present a patchwork of situation in these respects: from countries resisting to the global trend towards decentralisation, such as Portugal or France, to countries, which, in different historical contexts, have implemented a strong decentralisation sometimes for several decades (the UK, some Eastern European countries, such as, Hungary).

Across the board, the relationship between the various aspects of school autonomy and mean student performance proves to be weak (OECD, 2005), and the widespread positive expectations that exist in regard to school autonomy and decentralisation of decision making are not supported. Some studies (see Danish Technological Institute, 2005) evoke positive correlation between higher degrees of school autonomy in certain respects and average student performance, but the causality remains uncertain. Moreover, and most importantly here, other studies (see Mons, 2007) suggest that decentralisation proves detrimental to the homogeneity of performance, fostering larger inequalities. However, the conviction that “freedom under responsibility” and devolving responsibility to the front line can only go into the right direction is so powerful and mainstream that a number of countries go on making efforts towards devolution.

The best way to boost efficiency without damaging equity and social cohesion seems to go in line with articulating some national control, notably, for fixing standards and managing evaluation. Also, some devolution should be given to the local level concerning the adaptation of the pedagogical strategies to achieve these standards. So, some countries like the UK, in which decentralisation has prevailed for many years, have recently implemented some changes towards some degree of centralisation, concerning curricula, standards and evaluation.

In a broader sense, devolution may also mean opening schools (and more broadly, educational decisions) to other partners. Some global policies targeted to disadvantaged areas go in that direction (we will come back later to these two issues).

As a conclusion, we should emphasise that educational policies are necessarily linked to a wide range of other policies, concerning employment, health, or taxation. The first and maybe the obvious point is that educational inequality is linked to inequality among adults, as assessed by the Gini coefficient. But this relationship is not perfect: there exists a number of countries rather equal in terms of adults' income and in which social inequalities of academic achievement at 15 are large (for instance, the East European or the German-speaking countries). In contrast, in countries with strong income inequalities, pupils' academic achievement is sometimes rather equal (e.g., Hong Kong, Russian Federation). These variations in the influence of social origin on achievement in countries with similar Gini index ratings hint that some educational systems manage to compensate better than others for the inequality that exists in the societies in which they are embedded.

This may also result from the impact of other policies. Reduction of poverty, especially among young children, would be one of the most important policies, as we know that the early inequalities produced by unequal environment are especially hard to eradicate. One should note here that increasing early childhood service provision is also justified by the fact that it can reduce poverty through an easier access of women to the labour market. Equally important are the policies regulating transition from school to work. They are relevant across the board (otherwise, the expansion of education may produce mismatch or global over-education) and especially for the most disadvantaged, since in the quest for job, some social inequalities emerge. The availability of life-long training may also matter, due to the increasing dynamism of skills requirements at work. Countries may also implement policies concerning taxation. For instance, rather than lowering taxes to families whose children attend tertiary education (who are not the most disadvantaged ones), it would be more equitable to develop private tuition fees at that level (since at that level, education becomes more a private good), combined with financial measures for the disadvantaged. Thus, policies aiming at reducing social inequality of schooling go well beyond the educational field. In some cases, the combination of both social and education policies may be necessary to ensure effective outcomes.

9.4. Selected review of some best practices to foster social cohesion through education

As lowering the percentage of weak pupils is considered as a strategic way to achieve less exclusion and more social cohesion, we will focus first on the policies aimed at providing systematic help to this population, given that these innovations often lead teachers to open schools to other partners.

9.4.1. Connecting schools and families

As previously discussed, the quality of the home learning environment in the first years is a crucial variable, but even at later ages, a lot of countries try to connect schools and families more strongly. Research shows that the greater parental involvement in schooling may boost children's academic success and aspirations. So a number of actions aim at fostering the volunteering of parents and their attendance of parents-teachers meetings. But often,

the most disadvantaged parents, those, whose culture or experience is most distant from school, are reluctant to participate, not because they are not interested in their children's schooling, but because they do not feel at ease, fearing to be despised because they are poorly educated and judged as bad parents. Actually, it would be more efficient to try to convince such parents that they can teach something to their children, and that displaying interest in their school activities is as important as helping them directly. This is what the so-called "parent education" programs, aimed at developing specific forms of expertise, such as, linguistic interactions, learning incentives or reading books, implemented in Belgium, for example.

But one should be aware that strengthening the links between school and home may benefit also the most advantaged pupils. Thus, untargeted measures to encourage parents-school partnership may have perverse effects. Moreover, this course of action is particularly important at the youngest age. Later on school must bring all the resources required to succeed to every pupil; for instance, if extra help appears necessary for the weakest pupils (to support their homework), it must be available at school and without any cost. Parents are not teachers and these two roles should remain distinct, and most importantly, families should not feel guilty not to play the role of a teacher.

This does not imply that it may not be useful in some cases to give financial aid to families, provide home learning resources, such as, books and the ICT (with advice on how to use such resources), or to support participation in extra-curricular activities that bring educational benefits. It is also the school's responsibility to make information about the choice of subjects, tracks and institutions of study available to the families who are most remote from the academic world.

In any case, to intervene into a family, a private space, is always difficult, and in some countries, programs are chosen to cover the larger environment, including families, but also the neighbourhood associations and resources. This leads to the concept of "learning communities." For instance, in Spain (Barcelona), the "City Educational Project" aims at promoting an integrated education network that brings together public institutions and representatives of the civil society. The latter offer a variety of activities, such as, music or arts, while the former are in charge of developing public transports and renovating school equipment (Institut d'Educació, 2004). To sum up, the importance of the whole environment—specifically the quality of the neighbourhood material and cultural resources, and also the kind of inter-personal relations prevailing in it— is widely recognised (since the ecological-systemic model developed by Bronfenbrenner, 1979) to be an important way of fostering social cohesion.

9.4.2. Intensive interventions for preventing early failure and tackling the achievement gap in the compulsory schooling

In Finland, the European country where the percentage of very weak pupils is the lowest in the PISA data (only 1.1 per cent of students below level 1, compared with the OECD mean value of 6.7 per cent), the pupils' learning difficulties are tackled as soon as they appear, and at different levels. First, a teacher works one-to-one (or sometimes in small group) with pupils who manifest some difficulty. He or she may also refer such pupils to

his or her assistant (a less qualified person working under his or her direction). This person will work with the pupils in need, again one-to-one, according to the teacher's directives and on the specific points that the pupils need help with. At a third level, the assistance of a qualified special needs teacher may be asked for. The latter usually concentrates on basic subjects (language or mathematics). The weakest pupils, with serious disabilities, may be separated and attend special schools, but this is rather uncommon (less than 2 per cent of students), while about 20 per cent of a cohort benefit from this additional help. In some cases, a fourth level approach is implemented for pupils with additional home or social problems, in which case several partners outside the school (psychologist, social workers, representatives of the health sector or even the public housing one if necessary) are invited to work with the school professionals in charge of the concerned pupils. Across the board, the approach is made more intensive and more diversified depending on how large the pupil's difficulties are. However, the pupil's regular teacher is always involved and everything is made not to separate the pupils from his or her class and classmates.

Another way to tackle the early failure is to monitor what goes on in classes in a stricter manner. This has been done in the United Kingdom with the "national literacy and numeracy strategies" implemented from 1998 onwards to improve standards of English and mathematics. Very precise pedagogical frames were defined for literature and numeracy, recommending phases of different duration (e.g., for the literacy hour, x minutes for class reading, x minutes for group reading, etc.). The government defined precise targets for different key stages and the assessment was conducted by the Office for Standards in Education (OFSTED). This rather managerial strategy was criticised by teachers from the outset, but pupils' significant progress did convince everybody that it was efficient (and very cost-effective). Moreover, with this measure, disparities between boys and girls and low versus high achievers were reduced (Machin and Mac Nelly, 2004). It has recently been extended to the 11-14 year-olds.

A last set of interventions concern the pupils who leave schools before the end of the compulsory schooling, with the risk of marginalization; the so-called "drop-out issue" does exist in most of the European countries, especially in the South of Europe. The pupils concerned were generally failing from the start, and more broadly shared negative learning experiences; most often, they also lack of support at home and belong to poor families. Beyond what would be the best way to tackle this problem, i. e. early prevention, two alternatives ways exist. The first one is to exert some pressures or incentives directed towards those pupils' parents. That is done in France for example, where a recent act gives the possibility to suspend the monetary regular aids families receive whenever a child is missing at school too often or drop it for a while. In UK, an experiment was set in 1999 (the "Education Maintenance Allowances" disposal) to incite 16 year-old pupils not to drop out and stay in school till the age of 18; if so, a substantial monetary aid (about a third of what would be gained on the job market) is given to the family, and this aid is regularly adjusted according to the results achieved at school. This experiment, which has been assessed precisely (Dearden et al., 2004), has significantly lowered the drop-outs in the areas concerned. Another path does exist, consisting in bringing the early leaving pupils to go back to school after a while, within special classes or schools. The so-called "second-chances programs" exist in a number of countries and in variety of ways. In France, since

1999, some *classes relais* (go-between classes) have been launched to welcome drop-out students and try both to prevent them going into trouble and to make some academic progress in basic skills. Similarly, some *écoles de la seconde chance* (second chance schools) have also been launched in 2001, to allow drop-out students to reintegrate the grade he or she left, and to prepare some diploma. Both kinds of program do concern a small amount of pupils and prove very costly; moreover, it seems easier to achieve some progress as far as global socialisation is concerned, compared with achieving significant academic progress. In other countries, such as Slovenia, “learning for young adults” programs have been implemented, which pursue the same aims (acquiring basic skills or at least compensating for prior biggest knowledge gaps), while in other, the stress is put on preparation to work. In UK for instance, the “employer training pilots” encourage employees (mostly young adults having dropped out from school) to get some basic vocational skills by offering paid time off to employees and wage subsidies to employers. This path proves to be rather successful. All across the board, whenever prevention has failed, it seems difficult to make young adults back to school and consequently, training on the job, with a number of facilities, would be the most efficient solution, allowing persons both to enter into the job market and to get some motivation to better their general and even academic skills and knowledge.

9.4.3. To boost the successful inclusion of immigrants

The integration of immigrants is an important issue in most European countries. Education is generally conceived as a key tool in this respect, through language and training support, and by facilitating the transmission of norms and values that provide the basis for social cohesion.

In most European countries, the academic performance of students with a foreign background is significantly weaker than that of the native students. But an important point is that there are differences across countries.

There is no clear-cut best way that emerges from across countries comparisons. It appears that the top priority everywhere is to improve the immigrant students’ language skills. But it remains an open question whether it is preferable to develop bilingual tuition for those students, especially given that a majority of non-native students speak a different language at home from that spoken at school, or is it better to offer intensive language teaching while mixing these pupils in the regular classes. If the first way (implemented in Nordic countries) may seem favourable regarding academic achievement, it results in separate classes, and pupils may be retained in them beyond the point where it is useful to them, which may in turn be detrimental to their rapid inclusion among pairs and to social cohesion at that first level.

The issue of whether a satisfying integration of immigrants requires to forget or to preserve their native culture has long been debated. As summarised in the OECD 2007 report, “discussion of policy towards migrants often contrasts a multicultural approach, which builds on recognition and sometimes celebration of cultural and ethnic diversity, with an assimilationist view encouraging immigrants to merge into a common host society culture”. Though it may be valuable in itself, the respect for immigrants’ cultures may

result in education practices contradictory with what is valued in most host European countries. One example is implementing different contents for boys and girls or keeping them apart for certain activities (for instance, the Swedish program for Roma children teaches traditional embroidery crafts to girls only). In any case, what is positive concerning language as well as various other skills and values is the integration of young, non-native children in early childhood programs. This is, however, often not very easy, because in many immigrants' cultures the care of young children is considered as a responsibility of the mother.

Moreover (but that has some links with what comes just before, and also with the issue of the school mix, evoked just below), the diffusion of non-native students seems to matter. In countries where a large share of non-native students attend schools with a high density of non-native students (which is often the case in differentiated systems like the German or the Dutch ones), the gap in performance between natives and non-natives is much larger than when they attend mixed settings. So not keeping these pupils apart appears to be an important point.

Some other measures are sometimes implemented, such as, the recruitment of teachers belonging to the same culture or community (as in the Swedish program for Roma children). A more widespread approach (in Nordic countries) is to train teachers to work with children from diverse backgrounds. Language training for adult immigrants (notably parents) is also very common, and in many countries, it is even compulsory to receive a residence permit or some social aid.

9.4.4. To focus help on disadvantaged schools

In order to deal with either low achievers or with non-native pupils, action should be targeted: that is, what is called in France "positive discrimination". The question arises then as to what is the best level to focus on: individuals (which is the most widespread practise) and/or schools or areas?

This latter view is implemented in France, with the "Zones d'Education Prioritaires", inspired by the former British "Education Priority Action", and defined on the basis of the socio-economic characteristics of the population. The rationale here is that since the problems encountered by children from the most disadvantaged or immigrant backgrounds are multiple, a variety of partners or institutions must be called upon—street educators, sometimes policemen, social workers. The objective evaluation of the effects of this kind of action focused on whole areas has been disappointing: even if some positive results on achievement or attitudes may have been produced, they have been cancelled out by the negative impact of the stigma attached to the schools and areas concerned. However, some argue that the evolution may be even worse without this kind of action, because of the increase of social segregation often observed in those areas (resulting from a middle-class flight). The public funds may also be targeted too loosely, since, for instance, as much as one out of four schools at the lower secondary level was included. In 2006, a new program called *Ambition Réussite* was launched, more strictly targeted and assessed and aimed to attract more experienced teachers in these areas as well as provide more individualised help. Moreover, it will also help the students with good results to have access to the best

upper-secondary or tertiary schools with special admission regulations and extra subsidies. Some argue that nowadays, the concern seems to have shifted from actions focused on areas to actions focused on individuals, in line with the growing individualism and individualist conception of social cohesion evoked before.

Another and more concrete debate concerns the social mix to be promoted within classrooms. We discussed this earlier with the negative impact of segregation, whatever its nature (academic or social). Research shows that a balanced social mix improves both pupils' progress and attitudes without being detrimental to the mean level of achievement. It especially boosts the weakest pupils, while putting only a slight brake to the most brilliant ones. Therefore, it is desirable to organise school admission with an aim of school mix at least until the end of compulsory schooling and especially as far as social cohesion is concerned. It may run counter to some schools' choice policies and also to the most advantaged parents' strategies. But some specific organisation of choices may lead to less social segregation than a strict zoning would; for instance, by giving rules to over-subscribed schools so that they respect certain proportions of disadvantaged or minority pupils, or implementing some selection methods, such as, lottery (as in some American states). In countries, where distances are not too long, some "busing" may also be implemented, to allow pupils from poor neighbourhood to attend inner-city schools. One may mention here a French experiment in which the pupils belonging to a very segregated area were disseminated through "busing" into the inner-centre schools of a little town. Though poorly assessed, the effects seemed to be balanced (see Duru-Bellat, in Paugam, 2007). While academic achievement improved, the targeted pupils still suffered from a certain stigma vis-à-vis their more advantaged peers and could have had a lower self-esteem.

In any case, it is equally important that every school, whatever its location, ensures that pupils receive education and training of equal quality. Otherwise, again, an individualistic solution is proposed, that encourages the best-informed or motivated individual pupils to escape from the poor school offered to them in the area where they live.

9.4.5. A variety of actions towards a variety of partners

To wrap up, daily education being provided by adults, the training issue of teachers and also (again) of parents, is of course important in order to implement the desired changes. Some countries like the Netherlands have developed teachers' support systems, disseminating advice and innovations, which is especially important for beginners and these (often the same) working in the most difficult areas. However, the impact of such support system is difficult to assess, and actually seems to be rather low. One Dutch study suggests that only about one per cent of performance variations are attributable to the characteristics of this support system. At the school level, it may be more cost-effective to modify both the school mix and the way schools are assessed from outside and incited to progress than to try to change teachers' practices through training.

As far as parents are concerned, we mentioned earlier the possibility of parental education. What should be added is the double benefit that would be brought by adult training through adult education centres, widespread in countries, such as Sweden

or Spain. The benefit would be double because whatever the target –the parent or the workman– investing in adults will transform either the way he or she works or the way he or she brings up his or her child. Consequently, all forms of adult training, life-long learning and offering second chances are important issues, for economic purpose, as most often underlined, but also for equity considerations and social cohesion.

9.4.6. To assess and monitor the advance of social cohesion policies

The interest in setting objectives is two-fold. It gives some possibility to assess the degree of achievement of these objectives, and as importantly, while doing-so, policy-makers are compelled to express precisely what objectives they put forward. Moreover, objectives themselves may also generate some mobilization (as it was observed for France with the 80 per cent of a generation to the Baccalauréat level in the 1980s'). But being able to evaluate such objectives and react to what figures show remains another story. It often induces a change in the equilibrium between the central authority and the more decentralised administrative levels.

For instance, in England (as explained earlier), where schools and local authorities have long been granted a large autonomy, a new equilibrium has been promoted since the 1990s'. Schools are always responsible for the pedagogical services they offer, while the central authorities are responsible for setting the standards of a national curriculum, including detailed targets to be achieved, and which are to be assessed by regular testing. The Office for Standards in Education visits schools every 6 years, assessing pupils' achievement according to the list of given criteria, and then, writes two reports, one of which is public and another one devoted to the school itself. The latter explains the strategies to be implemented to find solutions to the problems the inspection has disclosed.

It is widely admitted that without this centrally geared monitoring system and control of standards, decentralisation and the correlative adaptation of schools to their student body are bound to bring an increase of the disparities of achievement and the different forms of social inequalities, which would in turn be detrimental to social cohesion.

9.5. Conclusions

Education is not a field in which some magic and universal recipes exist. The first requisite for achieving some efficiency is to implement sustainable efforts (including financial ones); in some countries such as France, the instability of Ministers in that field is very pronounced, resulting in many aborted reforms.

Another point is that transferability of a successful experiment is often imperfect, because what works in one place, with a certain kind of pupils or teachers, does not always prove successful in another context. Although it is very common in international surveys, it is risky to rely on correlations that establish a connection between a given performance (the amount of social inequalities, for instance) and a given educational system's characteristic, since what is probably at work is the whole set of traits that constitute each country's societal coherence. Ideally, comparison should entail all these structural features. Any successful experiment should be adapted to the local constraints and culture; for instance,

a successful way to tackle immigrants in a country, where they are only a tiny minority and come from specific countries, may fail completely in a country, where their numbers or origin are very different.

Finally, the difficulty in relation to the transferability of successful experiments is that in order to be successful, any reform should be supported by teachers and parents' true consensus. This is not always so: divergent interests may emerge concerning education, as unequal groups compete to make the most of the education resources for their children, since the level of education achieved is the most efficient tool for having access to the best social and economic positions. In this competition, private interests may come first and social cohesion may seem an abstract objective.

It should be different at the political level, where the general interest is supposed to prevail. In the pursuit of social cohesion, some priorities must be asserted, which may not always be popular: pre-schooling or life-long learning versus promoting tertiary education, for instance, which concerns either the currently least advantaged group or the most advantaged one, the latter being often the most influential. It must be stressed that it is not the same education one will develop if social cohesion or economic innovation is to be promoted: in the first case, pre-school or common-core curriculum for every member of the community, in the second one, tertiary and competitive education for the best ones. Moreover, in the perspective of social cohesion, education should not be focused only on academic success; the development of social skills and the promotion of well-being may be judged as equally important. Thus, the kind of education (its contents, its quality, its distribution) matters more than the quantity, although "more of the same thing" is often an easy and consensual objective. Whenever some economic trade-offs are necessary, and it is always the case since no country is able to allocate the whole of its resources to education, and if social cohesion is really aimed at, the priority should be given to high quality pre-primary, primary and secondary education, even if that must be at the expense of some more limited development of tertiary education. That may be only a transient trade-off: if the previous selection is more fair and brings to the end of the secondary level a growing number of academically well-equipped students, the tertiary level itself will be more efficient. While the causal effect of expanding tertiary education on economic growth is debated, today more than ever, the positive impact of having a whole generation both literate and endowed with such qualities as self-confidence, trust in others, curiosity, ability and willingness to further learning does not make any doubt, as far as social cohesion is concerned.

To end, two thumb rules must be recalled. First, one should not forget that education, like other fields, is not ruled only by scientific research. Rather, social conflicts, political priorities and trade-offs between alternative policies also matter. Second, schooling is not a panacea: education is nested in the whole society, and it is impossible to have true equality of opportunity in an unfair society, and consequently to achieve a satisfying level of social cohesion with magic educational solutions.

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10. Comments on Duru-Bellat's paper on "Education and social cohesion: a Latin American perspective"

FLAVIA TERIGI

As is well-known, the situation in Latin America is clearly different from that in Europe. That may be the reason why the major concerns of governments are not so much related to social cohesion as they are to overcoming poverty, reducing inequalities, recognizing cultural diversity and improving educational achievements (UN, 2005; OEI, 2008). Nowadays, the Ministers of Education of the region are discussing the "2021 Educational Objectives". Problems they identify in the education sector are related to poverty/limited education, long-standing oblivion of multicultural richness, educational inequality, poor quality of the higher coverage, significant imbalances between education and employment, and obstacles to the social inclusion of young people. Each of these problems has a substantive relationship with social cohesion, but this is neither the key as regards interpretation nor the guideline for the policies under discussion. In turn, the objectives being discussed are not geopolitical ones referred to the place Latin America holds within the world (in such a way as the objectives of the Lisbon strategy), but objectives related to the reduction of educational gaps, to overcoming the long-standing debt countries have towards their ill-treated populations.

10.1. A region of significant contrasts

Latin America is a region of significant contrasts. A characterization in just a few lines can only show a partial view of its diversity. Out of 532 million inhabitants, approximately 205 million live in poverty, and nearly 79 million have no resources to appropriately meet their dietary needs. More than a problem regarding per capita income, it has to do with the existence of huge gaps in the distribution of wealth: while in European countries income for the highest income decile does not exceed income for the lowest decile in more than 20 per cent to 30 per cent, in Latin America that gap is wider than 100 per cent and, in some countries, even wider than 200 per cent (ECLAC, 2007). The correlated educational inequality is to be expected: while in the 7-12 age group school attendance of the poorest 20 per cent is similar to that of the wealthier 20 per cent, in Central American countries gaps are even 15 percentage points wide. As regards the 13-19 age group, countries with the highest educational development (such as those of the Southern Cone) show gaps of up to 30 percentage points.

This is as well a region with a large proportion of child and young population. Even though during the past decade this proportion decreased by almost 5 percentage points,

inhabitants from 0 to 19 years comprise 40 per cent of the population, in comparison to the 52 per cent that corresponds to the population from 20 to 60 years, in which workforce is concentrated (Castiglioni and Vicherat, 2001). This leads to a significant consequence for school systems: these must put in more efforts than their European peers in order to guarantee a relatively homogeneous basic education level, because of the higher proportion of child and young population and due to the fact that more than half of the children in the region are poor.

To conclude, it is a region with an enormous cultural diversity, with a major base of Latino and mixed-race population formed by several waves of migration and with important groups of indigenous people and afro-descendants. Indigenous population is made up of more than 30 million people (6 per cent of the region's population), 70 per cent of which live in countries with low income per capita (ECLAC, 2009), in conditions that are worse than those of their fellow citizens. Educational proposals they receive vary from the traditional assimilationist perspectives to the more recent multicultural approaches. The contrasting educational demands of such approaches mainly affect four countries, where more than 80 per cent of indigenous population is concentrated: Bolivia, Guatemala, Mexico and Peru (ECLAC, 2009).

10.2. Educational expansion within an environment of an increasing social inequality

In Latin America, education is a sector where the laws of most countries are advanced as to what they provide for regarding educational rights and inclusive education, but where considerable difficulties are encountered when translating laws into sector-specific policies and, even more, into pedagogic practices that lead to the effective compliance with those educational rights established by the laws. During the past decade, the region has brought about important reforms to educational systems. Countries made large investments of public funds with foreign indebtedness, but results are far from convincing as regards advances made in the area of the right to education. Gross and net participation rates, at every level, have experienced sustained growth during the last sixty years, exceeding in some countries the rapid pace of their demographic growth, within an environment of a progressive narrowing of the gender gaps within the system (Gentili, 2009). However, this process has its drawbacks.

On the one hand, certain groups are continuously being left behind by the aforementioned general trends, for instance indigenous people and certain afro-descendants (ECLAC, 2008). On the other hand, the increase in school years for the young population from 18 to 24 years has not favored young people from a lower socioeconomic level (SITEAL, 2008a). Even though data show significant advances as regards children access to primary school, they also reflect the difficulties children have to remain in the system and advance in their education. There is a significant number of children that are in a situation of educational lag soon after they start school, and the percentage of 15 year-old or older children that could not finish primary school is very high (with peaks of 47.4 per cent) (SITEAL, 2008b).

On another score, migration of human capital has turned into a problem at an aggregate scale: for decades, Latin America and the Caribbean have been experiencing the extra-regional migration of highly-skilled population. Among the 25 year-old or older population who was born in Latin America and recorded in a census taken in the United States of America in 2000, 57.4 per cent had completed 9 or more years of education, while 18.8 per cent had completed more than 12 years (Latin American and The Caribbean Demographic Observatory, 2006, table 16c). This is mainly explained by education received in their countries of origin. While in the smaller economies of the region migration of professionals to developed countries is higher, most populated countries have less migration, but of highly specialized professionals.

Intra-regional migration takes place from rural areas to big cities that have a broader array of employment and services to offer: escaping from poverty, war, natural disasters and unhealthy conditions, migrants settle in the outskirts of urban areas, thus deepening their poverty condition and the uprooting from their communities of origin. Urban segregation processes have an impact on education: school is an active witness of the widening of the social and cultural gaps, and it is not always possible for the school to avoid reinforcing inequalities among the inhabitants of the same city.

The fact is educational expansion has taken place, and still takes place, within an environment of a deepening of social inequality. For such reason, school integration is in the end not enough to revert the processes of isolation, marginalization and denial of rights. As Gentili (2009) points out, inclusion is a comprehensive democratic process that involves the effective overcoming of the political, economic, social and cultural conditions that historically generate exclusion. For that reason, indicators of an improvement in the conditions of access to a right, in this case school education, may not be enough to put an end to the long-standing exclusion processes, which in the long run condition and even deny the right to education.

10.3. Education and social cohesion: towards the identification of priorities

Despite the large differences between Europe and Latin America, evident coincidences exist as regards initiatives and discussions related to educational policy. At this point the issue being discussed is also the strengthening of privileges that may be a result of school autonomy and the poorly regulated allocation of school seats; the contribution of education to productivity, or else the appropriateness of reducing citizen education to civic education classes, among other issues. Due to poverty, inequality and educational exclusion that large groups of Latin American population suffer, it is possible to apply the conclusions Duru-Bellat proposes for Europe to Latin America: priority should be given to high quality pre-primary, primary and secondary education, in order to assure that everybody becomes able to share a common core culture, to promote a common sense of belonging to the same citizenship, and to guarantee that everyone possesses the tools necessary to find a job and to have a good life.

In many countries of the region, the portion of education budgets that is not allocated to salaries (by far an exhausting item of public spending in education) tends to be divided

among countless programs and projects instead of being focused on only a few well-defined priorities supported by policies that continue in time. This leads us to establish three specific priorities.

- *Literacy cycle in primary school.* The analysis on school paths in the region shows that the first stops and interruptions take place at the beginning of the primary level, in the form of repeated grade retention and learning that fails in laying the foundations for future schooling. Countries develop experiences for remediation, such as proposals of acceleration for over aged children. But if these proposals are not combined with policies that have an influence on the situation that generates over age, the remediation experiences shall turn into a chronic issue and school paths shall continue finding irremediable obstacles at the beginning of primary school education.
- *Educational levels attained by the adult population, mainly young adults responsible for school-age children.* Many of them were school aged when primary schooling was tending to universalization, but the system failed in providing them with elementary education. In this sense, the goal of universal primary schooling for young adults is an act of justice. But it would as well have a positive impact on schooling for children due to the proven relationship between the educational environment at home and school performance.
- *Adolescents and young people from the big urban areas.* On average, they have more years of schooling than their parents, but they are not able to finish secondary school due to the expelling characteristics of said level: while in North America or else Western Europe the difference between gross schooling rates of the lower and upper secondary levels is approximately 7 per cent, in Latin America and the Caribbean this gap increases four-fold: the rate for the upper secondary level decreases 30 per cent in comparison to the lower secondary level (Terigi, 2009). Those adolescents who do not study are also unable to get a job: they constitute the age group with the highest unemployment rate. Within this framework, the new generations' experience of being incorporated to social life is far from belonging to the same citizenship.

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11. Taxation, equality and social cohesion

European experiences

BENT GREVE

11.1. Introduction

Comparing and learning from other countries are and have been important factors in the development of welfare state financing. Comparisons between welfare states should not only mirror the cost, structure and criteria for delivering and receiving benefits, but also how the various systems are financed. Taxes and duties are relevant for funding welfare state and indeed, it is essential to understand the impact of taxes and duties on issues such as incentives (especially work and savings) and overall macro-economic steering.

In this chapter, the intention is firstly to describe and analyse the set of different instruments which can be used to finance public sector expenditures mainly in EU countries, although most arguments are of a more general nature, with the implication that they can be also applied to other contexts and countries; secondly, to present advantages and disadvantages of the various methods of payments considered from both the user and administration points of view, in particular with a focus on the impact on equality and social cohesion. Given the number of EU-countries, it is not possible, in the framework of a single chapter, to analyse in depth all European countries' tax systems and their development. However, some basic data concerning the structure of taxation and the degree of inequality will be reviewed during the analysis, mainly by using the comparative benchmark method for ranking countries as a device for identifying dissimilarities and similarities of European systems.

The chapter will also outline, through the use of specific data, the various financing methods concerning welfare states, as this is a good starting point for the analysis on the interrelation between financing and welfare. The relation between different approaches to welfare will also be highlighted, i. e. the distinction pointed out by Titmuss between public, fiscal and occupational welfare (Titmuss, 1968), with particular reference to fiscal welfare in this context (often-labelled tax-expenditures¹¹⁷).

The chapter will not study in detail the specific issues regarding open economies versus closed economies as well as the possible impact on and threats to the tax and duty systems in other countries by changing taxes and duties. Sometimes, this may be labelled also as harmful tax competition (OECD, 1998), despite the fact that these changes might reduce both the possibility of raising revenues and of creating a more equitable tax system. Given the free movement of workers, capital, goods and services, the economies in Europe are, in general, open economies. This implies that changes and pressures from development

117. Tax expenditure is defined as a starting point from the generally accepted benchmarking structure, which produces a favourable tax treatment.

in the fiscal system in other countries may have an impact on the options available for structuring national tax and duty systems. In recent years, tax-competition in the area of taxation of companies including tax-free zones in some countries has augmented. The impact of globalisation through tax-competition can also be looked upon as one of the reasons for changing the tax systems (Bernadi and Profeta, 2004).

A specific problem of tax-administration, the risk of corruption and the difficulties in estimating and knowing the precise amount available for taxation will not be dealt with. However, also in Europe the hidden economy is considerably large; thereby the means for reducing it can be used as methods for financing welfare, in the future as well. To a higher degree, the development of national tax policies might be the “art of the possible rather than the pursuit of the optimal” (Tanzi and Zee, 2001, p. 2).

The core problems in many European countries are: how can public sector expenditures be financed, including spending on welfare issues in present times and in the future? This has been related to the need to find new means for financing public sector expenditures –especially whether it is normal that the current tax systems already have problems with financing public sector activities and whether the demographic transitions may have an impact on future financing (Greve, 2006). The first section to be introduced is principally a theoretical approach to the financing methods of the public sector expenditures and their distributional consequences. Subsequently, a discussion on the different methods of using taxes and duties and their impact on the distribution will be held. This first section ends with some concluding remarks concerning how to equitably finance the welfare state. Thereafter, a more concrete empirical-based analysis on the various funding types to the welfare state will follow, with a focus on the impact on equality and long-term sustainability of the fiscal system.

A difficult issue to tackle is the relation between the fiscal system and equality, as this is not only influenced by direct taxation, but also by fiscal and occupational welfare (Greve, 2007). However, to a more limited extent, these issues have been included in this analysis. However, in order to depict the impact of the welfare tax system, it is necessary to include some of the aspects related to the functioning of the tax system with regard to social issues, such as whether or not a social benefit is to be considered to be taxable or non-taxable income. The possible effect of the substitution between direct and indirect economic support to citizens also implies the need to partially cover the area of fiscal and occupational welfare. This is, for example, the case of the social support to families and housing as several countries use the tax system to economically support families, while pension systems and saving for pension purposes are intermingled with the tax system. Several countries also use various types of in-work benefits with the aim of improving the incentives to foster labour.

Historically speaking, economists have interpreted the tax system in various ways. Economics has always regarded the equality of opportunities until the last third of the 19th century: the equality of tangible conditions could be achieved by taxing the rich with high and progressive income taxes. The focus has then shifted towards potential disincentive effects and concentration of taxes on permanent workers, “taxes lost some or much of their potential impact on income distribution” (Alfonso et al, 2007, p. 6). Still, the question on incentives and disincentives on the work-life balance is open for discussion

and interpretation. However, as part of the discussion, a reference to the Laffer-curve and the impact on labour supply will be outlined.

Taxes and duties cannot be, in principle, separately analysed. This is due to the following: for those who pay taxes, the impact also depends on what would happen to society without the public income through the tax system, i. e. they would have to take out or pay for a private and probably more expensive insurance. Thus, the evaluation of the tax system must include the impact not only on macro-economic conditions, but also on private households and possible substitution effects.

The many and varied pressures on Europe's tax and duty systems will be dealt with to a more limited extent. These issues include globalisation, constraints deriving from the European integration, the common understanding of lower taxes on labour, fiscal decentralisation, links between structures of expenditure and need for taxes and duties and finally the need for simplification (Bernadi and Profeta, 2004).

11.2. Theoretical considerations

11.2.1. Introduction

Taxes and duties are, in general, defined as a payment to be paid to the public sector without given rights to a specific income or service.

In the last 20-25 years in Europe, the trend has aimed at broadening the tax-base, for example by reducing tax-reliefs. It has been recognised that by broadening the tax-base, it will be possible to lower the marginal and/or average tax-rate without having to reduce public sector expenditures (OECD 1988). Reforms implemented in the late nineties and in recent years in several EU countries, have followed this pathway (Skatteministeriet, 2001).

This indication highlights that the definition of tax-base is in itself absolutely relevant and most likely it will vary from country to country. Omissions and loopholes within the system may increase the overall level of taxes and duties for taxpayers compared to those systems mainly dealing with the means that guarantee the expected revenue. Furthermore, especially with regard to tax-expenditures, there seems to be a tendency to an upward-down effect (Sinfield, 2007, Greve, 1994)

11.2.2. Theoretical considerations

This section covers the principal arguments on how to finance (directly as well as indirectly) the welfare state expenditure and core economic arguments about the potential effects of using various means to finance public sector expenditures.

Taxation can be analysed on the basis of three different but often interrelated aspects with regard to financing:

- a) aims with different types of financing;
- b) available instruments;
- c) possible effects, especially with regard to distribution, work and savings.

A tax system can be defined upon the classical Musgrave and Musgrave (1989) textbook, according to which a “good” tax structure has to meet the following requirements:

- a) adequate revenue;
- b) equitable distribution of the tax burden;
- c) minimizing excess burden;
- d) possibility to use taxes in stabilization policies;
- e) fair administration and open system;
- f) low administrative costs.

This list of requirements is largely in line with the proposals submitted by Adam Smith (Salanie, 2003).

Historical developments of ideas can affect the understanding of what a good tax-structure is. The tendencies towards broadening the tax-base can be seen as a response to the understanding of the negative impact on the distribution of tax-expenditures (Steinmo, 2002).

It is obvious that the aforementioned requirements can and will very often be in conflict, thus raising a normative question which should be the most relevant of the 6 points when choosing among different ways of collecting taxes and duties.

Three different types of impact on social development might be achieved and analysed through the use of the tax system and with different combinations of taxes and duties:

- a) impact on allocation;
- b) impact on stabilization;
- c) impact on distribution.

Normally, it is not possible to achieve all three objectives at the same time when only one instrument is used. Allocation of resources, for example, from one economy to another could be contradictory for reasons of stabilization as well as distribution. Therefore, as a part of the assessment on the tax- and duty systems, to carry out an empirical analysis is also necessary, given each country’s specific economic structure and the way the tax system has performed before being able to clearly and concisely respond to the potential impact in the various countries.

Furthermore, we would generally assume and try to achieve a situation where as little distortions as possible emerge from financing public sector expenditures. Likewise, almost all kinds of taxation will lead to some distortion compared to a situation where no taxes are applied. Distortions can occur, for example, between the choice of work and leisure and between the use of capital and labour in the production process as well as with regard to the impact on the economic opportunities and options for individuals or groups of people.

Thus, to discuss how we can best finance expenditure if we want to minimize distortions emerging from taxation and achieve a more equitable distribution (i. e. point c above), is of great interest. Some kinds of distortions can be considered to be good even from an efficiency point of view. Examples are taxes and duties that reduce pollution, or foster behaviour for improving health. In recent years, the debate on sustainable

environmental development has led to the consideration that higher duties on energy could have contributed toward reducing CO².

Distortions can vary from country to country in terms of size and time, but they will continue to exist. There could be bigger distortions when introducing new taxes or when changing existing taxes. This is the main argument according to which an old tax can be a good tax. Furthermore, distortions on the work/leisure balance can depend on the wealth of a country. In a rich country, for example, the impact of high marginal taxes on labour supply will presumably be lower than in poorer countries. This also helps explain why elasticity is often very diverse in international empirical analysis (see Salanie, 2003, Devereux, 1996).

The argument of distortions focuses on the negative impact, often related to the growth of economies, but “for most of the post-war period, no correlation between tax burdens and economic performance was implied” (Steinmo, 2002). This is also an indication that to use the tax system only as an argument for negative impact on a country’s economic performance, would not be correct.

If a country wants to pursue an economic policy aiming at stability and intends to use taxes and duties in order to achieve this, such a change could mean a loss of welfare due to market distortions –by changing both the price and the quantity. This is the premise for achieving changes in private consumption; smaller consumption of private goods means loss of welfare. The argument focuses on the following: If a country introduces or increases a duty on a private good, the latter becomes relatively more expensive –and depending on demand elasticity- the demand will fall and the product will be sold at a higher price. This means welfare loss for both consumers and producers. For producers the reason for the loss lies in the fact that currently fewer goods are sold compared to when the same products were sold without duties, while consumers have to pay a higher price for fewer goods.

The assumption behind this, namely that society as a whole loses welfare, is based on the possibility of comparing the purchase of fewer private goods due to the new and higher duties and the utility of public sector expenditures¹¹⁸. If the public sector is able to provide goods at a lower price for the individual than the market is –this is the case of some types of insurance in relation to social security- then new taxes could imply welfare improvement.

Finally, with regard to allocations and distributional considerations, the key argument will be whether there will be a positive impact on distribution i. e. measured as a fall in the Gini-coefficient when including taxes and duties in the calculations as well as the spending of public welfare. The Gini-coefficient is often used in international comparisons i. e. Eurostat publishes data on distribution before and after tax. Alternatively, the number of persons living below a given poverty line before and after tax and the social transfers can therefore be used as an indicator of effectiveness with regard to the achievement of the equality goals by welfare states.

11.2.3. Available tax-instruments

We have many different instruments available for financing public sector expenditures. A method for systematization is the following (inspired by the OECD-classification):

118. As an alternative to the change in taxes and duties, there could be a change in the level of public sector expenditure.

- 1) general taxes and duties;
- 2) insurance basis;
- 3) social security contributions;
- 4) others.

Re 1: This includes the core taxes and duties in all European countries and it covers personnel as well as corporate taxation.

Re 2: This includes individuals who either voluntarily or obligatorily pay an insurance in order to have certain risks covered.

Re 3: This includes compulsory contributions from employers, employees or self-employed or combinations thereof. They are sometimes earmarked, often levied on gross-earnings and flat-rated. Sometimes, voluntary social security contributions also exist. They can often be deducted from the income tax-base.

Re 4: This includes user-charges, inheritance, taxes on gifts and bequest.

It is obvious that the choice between these different taxes and duties is not only a question of economic theory, but also of historical and national traditions and different understanding of the degrees of equality which are acceptable in the various countries.¹¹⁹

11.2.4. Effects

It is not possible to identify potential effects by exclusively considering the way a tax or a duty is described. We have to examine the various details i. e. in relation to the questions of distribution, who pays what specific tax. This can be done mainly within one national context.

What can be said is that the first person who has to pay a tax or a duty will not necessarily be the last person to pay. For example, employers often charge social security contributions on employees by reducing their salaries or to consumers by increasing prices.

The impact will depend on the market structure with regard to the different products, and on the labour market with regard to the bargaining process. In most European countries, there are key connections between the wages paid and the magnitude of tax and social security contributions. The implication is that in those countries which rely more on social security contributions, nominal wages are lower.

It can be argued (Vastrup, 1992) that if social security expenditure is directly financed by employers and employees, in the long run it will end up being financed by the employees through lower real wages, namely it will be financed by those who benefit from it. This also implies that in the long run no consequences on competitiveness can be expected and therefore no negative or positive consequences for the economies with regard to external economic positions, will take place. This will contrast the often-assumed negative impact of taxes and duties on the abilities that countries have when performing in international economic competition.

It is also difficult to be precise about the effects as they also depend on whether the system is private or public. The effects on distribution, saving/spending and work/leisure

119. Pro et con argumentations about the various types of financing are possible and some of them are discussed next. See, for example, Owens and Roberti (1985); Devereux (1996) and Salanie (2003).

balances will depend on the specific way on which a system has been built. i. e. if a country applies a pension system where part of the system is paid by general revenues and part by private contributions which give right to a deduction in the taxable income, then is it a priority to say something about the effects on savings? (Musgrave 1985, Greve, 1999)

The traditional micro-economic theory argues that taxes drive a wedge between price and quantity. In fact, this would have been the case on a perfect market running by itself (cf. Cullis and Jones, 1998). This is said to lead to distortion and welfare loss due to the non-optimal production.

The analysis is to be carried out within a national context, thus gaining information about the effects even though to obtain precise information is difficult (Sandmo, 1985). The reason for this is to be found in the fact that dynamic aspects interfere, which indicates that only preliminary conclusions based on certain assumptions and expectations about the effects deriving from different kinds of taxes and duties, can be achieved.

There will always be reactions to the introduction of new taxes and duties. People will presumably change their demand from certain goods to others, producers can change supply, savings can go up or down etc. These reactions should not be underestimated as we know that every individual responds –either rationally or irrationally– to the change in prices (taxes and duties can be seen as a way of informing the market about the relative change in prices from the society’s point of view).

What we know is that there will certainly be effects –and often, we know in which direction a certain tax– or duty works.

Another aspect concerns that it is not only the overall tax level but seemingly to a higher degree, the marginal tax-rates that might have an impact on individual behaviour as well as on income distribution. “Marginal effective tax-rates, which are one of the causes of these distortions, are typically high at both ends of the income distribution, and they may contribute toward poverty traps among the many individuals who rely on benefits as well as toward reductions of the work efforts or toward the attempts to escape taxation by those with a high income”. (Förster and Mira d’Ercole, 2005, p. 30).

In recent years, by various kinds of in-work benefits, the reforms implemented by several countries have been an attempt to reduce potential poverty traps emerging from the combination of taxes and duties.

A specific effect that has been discussed in literature has been the potential impact of the so-called Laffer-curve, which indicates that at a certain point on the tax-scale, individuals might stop working or paying tax, thus making the revenue decline instead of increasing. This concept is well-known through the story of an economist who was drawing on a napkin at a restaurant, or even in earlier centuries, therefore it does not require any economic analysis.

On the contrary, it is argued that in 1844 Dupuit was the first to describe the element, which had been used as an argument by the conservative Edmund Burke in the UK Parliament in 1774 during a debate on the overtaxation of the American colonists (Blinder, 1981).

We cannot argue that no top level exists; however, only through empirical analysis it is possible to identify where this top lies which with regard to the excise, might be even higher than 100 per cent. The possible impact of the high level of taxation depends on the elasticity of supply and demand.

Based on knowledge, hereabout it is “very unlikely (though not totally impossible) that the peak in the Laffer curve comes at a tax-rate that anyone might seriously entertain” (Blinder, 1981, p. 86). This conclusion is further underlined by an analysis on the historical tax reforms in the US which shows that the elasticity is modest as well as that the Laffer point has not been reached.

The analysis argued that “the notion that governments could raise more money by cutting rates is, indeed, a glorious idea. It would permit a Pareto improvement of the most enjoyable kind. Unfortunately for all of us, the data from the historical record suggest that it is unlikely to be true at anything like today’s marginal tax-rates” (Goolsbee et al., 1999, p. 44).

One possible exception to this can occur when a corrupted tax administration is involved, as an increase in the tax-rate may potentially increase the bribe amount (Sanyal et al., 2000). Still, according to our knowledge of tax-rates, recent changes (cf. below) with particular reference to taxation of mobile factors, demonstrate that the Laffer-curve is interesting although not very stimulating when trying to plan the reasons for financing the public sector. At the same time, policy-makers naturally need to be aware of possible negative effects arising from a high level of taxation especially on the margin and presumably when combining the effects of taxes and changes on welfare benefits.

Another possible effect of the tax system which has been discussed could be that a high tax-level would have a negative impact on the growth of the economies. However, no clear evidence of this can be found and the results of the correlation lead to the hypothesis of connection which can be either “true, false and spurious, and finally also indeterminate” (Bernadi, 2004, p. 496).

11.2.5. More on specific methods

As already mentioned, there are many and varied ways of financing welfare state expenditure. In theory, financing is not the goal of taxes and duties, but contrarily the intention to minimize the demand of society in order to keep it in line with the production possibilities, even though in the practical everyday political decision-making the core issues regard how to finance public sector expenditures both in the present and in the future.

This section will briefly outline the most used set of instruments with a discussion on how they might affect the economic distribution. It is only our imagination that restricts the possibility of finding new taxes and duties. We can impose, in principle, taxes or duties anywhere on the income flow in society. This includes wages, capital income, profits, payrolls, consumption, savings and investment. Taxes can be imposed on the market factor, market for consumer goods, or firms and households.

This shows that in theory, the possibility of taxation is unlimited. With regard to national economy, the only important thing is how to impose the different means to finance public sector expenditures with as little costs as possible.

11.2.5.1. Taxes and duties

In many European countries, most public financing comes from taxes and duties. These can be proportional or progressive income taxes or duties on a variety of areas. Flat-rate income taxes have been introduced in several EU-countries. The most frequent duty is the valued added tax, for which in the European area there is a common agreement about the spheres on which it can be used, thus limiting VAT. The maximum VAT is 25 per cent i. e. it was possible to reduce VAT on food and clothes for children; high duties are applied on goods such as liquors, perfumes and other luxury goods. Often, cars are also the target of high-level duties. In recent years, environmental taxes and duties on products, such as gasoline, electricity, heating and water, have increased.

Considered from an equity point of view, progressive income taxes will transfer money or at least take money from people belonging to the higher income brackets, and through direct public provision, provide lower income groups with a relative better position. Three different routes to achieve advancement in the tax system can be found in the European OECD countries, namely through the divergences in the tax-rates, the allowance systems and through a combination of tax-rates and allowances applied to different persons, as outlined by the following:

- a) tax-rate: France, Italy, the Netherlands and Spain;
- b) allowance: UK and Ireland;
- c) combination: Denmark, Belgium, Finland, Germany and Sweden (Wagstaff and Doorslaer, 2001).¹²⁰

The focus of many recent tax reforms has been the tax-rate. Besides the tax-rate, allowances and deductions have an impact on progressivism. Furthermore, the use of tax-credit and exemptions from income can have an impact according to how much the system is progressive or not.

How progressive the tax system should be depends on the possibilities of using tax reductions and the tax expenditures built in the systems. In general, measures on tax expenditures (Greve, 1994; Sinfield, 1993; Howard 1997; Brixi et al., 2004) seem to favour higher income groups and thereby minimize the progressive character of the income tax system. Using tax expenditures to achieve a goal also increases the degree of appreciation of a more complicated tax system. Still, the income tax and in particular, the progressive scale on gross income will tend to enhance a more sound distribution of the income. Income taxes like head taxes or proportional taxes, will have less impact on the distribution, while a head tax will have a negative impact as this would imply a relatively higher burden among low-income earners. Furthermore, to have a relatively high income which might be earned without paying income taxes may augment the redistributive character of the income tax, with the implication that it will be higher than expected.

A lower tax on capital might imply an inequitable situation for some persons comparing wage earners to non-wage earners; although Sørensen (1993) argues that in a

¹²⁰ Denmark has not been included in the analysis. The data included in the analysis is OECD data; since 1990 several changes have taken place and the split between countries should mainly be seen as an indication of the variety of approaches available in Europe.

life-time perspective a lower taxation on capital implies more horizontal equity compared to when an income is taxed. On the other hand, increasing the difference between income and capital tax will increase the possibility for tax avoidance and the tendency to transfer money between the different sides of a tax system.

Lower income taxes on companies have been part of a trend in Europe (Eurostat, 2008), which might be seen in the light of tax competition among countries (cf. following). The overall impact of taxes on companies' income depend not only on the tax-rate, but also on the often complicated and difficult issues related to global taxation, transfer pricing etc. The tax splitting towards a more distinctly dual tax system between income and capital taxations (with lower taxes on capital) can be considered as part of the development. However, it is also "surprising the extent to which incomes from capital sources are lightly taxed" (Tanzi, 2005).

Duties might also be working in the direction of a more just society, especially if duties are chosen by concentrating upon luxury-goods. This is one of the areas where the most open economies and borders seem to imply a certain pressure, which has a negative impact on distribution and which renders the introduction of a higher taxation on luxury goods compared to other goods, complicated for each country if other neighbouring countries are not doing the same. Duties might be regressive if the proportion of the income spent on certain items is higher in low-income deciles compared to high-income deciles. This argument concentrates on goods while consumption seems to depend on the income. The national analysis on consumption patterns between different income groups is therefore a useful tool in finding a structure to meet these goals.

Even without these specific analyses, duties might be of great relevance as they render the avoidance of a payment more difficult –except when trading in the hidden economy. Therefore, duties will be a way to ensure that all income groups contribute to financing public sector expenditures. Furthermore, they represent a payment for being in a country and using facilities. Countries with a large number of tourists might also use this as a way of getting income from tourists, although the natural balance here is whether this will make the country more expensive to travel compared to other tourist places.

11.2.5.2. Insurance

Insurance can be considered to be a very special method for financing public sector expenditures. It is, in fact, doubtful whether or not it can be called financing unless the participation in the insurance is compulsory. If it is compulsory, then the characteristics of an insurance-based system will very much look like a general tax (either a head tax or income tax).

Using insurance can be seen as a way for privatizing the welfare state where each individual pays a fee based upon the risks that they have to run with reference to the occurrence of a certain event. Combinations, of course, exist where the State pays for the marginal expenditure and the claimant for a specified amount, although the welfare state in itself is understood as a collective insurance. If it works as an insurance-based

contribution, then there must be a possibility of opting out of the system and choosing, for example, to be self-covered.

There seems to be a high risk of inequality if and when the core of a system is built on insurance. Inequalities will emerge if the systems are not regulated, thus implying that positive risks will go hand in hand and will leave the negative risks to create their own system. Furthermore, high-income earners will be able to cover better opportunities for payment than low-income earners. Therefore, systems mainly based (or at least heavily relying on) insurance systems will tend to be more unequal than other types of financing.

From an individual perspective and with particular reference to the low income groups, the key advantage of an insurance-based system is that the stigmatizing effects tend to be less, given that a payment is due in the case a social event occurs.

From society's point of view, an insurance system might give more economic freedom to reallocate resources to the poor if insurance means less pressure on public sector expenditures. By reducing the pressure on the public sector – without implying an overall expansion of the system as in the US healthcare system – it might be possible to avoid the worst and most negative impact on distribution. In practice, insurance systems lead to the creation of a more dual society divided into those who can pay to be included in the insurance systems and those who cannot.

11.2.5.3. Employer/Employee contributions

Social security contributions¹²¹ are defined as contributions that are:

- a) paid to general government institutions providing social security benefits;
- b) levied as a function of earnings, payroll or the number of employees;
- c) earmarked to provide social security benefits;
- d) made by an insured person or their employer.

Employer and employee contributions defined as such, are used in many countries throughout Europe. Traditionally speaking, the intention has been to finance social security under these contributions (cf. Shibata, 1985; Owens and Paoly, 1985; Musgrave, 1985), namely a fixed amount or a percentage of the payroll/wages or combinations thereof. In some countries, the amount paid in this way goes into specific funds, which are subsequently used when a specific contingency occurs.

The many different ways by which contributions have been used shows that a variety of possibilities exist. Sometimes, it can also be difficult to distinguish between contribution and income tax. Often, the difference is that contributions are paid only by those who actually perform on the labour market, while taxes and duties are paid by the whole population. How much does the difference depend on the system definition? For example, what role does the tax threshold play and in what ways are the various contributions levied? Finally, how is access to social benefits and services?

121. OECD Revenue Statistics.

A key problem from an equity point of view might be that unemployed people will not be covered, while people who are outside the labour market for short or long periods of time will be covered to the same extent as the rest of the population.

A further problem is –at least in some countries– that the benefits deriving from contributions are related to the condition whether a person stays with the same employer –i. e. the case concerning pensions in some countries. Finally, the risk of bankruptcy when contributions are paid to a fund with a not well-developed administration could imply that the individual who thought of being covered was actually not.

Concerning the overall impact on distribution, contributions seem to go towards a more unequal society. This might be further strengthened when discussing employers' contributions as this could encourage the use of capital instead of labour and, thereby, increase unemployment. Thus, new types of contribution should be carefully analysed, in order –perhaps– to reduce or eliminate the existing ones or make them progressive.

11.2.5.4. Combinations

This is just to mention that a whole range of combinations exists for the financing of welfare state expenditure. Combinations where contributions can be deducted from the income tax-base are one example.

What is to be expected from combinations and possible effects on distribution, allocation and stabilization can only be judged by considering the precise structure of such combinations in each country. However, the argument described above concerning individual elements can be seen as a guideline for understanding how different types of taxes and duty systems work.

11.2.5.5. User payment / User charges

User charges are an indirect method of financing public sector expenditures. The main reasons for their use are the following:

- a) they raise revenue;
- b) they can regulate demand;
- c) They can improve allocative efficiency;
- d) they prevent abuse.

User charges can be considered as an attempt to utilize market mechanisms in order to improve efficiency in the supply of public services. The theoretical argument is that people demand more when they do not have to pay for a good; thereby, by free provision the correct preference revelation does not take place.

The main problem concerning the use of user charges is that people can decide not to use public services if they have to pay for a charge and this implies –especially in the field of health care– a demand that in fact is too low i. e. the preventive use of medicines or

visits to a general practitioner at a late phase. Thereby, in the long run, this would increase expenditure due to a higher rate of illnesses and mortality.

User charges and user payment are very similar to the insurance system and obviously present the same problems regarding equity as described before, but the final outcome depends very much on how charges are calculated and whether all citizens have to pay for them. It could be possible to introduce charges that vary according to the consumer purchasing power, i. e. by introducing different types of voucher schemes. When doing so, they might not work in a negative direction (Greve, 2002).

One of the main problems with user charges is related to high combined marginal taxes and the reduction of social security benefits. This might imply a combined marginal rate above 100 per cent, which reduces the possibility of charging under a different scale for different income groups.

11.2.5.6. Wage-related contributions

Wage-related contributions may involve both advantages and disadvantages.

Advantages are mainly related to the payments for public sector expenditures which –at least in certain areas– fall upon those groups who use the public sector. The latter also has a very broad base to be taxed with relatively simple tools and eventually establishes a more definite link between certain income transfers and their payment.

On the other hand, this last point may also correspond to one of the disadvantages in the sense that it can exclude a person from having access to certain benefits, thus eliminating part of the general access to benefits. Another problem is this: If a contribution is to be sustained by the employers as a percentage of the employee's salary, it will end up discriminating labour-intensive industries and indirectly supporting highly technologically developed industries with low labour costs.

This demonstrates that if wage-related contributions are to be applied, these must be directly paid by the employee in order to minimize discriminations.

11.2.5.7. Removal of tax-subsidies

The removal of tax-subsidies or tax-expenditures and the broadening of the tax-base are methods for increasing both the revenue and equity when providing and financing public sector expenditures.

Tax-subsidies can also be seen as public sector expenditures, while the removal of tax-subsidies can contribute to reducing direct public sector expenditures. If the level of taxes is an indicator of possible distortions, at the same time, it reduces distortions.

The trend in Europe has been the reduction of tax-subsidies, the increased simplicity of the systems and the broadening of the tax-base, so as to lower tax-rates.

11.2.6. Theoretical discussion on distributional issues related to the various types of financing

In general terms, the distributional consequences of taxes and duties depend on how income, wealth and consumption are distributed in a given society. Direct taxation, including progressive income taxes, is moving towards more sound distribution. Duties on luxury goods are going in the same direction, while duties on basic food tend to work in the opposite direction. Direct taxation, especially income taxation, is preferred to most indirect taxation, if the intention is to increase the degree of equality.

With regard to environmental duties, in particular when these are levied on the final consumption, potential distributional consequences cannot be prioritised because many of the products produced seem to be basic goods; therefore the trend is towards a more unjust distribution. On the other hand, heating, gasoline and electricity are more often used by high-income earners and this counteracts the general tendency. The latter can be counterbalanced by using a higher revenue to create special low tax-rates for low-income groups or transfer income to these groups. This contradiction demonstrates that it is necessary to explore the field of spending patterns in order to achieve the desired balance between distribution, allocation and stabilisation, also by targeting the revenue to vulnerable groups.

Insurance-based systems are used to finance the welfare state expenditure, their distributional effects depend on how systems are organised. The closer the systems come to a proportional (or progressive) tax, the closer it will be to general taxation, thus minimizing negative distributional consequences.

Insurance-based systems, purely organised by the market, tend towards a more unjust distribution. The reason for this is the connection between income and risk of unemployment. People with a life expectancy below the average will have to pay for higher insurance premiums than others do.

Generally speaking, changes in different sections of the tax and duty system need to be combined if a more equal distribution and more sound financing welfare expenditure are desired. The combination between the way the tax and duty system is used and the way the public sector expenditure is spent is an important lesson with regard to the distributional outcome. This also implies that decisions on taxes and duties are not only of a theoretical nature, but they also rely upon concrete empirical evidence of the income structure in society, among other things.

The analysis has to be combined with the impact of public sector expenditures on distribution, which might reveal that even a proportional tax system can end up with what the public sector redistributes in the economy, namely using expenditure both for horizontal and vertical redistribution.¹²² An example of this is the method of family support in the European Union through the tax-benefit system. Tax-exemption in the EU-15 in 2003 for families with children was available in Belgium, Germany, Ireland and Spain. Tax-credit was available in Greece, Luxembourg, the Netherlands, Portugal, Spain and the UK. The Nordic countries and France did not use income

122. Vertical redistribution refers to the distribution between rich and poor. Horizontal distribution refers to the concept that equal should be treated as equal e.g. persons in the same situation, for example, families with children.

related tax-instruments. Tax-concessions seem to be awarded to better off families, while the use of direct benefits based upon means test would improve redistribution. Supporting families with children helps to achieve goals of horizontal distribution and can also be used in relation to vertical redistribution. Furthermore, “tax-concessions tend to involve less distortion in terms of work incentives and have fewer problems of non take-up” (Applica, 2007).

At the same time payment for day care can be considered to be a kind of “extra” tax on the second wage earner as this will reduce the net take-home pay. This might also explain why many European countries today either have a working tax-credit and/or low payment for children care (OECD, 2007).

11.2.7. Summing-up

The theoretical analysis shows that a broad variety of taxes and duties needs to be used in order to finance a modern welfare state and that the combination of taxes, duties and public sector spending are an important parameter on which to adjust the outcome of social decisions in these areas.

Given the increased openness of economies, taxation of non-mobile factors will be more important in the future. How this can be done will vary from country to country, but searching for stability in the public sector income also implies a need for taxation in such a way that fluctuation, for example, in prices and income from stock and bonds do not have a large impact on the revenue.

How to combine the various instruments further available depends on the structure of income and wealth in different countries and on the given preferences for the degree of equality to be reached by countries. This implies that decisions need to be based on sound empirical knowledge in the various countries.

The main tax-instruments available, including key advantages and disadvantages of different instruments, is summarized in Table 11.1. It is recalled that the context and structure of each country are important in order to evaluate possible advantages and disadvantages. The indication of the types of welfare regime which are mainly used in, are only indicative, as most countries use a broad variety of taxes; thereby, all instruments are used in more or less all countries, so the understanding of “used in” should be interpreted with caution.

Table 11.1. Summary of tax-instruments

Main tax-instruments	Advantages	Disadvantages	Used in – and reference to main welfare regimes
Income tax	Can ensure a high-level revenue, and can be made progressive. To be applied both on wage-earners and companies.	Risk of changing balance between work and leisure, especially with high marginal tax-rates.	All European countries, especially Nordic universal welfare regimes.
Value Added Tax	Relatively simple, can vary between types of goods, for example, low or zero on foods. Will also be paid by tourists and those who do not pay income tax.	Might have a negative impact on distribution as persons with lower income tend to have a higher propensity to consume.	All European countries, especially Southern and Eastern welfare regime countries.
Duties	Can be targeted to luxury goods and might thereby have a positive impact on distribution. Can also help enhance the environment.	Administration, and, if not targeted, upside-down effect.	To varying degrees in all EU-countries, however Southern and Eastern to a higher degree.
Social security contributions	Simple and effective, ensure financing of welfare activities.	Risk that those outside the labour market are not covered.	Especially in the central continental and liberal welfare model in Europe.
User-charges	Increase the information on consumers preferences and are paid by those receiving the services.	Risk that those with low income do not get the service or do not receive it at the right time.	Especially used in healthcare and transport, day-care for children in many EU-countries. Liberal model countries to a high degree.
Others	Can be a method for taxation of inheritance, wealth, housing.	Mainly administrative, but also possible negative side-effects in relation to mobility.	Only more limited, with a varied structure.
Tax expenditures	Simple, can be targeted to areas considered relevant by the political system and less visible in the political process.	Up-side down effect, make priorities unclear and also labelled by hidden welfare state.	In most countries, the size is not clear; no clear relation to the model, however high in Nordic countries.

Note: See also Table 11.2. containing information about the highest and the lowest levels with regard to the use of different kinds of taxes and duties.

11.3. Empirical data with regard to the European Union¹²³

In 2005, the total tax-revenue¹²⁴ in the EU-27, calculated as arithmetic average, was 37.4 per cent of GDP (see Table 11.2.), which is higher than in the US and Japan. Thus, at international level, the European Union is a high-level tax area which ranges from over 50 per cent in Sweden and Denmark to below 29 per cent in Lithuania and Romania. In the last 10 years, the tax-revenue firstly increased up to around 41.5 of GDP in weighted average from around 39.5 per cent in 1995, and then slightly to 39.6 per cent. This indicates that the level of taxation has remained relatively stable.

123. If no other source is shown, the data on taxes in this section is extracted from the Eurostat statistical book "Taxation trends in the European Union. Main results" 2007 edition. European Commission, Brussels, 2008.

124. The article is not deliberately included in a discussion on the overall tax-burden as this is influenced not only by the way tax- and duties are levied, but also by the divergences in relation to whether or not social transfers are liable to tax.

Table 11.2. Ranking of the countries in the EU-27 on central taxation aspects in 2005

Tax-element	1	2	3	EU-27	25	26	27
Total tax-revenue as per cent of GDP.	Sweden (51,3)	Denmark (50,3)	Belgium (45,5)	37.4	Slovakia (29,3)	Lithuania (28,9)	Romania (28,0)
Indirect taxes as per cent of GDP	Bulgaria (19,0)	Denmark (17,9)	Sweden (17,3)	14.4	Germany (12,1)	Czech Republic (11,9)	Lithuania (11,5)
Indirect taxes as per cent of total taxation	Bulgaria (52,8)	Cyprus (48,1)	Romania (43,3)	39.1	Finland (32,1)	Germany (31,3)	Belgium (30,5)
Direct taxes as per cent of GDP	Denmark (31,4)	Sweden (20,1)	Finland (17,9)	12.0	Bulgaria (6,4)	Slovakia (6,1)	Romania (5,3)
Direct taxes as per cent of total taxation	Denmark (62,5)	UK (45,4)	Sweden (39,3)	31.1	Poland (24,2)	Romania (19,1)	Bulgaria (17,9)
Corporate income tax as per cent of GDP	Luxembourg (6,0)	Cyprus (5,4)	Czech Republic (4,5)	3.1	Latvia (2,0)	Estonia (1,4)	Germany (1,1)
Social contributions as per cent of GDP	France (16,4)	Germany (16,3)	Czech Republic (15,1)	11.2	UK (6,9)	Ireland (4,8)	Denmark (1,1)

Source: European Commission (2007), Taxation trends in the European Union. Main Results.

Note: 1, 2 and 3 indicates the highest level, 25, 26 and 27 the lowest level with the EU-27 figure as arithmetic average in the middle; the actual level is shown in brackets.

Table 11.2 is based upon a ranking of the national tax and duty systems. It shows how important different elements are located within the different EU-countries tax and duty structures. The comparison does not take into account the differences in the use of tax expenditures, tax concessions, etc., and hence that this ranking can be used as a presentation of the various types of tax systems existing in the EU-countries.

The picture shown by the table indicates that, in general, the Nordic countries and Belgium are the countries with the highest tax level, and that the new member States have a lower total level of taxation. The table outlines as well the variety of uses of the different approaches to taxes and duties in the EU. Income tax and direct taxes are important in the Nordic countries, which receive a lower part of the revenue from social security contributions. The Central European welfare States, like France, Germany and the Czech Republic, are at the top with regard to the use of social security contributions. Eastern European countries put relatively more emphasis on the use of indirect taxes with Bulgaria at the top. Regarding corporate income tax, although the variation in percentage points between countries is limited, the picture is even more mixed, with Luxembourg, Cyprus and the Czech Republic at the top and Latvia, Estonia and Germany with the lowest point.

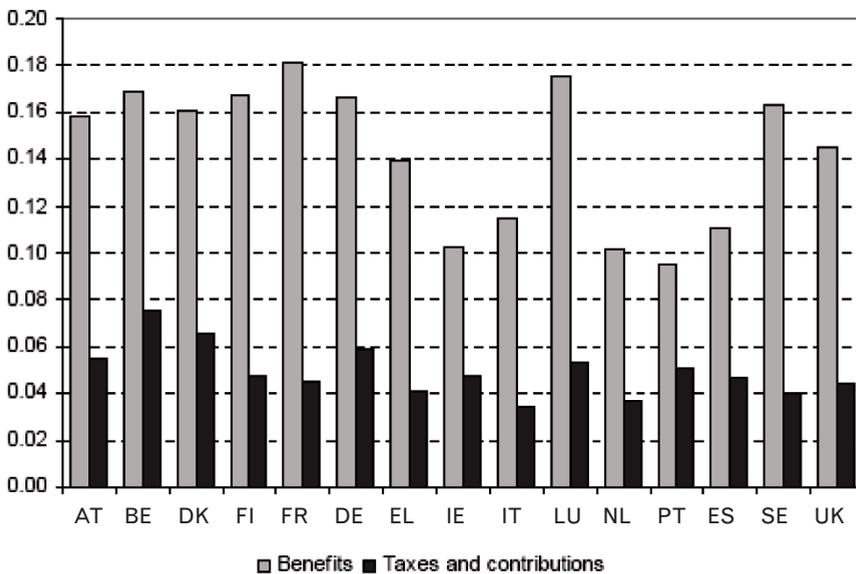
Besides the overall level of taxation, it has been frequently discussed how the income tax might have an impact on work and savings. In 2005, the average top income tax-rate was close to 39 per cent ranging from a minimum of 16 per cent in Romania to a maximum of 59 per cent in Denmark. In recent years, there has been a decline in the top-

level taxation of European countries, although it has not been understood whether or not this has been an attempt to undertake competition in a downward direction with regard to income taxes. Still, the trend seems to indicate that in EU countries the overall tax system has changed towards a less progressive tax system.

With specific regard to the implicit tax-rate on labour, the latter was stabilised over the last years. In 2002, it was higher in Sweden, Finland and Belgium, and, lower in the UK and Ireland (based on data on EU-15) (Hijmans and Acciari, 2004). This figure also shows that the relation between micro- and macro-analysis on most income taxation is strong.

In the last 10 years, EU-member States have also dramatically lowered the top tax-rate on corporate income from an average close to 35 per cent in 1995 to around 25 per cent in 2006. This can be explained by saying that to take a risk when using tax-competition among countries, may help improve the national situation. Furthermore, this might be due to a more global development given the relatively easy opportunity for companies to relocate their main office, as well as to reduce taxation on company profits depending on the precise nature of double-taxation agreements and global income taxation principles. In 2007, the range of corporate income tax varied from 10 per cent in Bulgaria and Cyprus to around 38-39 per cent in Italy and Germany. Nevertheless, development has been partially counteracted by a broadening of the tax-base implying that the implicit tax-rate on capital has increased in the EU-25 from around 24 per cent to 27 per cent of the capital income. Larger OECD countries tend to have a higher rate than smaller countries. The general trend has been directed towards lower tax-rate and a broadened tax-base, for example, by reducing tax depreciation allowances (OECD, 2007b).

Figure 11.1. Reduction in original income inequality due to taxes and benefits 2003 (2001) (absolute changes in the Gini coefficient)



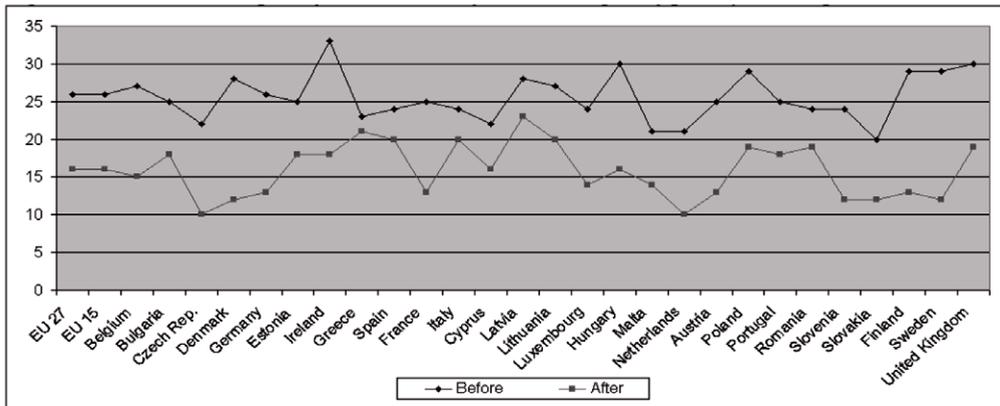
Sources: EUROMOD
Applica, 2008

An opposite trend –although less dramatic– has occurred in the taxation on consumption in the member States. In the last 10 years in the EU-25, the implicit tax-rate on consumption has increased from 21.5 per cent to over 22 per cent.

Taxes and duties have a strong impact on the income distribution in EU countries and, in general, the systems in all countries have increased the degree of equality. However, as both benefits and tax-concessions affect inequality, in the analysis it is important to integrate the impact of both taxes and duties and social benefits, in order to take a clear picture. The overall picture that emerges from this type of analysis (although only for the EU-15) is that “the effect is larger in those countries where net income after taxes and benefits are more equal” (Applica, 2008). In this regard, the impact on equality is largest in the Nordic countries, Belgium and Luxembourg, while Southern European countries and Ireland have the least redistribution. In all cases (see figure below) the main impact comes from the benefit system. In several countries, support to families with children through tax-concessions has an upside down effect.

In 2003, the main focus in relation to environmental taxes in the EU was on energy taxes, which accounted for more than three quarters of these taxes. The main burden was on households, thus implying the classical conflict in terms of distribution and financing. On the contrary, energy taxes tend to have a negative impact on redistribution as they are based upon, for example, a fixed amount depending on the joule energy used. In the EU, the energy-taxes paid varied from 4 per cent of the net-disposable income in Denmark to 1per cent in Belgium, Spain and Bulgaria (Eurostat, 2007).

Figure 11.2. Combined impact of taxes and benefits on the degree of poverty in European countries



Source: Based upon an extract from Eurostat 28th of May, 2008

Note: The blue line is before taxes and the pink after taxes and transfers.

The figure shows that, with the exception of Bulgaria and Greece, all European countries have fewer people living below the threshold of poverty when taking the impact of the tax system and social benefits into consideration. This is an indication of the fact that the tax system plays an important role in ensuring that few people live in poverty

conditions, but also that the welfare state plays a key role in this sphere and that the way the benefit system is structured has an impact on the degree of equality achieved by the various EU countries. It is obvious that “taxes and benefits play a complementary role in reducing inequality in the distribution of original income” (Applica, 2008). To a higher degree compared to other countries in Europe, the Nordic countries as well as Belgium seem to be relying upon progressive income tax; while the Southern European welfare state uses progressive taxes to a lesser extent.

A fourth element often debated with regard to the tax system is the tax-wedge, i. e. the difference between the employers total labour cost and the net take-home pay for employees, and how it differs across different family types and different earning levels (OECD, 2008). With regard to this, the EU-countries with the highest tax-wedge are Belgium, Hungary, Germany and France, whereas those with the lowest are the UK, Portugal and Luxembourg.

The combination of taxes and reductions in social security contributions is another important aspect of the possible impact on low-income earners. This is often referred to as the “unemployment trap”, i. e. there are no incentives to take up a job due not only to the tax system but also to its combination with the welfare systems. The argument is that the labour supply for low income earners is particularly elastic (Immorvoll et al., 2007). According to Eurostat (2008) data, a single worker without children earning 2/3 of the average income, in 2006 for the EU-27 this trap was on average 75.4. It was higher in Slovenia (94.1), Denmark (91.0) and Luxembourg (88.0) while the lowest levels were identified in Slovakia (44.0), Greece (59.0), and Malta (61.7). Of course, this reflects the differences not only within tax systems, but also within welfare systems and the generosity of welfare benefits. Once again this expresses the importance of combining the analyses on tax- and welfare systems.

Government policies play a significant role in accelerating or moderating trends of income distribution and poverty. Förster and Mira d’Ercole (2005, p. 28) consider that “within each country, the combined effect of the tax and benefit systems is to lift out of relative income poverty more than half of the population”. According to their analysis, the variation in the ability of reducing poverty is estimated to be one quarter in the US and two third in Denmark.

11.4. Examples of tax reforms in Europe

There are several reasons for tax reforms: globalisation, the European single market, tax-competition are some of the reasons, while the pressures exercised for being able to finance the welfare state is another reason. If these pressures were high and countries moved in the same direction, we would expect development towards tax-convergence among European countries. From 1970 to 1997, only limited tax-convergence among the old EU members seems to have taken place, especially in the area of direct (mainly income tax) and, at a certain degree, indirect taxes (Bernadi, 2004).

A reason for tax reforms moving towards broader-based tax systems lies in the fact that they intend to render the tax system more efficient (cf. conditions for this, earlier in the chapter) so as to make tax-evasion less likely. Broadening the tax-base presents the same advantages of a lower overall tax-rate which ensures the same level and revenue.

A specific type of tax reforms that has taken place in many European countries, especially in Eastern Europe, has been to implement a flat rate tax. In 2007, 22 countries around the world had a flat-rate tax system of which a half was in Eastern Europe (Paulus and Peichl, 2008). A flat-rate tax may exist with or without a basic allowance before paying the income. If the revenue has to achieve the same level, then the basic allowance must augment as high as the level of the flat tax-rate. At the same time, using a basic allowance could imply at least a certain degree of progression in the tax system. In 2008, the Czech Republic enacted a flat tax reforms by significantly widening the tax-base, so that the tax-base also included social security contributions. This implied significant gains for high-income earners. At the same time, when including cash-benefits, there are still relatively high marginal tax-rates (OECD, 2008a).

It is often argued that a flat-rate tax can enhance labour supply, reduce tax-evasion and simplify the tax system; still, the revenue from a flat-rate tax cannot solve the trade-off between equity and efficiency. Even though it might improve work incentives, it can also lead to “more inequality, poverty and polarisation as low rates benefit mainly those with high income at the expense of low and middle income households” (Paulus and Peichl, 2008, p. 2). In several OECD countries, tax- and benefits reforms have been enacted in order to increase work-incentives. However, these have been mainly pursued within the benefit system, while in Europe especially in Germany and the Slovak Republic the tax system has also been used (OECD, 2007a). This is in spite of the fact that in earlier times working families’ tax-credits or other exceptions were introduced in a number of European countries and that many Eastern European countries also have a variety of supports and reliefs embedded in the tax system to enhance work or to support families (Gandullia, 2005).

The development of personal income taxes in Eastern Europe has to be seen in light of the fact that before the fall of the Berlin Wall and with planned economies, there was no need for tax-administration and tax-laws. This means that it had to be built from scratch. The tax-mix between Eastern Europe and the original EU-member States is different with higher emphasis on social security contributions in Eastern Europe (Bernadi et al., 2005). At the same time, more detailed and comprehensive tax systems, as part of the economic and monetary development in Europe, imply greater focus on central taxation (Gandullia, 2005).

Although the ambition has been to achieve a more equal playing field with regard to corporate taxation, there is still a large variation in the effective corporate tax-rate in Europe (Schlinder and Schjelderup, 2006). An example of that is not only the tax-rate, as often discussed in relation to tax-heavens which are relevant, but also the ability to make deductions as well as the differences in rules i. e. transfer pricing might have an impact on the functioning of the overall tax system. Still, an important issue is also how to tackle multinational companies and their taxation, so that they want to settle in a country and, at the same time, to participate in the financing of the public sector, including the infrastructure necessary to continue their activities.

Since 2008, Germany has implemented corporate tax reforms in line with the current trend towards a lower tax-rate and, at the same time, a broader tax-base. Among the changes, a barrier to reduce the deduction on interest spending has been identified. Still, OECD argues that there is a need to shift the tax system more towards immobile tax-bases (OECD, 2007B).

Increased focus on using environmental tax and duties to reach the so-called double dividend (i. e. lower pollution and reduction of distortionary taxes) has been the case in most EU-countries. They can be based on the quantity used, time scale and access. Criticism has been made when using the possibility of buying rights to emission which implied that the rich could still pollute. Another part has regarded the fact that if one country alone introduced taxation, given free movement of goods and services, then products shall just be produced in another country. Furthermore, it seems that tax reforms in this direction have met opposition, and that a lack of trust emerged from the fact that the government would recycle the revenue in order to achieve, for example, lower taxes on wages. (Dresner et al., 2006). In order to ensure a just outcome of the increased use of environmental taxes and duties, reducing the taxes on very low income groups or increasing income tax-thresholds or direct transfer of benefits, are the steps to be undertaken (Clich et al., 2006).

The UK can be mentioned as an example in the field of green-taxation. The country implemented reforms to increase environmental incentives, including vehicle excise duties linked to emissions from cars. However, the revenue has slightly declined as a percentage of GDP due to the fact that the government stopped the annual above-inflation increase in fuel duty, so as to tackle the risk of fuel poverty (Choe et al., 2007). Again, the risk of trade-off between efficiency, the achievement of different revenue targets and the equality issue is at stake.

Spain, like other countries within the EU, has dealt with the debate on how to reduce the tax-burden on labour as a way for both reducing disincentives to work and, to a certain degree, also to improve competitiveness. This has been done mainly by shifting the tax system towards consumption-based taxation. Furthermore, the aim has been to promote tax-neutrality between different methods of taxation and to improve tax-collection. A combination of these with a specific allowance for low-income earners may prevent an increase of working-poor population. In addition to this, Spain has broadened the tax-base (Tondani, 2002).

The increased focus on labour supply, competitiveness and other aspects has drawn greater attention on horizontal equity measures. In recent years, the use of various types of support to low-income families through the tax system has increased – child tax-credit, basic allowances, working earned income tax-credit– (Gandullia, 2004). This allows to register an impact on distribution from the tax system.

11.5. Conclusion

As described above, many different methods for financing public sector expenditures have been identified, which, to a varied degree, are applied to all European countries. Cross-country differences mirror the historical traditions as well as the divergences in the social structure and the efforts of the welfare states.

If the starting point is the intention to ensure a just income tax, then broadening the tax-base will be a way to its achievement, namely by introducing a gross amount or close to income tax. By introducing this tax, the system will move towards a more equal system, as payments will increasingly depend on earned income and not on the size of the deductions available for different groups. Still, for equality reasons a progression in the scale is needed,

i. e. a low flat-rate income tax, as introduced in several EU-countries, could imply higher inequality.

If the starting point is to reduce the impact of the international mobility of labour and capital, then taxes and duties on immobile factors – which are more difficult to avoid when actually living in a country – are important, because higher income groups spend a higher proportion of their income, and thus higher taxes on immobile factors.

Environmental taxes have been introduced in all European Countries in the last few years on one hand, as a way of financing public sector expenditures and on the other, as a way of reducing environmental problems. These duties are expected to cover areas where natural resources are scarce or expensive to be produced. A broad variety of these can be introduced, ranging from excises on gasoline, electricity, heating and water, to various types of congestion charges and payment for driving into cities which depend on the ecological quality of the transport used. Higher taxes when buying a more polluting car or higher yearly charges for cars which drive fewer kilometres per a litre of gasoline could also be included.

Further analyses show how the market can be used as a way to implement environment duties, so that market prices reveal the total cost of goods production, including social costs to clean the air, water, land etc. These types of duties do not necessarily encourage a more just distribution, but they may show the trade-off which is often the case between efficiency and equity, as well as other goals of the tax system for ensuring the sufficient revenue and the degree of equality. It might also be important to use part of the revenue from environmental duties to compensate those with the lowest income.

If the key point is to combine the public sector provision with the achievement of an equity outcome, progressive user-charges might also be used. By imposing higher charges on higher income groups, the main problem will be to avoid too high combined tax- and charge rates, as this may lead to poverty traps or disincentives to work. A link between tax- and welfare policies is important as the same goal can be achieved, to a higher degree, in both systems because analysing only one part might not lead to very precise conclusions.

Taxes on wealth and inheritance could improve the equality of systems, even though it will be difficult to enforce them in a European area with open borders.

The overall conclusion is that many possibilities exist if we want to finance the welfare state through the tax system, so that we can both finance public sector expenditures and, at the same time, try to achieve other goals, i. e. better environment and a more just distribution. The structure and composition of the tax system needs to take into account the variety of ways under which systems are organized in different countries. The size of the public sector revenue has also an impact, even though it is of great importance to be aware of the expected outcome of the total combination of the tax- and duty system and the public sector spending.

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12. Comments on Professor Bent Greve's chapter on "Taxation, Equality and Social Cohesion. European experiences and practices"

OSCAR CETRÁNGOLO AND CARLOS AGGIO

Professor Greve's chapter provides a quick and substantial presentation of the ways in which European welfare State financing has been taking place, stressing the impact of taxes and other payment mechanisms on equity and social cohesion. I will attempt to present some comments on the important points expressed in this chapter to use them in the consideration of the Latin American case. It goes without saying, the complexity of the issues to be dealt with cannot be reasonably approached in these few pages, but I will deal with the most important aspects to be taken into account.¹²⁵

We all know the difficulties that just about all Latin American countries have traditionally faced when collecting taxes, particularly those with a higher redistributive potential (on income and personal assets). Since this is the region with the worst distributive indicators, it is clear the existence of an unmet demand for social policies and higher fiscal resources for their financing. Also, we can see that wealth concentration is one of the most widely presented reasons for the difficulty in raising collection levels.

Recent changes in the region's taxing system structures, additionally, do not seem to have aimed at building more progressive schemes by means of an increase in direct taxing, particularly tax on incomes. It is also worth pointing out that the substantial weight of taxes rests on companies and, to a lower degree, on those paid by individuals; rather different from what we can see in developed countries.

I will now present some stylized features that should be taken into consideration for a full understanding of Latin American's situation with a view to comparing it with Europe's, on the basis of the facts presented by Professor Greve.

1. Tax burden is low and insufficient

This must be approached through three different analyses:

- most Latin American countries' level of global tax burden is lower than that they should have on the basis of its degree of development, according to the available "tax efforts" data.¹²⁶

125. See Cetrángolo and Gómez Sabaini (2007a); and Cetrángolo, O. and Gómez Sabaini, J. C. (2007b).

126. These studies can be reviewed in Cetrángolo and Gómez Sabaini's (2007a), section 1.3.

- in solvency terms, the tax burden level (added to the rest of the fiscal revenues) is insufficient for the financing of governments' activities, which indicates, on the part of the societies of the countries in the region, a preference for government intervention inconsistent with the resources transferred to the public sector by families;
- lastly, and specially interesting for these comments, Latin America's average tax burden (not counting Social Security taxation) is equal to half of the European Union's.¹²⁷

2. The burden has shown a significant increase in the past few decades

Tax pressure has increased by just about 50 per cent since the early 1990's. This growth is the result of a similar behaviour (albeit with different alternatives) in almost every country in the region. Between 1990 and 2005, only two cases (Mexico and Panama) show a fall in the tax burden level but, as we will see, in these cases there are other major financing sources.

3. The situation shows great heterogeneity in Latin America's inner region

Intelligently enough, Greve admits the importance of adequately differentiating the various ways in which the Welfare States are financed in each European country. Likewise, in these comments we stress the need of acknowledging the heterogeneity presented in Latin America's inner region and, in turn, the great difference between the two regions taken as a whole. Only three countries (Brazil, Argentina and Uruguay) clearly surpass 20 per cent of GDP, level that Brazil and Uruguay had already reached in 1990. On the other hand, the studies on tax burden done for the region show that those countries showing a tax pressure equal to or higher than the expected one on the basis of their development level are Brazil, Uruguay, Argentina, Peru and Chile.¹²⁸

4. Several countries in the region show important non-tax fiscal resources

By and large the reasons for this diversity depend on the existence, in many cases, of very important non-tax financing resources. Bolivia, Chile, Ecuador, Mexico, Panama, Paraguay and Venezuela are clear examples of cases in which non-tax financing resources are so important that have exempted governments from the need to reinforce tax collection.¹²⁹

5. Social security development is diverse and generally low

One of the features that differentiate tax structure and level between Europe and Latin America and, for that matter, the different Latin-American countries, is the existence of

127. In 2005 tax burden with and without revenues from social security had reached 17 and 14.7 per cent of GDP in Latin America, while the level in Europe was 40.1 per cent and 28.8 per cent of GDP respectively.

128. On the basis of "fixed effects" estimation model presented in Cetrangolo and Gómez Sabaini (2007a).

129. In some cases, these are revenues coming from hydrocarbons and mining exploitation which are –to a large degree– in the hands of the public sector, and in other cases, from the exploitation of renewable resources such as the exploitation of the Panama Canal or from hydroelectric resources (Paraguay). In this sense, these examples should be considered for the application that Professor Greve provides in section 11.2. 3.

different burden levels on payroll to finance social security. It is not advisable to consider these taxes independently of the service systems they finance, issue that widely exceeds the scope of these comments. However, suffice it to say that in the region some pioneering cases (specially in the South Cone) live along with others characterized by poor development and coverage; systems exclusively financed with taxes on payrolls with others that combine different types of financing, and, lastly, systems that have been recently reformed with others that maintain a traditional organization. Nevertheless, we should bear in mind that, as explained by Greve, insurance systems can be causes for inequality, especially under the conditions of Latin America's labour market.¹³⁰

6. High level of informal economy

Even when there are serious, and obvious, calculation problems, it is well-known the significance of the hidden economy in the region as an important obstacle to improvements in the tax levels and incidence. The few available studies (mostly focused on VAT) show important levels of evasion.¹³¹ As pointed out by Professor Greve, this is an opportunity to increase the financing Welfare States, with still a long way to go in this sense in every country in the region.

7. Tax systems are highly dependent on consumption taxes

Despite the above-mentioned differences in tax burden levels between Latin America and Europe, it is still remarkable that consumption taxes (usually considered more regressive) are rather similar in these two regions. Latin America has followed the international trend towards the expansion of VAT, particularly by means of widening its base and increasing rates. Additionally, greater efforts in the improvement of tax administration were focused on this tax.

8. Individuals' income tax collection is very poor

In addition to the above comments, it is worth remarking that the main reason for the poor progressive nature of the tax system is based on the low significance of individuals' income tax. While consumption tax has been subject to higher and higher nominal rates, tax on income has been through a constant process of not only lowering its nominal taxes, but also of reducing its tax base by means of higher exemption rates and fiscal incentives, significant legal deductions, and low willingness to tax financial income, among many other aspects, not counting the high evasion and avoidance rates affecting taxes on income and properties in almost every country in the region.

9. The tax systems in the region have been exposed to constant reforms

The most important changes can be summed up in: (i) a significant increase in taxes on goods and services; (ii) streamlined tax schemes through the elimination of taxes;

¹³⁰. An approach to these issues can be found in ECLAC (2006).

¹³¹. At the time of writing these comments, a series of studies on income tax evasion in several countries in the region by ECLAC's Economic Development Department is being edited.

(iii) a drop in income share from taxes on international trade and transactions; (iv) slight increase in the share from personal income and assets; (v) lower dependence on payroll tax to finance social security systems; (vi) emergence of taxes on extraordinary or spurious bases (banking debits and credits, taxes on financial operations, and other “heterodox” taxes); (vii) introduction to streamlined regimes for small tax-payers.¹³²

10. Systems have not taken care of their distributive impact

The characteristics shown by the changes in the structures of the region’s tax systems do not seem to have aimed at building more progressive schemes. The few major studies available confirm this perception¹³³, though, taking into account the statistical weakness in the region, there are few chances of using pre- and after-tax Gini Coefficient estimations as a basis to draw inter- or intra-regional comparisons, as pointed out by Greve.

Summing up, Profesor Greve’s chapter can be very useful to contribute to the discussion on Latin America’s necessary tax reforms. As we could see, the situation in this region presents a clear contrast with that observed in developed countries, where, on the basis of the tax structures adopted, reaching a fairer distribution of the available revenues has been possible. Additionally, there exist issues in which Europe’s efforts can serve as a guideline (for example UK’s green taxation, as pointed out by Greve).

It is clear that, one way or another, the necessary tax reforms in Latin America’s countries should consider the experience of developed countries as guidelines but not as a dead-end recipe package. As an example of the difficulties faced in the transferring of experiences, we can point out three dimensions of fiscal policies that condition tax reforms and whose treatment largely exceeds the space of these comments. Firstly, taxes in the region’s countries should be specially focused on achieving and maintaining fiscal solvency. Secondly, financing reforms should bear in mind the constant reforms of state intervention mechanisms in each case. Lastly, each country presents a particular situation as to the decentralization of its policies and its financing among levels of government. In this issue, as well as in many others, institutional, historical and cultural aspects should lead us to a very careful reading when comparing situations.

132. See Cetrángolo and Gómez Sabaini (2007a), section 2.2.

133. See Cetrángolo and Gómez Sabaini (2007a), section 3.

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PART III



13. Social dialogue: a tool to promote social cohesion in Europe and Latin America?

MARINA IZZO

13.1. Participation, social dialogue and social cohesion

Participation is a key element of democratic stability as it allows individuals participation in decision-making, thus permitting them to exert their influence on policy-makers.

Accordingly, participation increases people trust in the institutions. Such a confidence is crucial to foster people sense of belonging towards their community and hence is essential for the promotion of social cohesion. Nevertheless, participation is affected both by two main factors: people and public institutions capacity of establishing effective mechanisms of social dialogue.

In the academic and policy literature, there is not a universally subscribed notion of social dialogue.

Broadly speaking, the latter can be defined as the set of relations –distinguished from conflict– between social actors (Uriarte, 2006). Nevertheless, as emerged from the analysis carried out, the concept of social dialogue appears to be still closely connected to the formal labour relations in which trade unions and employers' organisations play a leading role. But in contemporary post-modern societies new social issues have arisen and thus must be considered in the framework of the social dialogue process.

Currently, in some European countries (e. g. Italy and Spain) and in Latin America, the necessity for renewed forms of social dialogue has become particularly evident with reference to the promotion of local economic development. This refers to the development of the local differences and specificities of a certain territory, so as to efficiently face the process of world economic globalization. Social dialogue is fundamental for the achievement of the main aims of local development planning since it allows the common definition of the most important objectives in this field among all the stakeholder present in certain territory.

As a result social dialogue can be considered a tool directed not only to the promotion of social, but also of territorial cohesion. Accordingly, the set of actors involved in this process cannot be limited only to employers' organisations and trade unions. On the contrary, it must include different social actors, in order to represent all the interests and demands relating to the local development process.

13.2. Social dialogue as a tool to promote social cohesion

Social dialogue can be considered as the deliberative participative process that allows citizens to take more responsibility for an equal mobilization of the resources, thus promoting social cohesion within a certain community (Martin, 2005).

Because of the huge increase of the patterns of representation in recent years – with the emergence of new bodies– the concept of social dialogue has been transformed by adopting a more fluid and broader definition than the one formulated so far. Commonly, the general meaning of the notion of social dialogue has been barely limited to the meetings and exchange of information that occur among the representatives of workers and employers. This has prevented other actors –namely social movements– from being taken into adequate consideration in the framework of this process. This approach can lead to a general inaccuracy in the description of the heterogeneity of contemporary societies.

Actually in both the regions considered, Europe and Latin America, participation processes have enlarged. In Europe a double phenomenon can be noticed. On one hand, the decline of the Fordist phase and the current pulverization of the labor market have led to the decrease in stable and subordinate employment and to a consequent growth of flexible forms of work. On the other hand, civil society groups have increasingly started to spread. These networks usually promote specific interests which are not sufficiently protected in daily life despite the formal obligations endorsed by the governments. An example of this kind of commitment can be the environmental and consumer protection (Martin, 2005).

A similar event can be observed also in Latin America where the power of unions has significantly declined over the last 15 years. Despite the important function carried out by trade unions in the whole region as supporters of the process of democratization, especially by re-organising civil society after long periods of dictatorship (Radermacher and Melleiro, 2007) and as promoters of the protection of labour rights in the framework of the sub-regional integration process –such as the role played by the Coordinadora de Centrales Sindacales del Cono Sur, for example– (Portela De Castro, 2007), presently Latin American unions are going through a critical moment.

The neo-liberalistic economic recipes applied during the Nineties prompted the deregulation of the labour market and hence led to a dramatic increase in flexible employment. Such a situation has caused a significant drop in the number of trade unions members. Moreover, the ideological division among the various labour organisations has led to a fragmentation of these bodies (Wachendorfer, 2007). Only those organisations which have been capable of undertaking some kind of renewal, could successfully face this crisis as demonstrated by the case of the Brazilian *novo sindicalismo* (ibid.). The main strength of the Brazilian trade unions has resided in the coordination they have been able to establish with other civil society movements. Such an approach has been successful since nowadays the main challenge for social dialogue in Latin America is the inclusion in the existing forms social dialogue of the social movements which have arisen over the last years.

Another aspect to be considered is the new role played by enterprises in the promotion of social cohesion. The latter have become more active in the last decade, due to the spreading of the idea of Corporate Social Responsibility (CSR).¹³⁴ Nonetheless, to be effective CSR –namely, the concern expressed by enterprises about the effects that their activities may have on the surrounding communities and the environment– needs to rely on sound social dialogue with all stakeholders present in a certain community.

134. Consider the Global Compact initiative, promoted by the United Nations.

Despite these relevant changes in the scenery of social actors, the concept of social dialogue promoted by the main international and supranational institutions is still linked to the relationship between trade unions and employers organisations as pointed out by the overview hereinafter outlined.

13.3. Social dialogue according to the International Labour Organisation (ILO)

As outlined above, there is no universally accepted interpretation of the notion of social dialogue. The International Labour Organisation (ILO), one of the international organisations which is mostly involved in the worldwide promotion of social dialogue, describes the latter as “all types of negotiation, consultation or simply exchange of information between representatives of governments, employers, workers on issues of common interest relating to economic and social policy (Ishikawa, 2003)”, assuming that the three basic forms of social dialogue are incorporated: exchange of information, consultation and negotiation.

The exchange of information represents the basic process of social dialogue, while consultation is thought of being an instrument by which social partners not only share information, but also establish a deeper dialogue on the issues addressed (*ibid.*).

On the contrary, negotiation is the most advanced stage of social dialogue and can be defined as the collective union bargaining, which consists of the discussion among employers and workers about topics such as wages, work conditions and policy arrangement.¹³⁵ All the forms of social dialogue described above can be either informal or formal since the former are deemed as important as the latter.

Social dialogue is a pillar of ILO Decent Work Agenda, the initiative aiming at supporting the increase of decent work¹³⁶ through the spread of social protection standards, fundamental labour rights and social dialogue. Consequently, in order to achieve these objectives this international organisation has designed a wide range of tools: international labour standards, technical assistance and policy advice.

According to ILO, social dialogue is fundamental for the process of democratization since it can bring about effective mechanisms of participation, which are essential for the strengthening of democratic governance. In conclusion, ILO plays a major role in promoting social dialogue throughout its member states by providing assistance in the establishment of legal frameworks and institutions dedicated to this assignment. Such a task has been especially performed in developing countries, such as Latin American ones, where the international organisation has been involved in promoting the compliance with the key international labour standards.¹³⁷

135. Policy arrangement is defined by ILO as the “co-determination of public policy by governments, employers’ organisations and trade union confederations” (Ishikawa, 2003, p. 4). It is interesting to notice that while in English-speaking countries this term refers both to co-operation and participation processes, in France and Italy it refers to the policy-making process carried out through social consensus.

136. The concept of decent work as developed by ILO is summarized by the following claim by the General Director Juan Somavia in 1999: “The primary goal of ILO today is to promote opportunities for women and men to obtain decent and productive work, in conditions of freedom, equity, security and human dignity”. See: [www.ilo.org/global/About_the_ILO/Mainpillars/WhatisDecentWork/index.htm].

137. See for instance the benchmarking/verification project recently implemented in Central America and the Dominican Republic [<http://www.oit.org/public/english/dialogue/ifpdial/tech/verif.htm>].

Nevertheless, some weaknesses in the ILO approach to social dialogue can be outlined. Albeit spreading in most countries and encouraging the establishment of basic practices in this field, the notion of social dialogue promoted by this international organisation is still strictly focused on the relations among workers and employers' organisations (and representatives of the governments, in the case of tripartite social dialogue) and does not pay enough attention to other social actors.

This "bias" occurs also for the concept of social dialogue expressed by the European Union which among its priorities, indicates the promotion of this social dimension in other regions of the world as well, in cooperation with ILO itself.

This aim should be achieved through the transmission of the lessons learned by the European experience on social dialogue.

13.4. Social dialogue according to the European Union (EU)

In Europe social dialogue relies on a sound historical tradition albeit it presents different features depending on each country. Overall it is recognised as an important tool for the promotion of social cohesion. Most of European countries have institutionalised mechanisms of social dialogue that allow a direct relation between government and social partners in order to enable the latter to influence the decision-making process, especially with reference to economic and social policy matters.

The relevance attributed to social dialogue has been acknowledged also at Community level to the extent to which the EC Treaty awards social dialogue two articles, namely n. 138 and 139. In particular, article 138 states that: "The Commission shall have the task of promoting the consultation of management and labour at Community level and shall take any relevant measure to facilitate their dialogue by ensuring balanced support for the parties". Besides, the article claims that: "before submitting proposals in the social policy field, the Commission shall consult management and labour on the possible direction of Community action"¹³⁸.

Actually, the articles provided in the EC Treaty constitute the legal basis for social dialogue at EU level, so that a structured system of social dialogue among the European Commission, the Council and the representatives of workers and employers has been established, in order to ensure the representation of the interests of social partners in the decision-making process, thus avoiding unilateral enactments by the Community institutions (Keller and Sörries, 1999, p. 112). The assignment of further rights and responsibilities to the social partners is supported by the principle of subsidiarity at the advantage of private and decentralised regulation instead of public regulations at Community level (*ibid.*, 1999, p. 113).

The overall concept of European social dialogue refers to the consultation and the negotiation about European social policy.¹³⁹

Article 139 states that the agreement reached at Community level among social partners "shall be implemented either in accordance with procedure and practices specific

138. The Treaty of Amsterdam (1997), [<http://www.eurotreaties.com/amsterdamtreaty.pdf>].

139. Among the agreements produced by the European social dialogue, it is important to remark those on parental leave, on part time job, on short term jobs and on telework.

to management and labour and the Member States or, at the joint request of signatory parties, by a Council decision on proposal from the Commission”.¹⁴⁰

When social dialogue starts, social partners independently negotiate the agreement for a length of time no longer than nine months. However they could decide to extend this period in accordance with the Commission. If the negotiation does not produce any agreement, instead, Community institutions can intervene and try to overcome this impasse.

From the overview provided, it is logical to claim that social dialogue has become an instrument of economic and social governance at EU level (Gabaglio, 2004).

Besides, the overall European social dialogue accounts for the capacity of the social partners to support the process of integration by bringing their own contribution (ibid, p. 113).

Nevertheless, social dialogue at EU level is considered to be over bureaucratized and this aspect makes the transferal of this experience to other contexts difficult. For example, in Latina America the main problem is represented by the lack of access by traditionally marginalized actors to the mechanisms of social dialogue and thus the need to be addresses is the slimming down of burocracy.

As stated above, the experiences of social dialogue in Europe are very different from one country to another but they always refer to a homogeneous model of cooperation between government and social partners (tripartite social dialogue). In a number of cases, these practices produced also institutionalized mechanisms of social dialogue, in order to facilitate the relation among the above mentioned actors, as demonstrated by the Italian case.

13.5. The role of the Italian *Consiglio Nazionale dell'Economia e del Lavoro* (CNEL) in the social dialogue implemented at local level¹⁴¹

The Italian system of *concertazione* can be described as a method for shaping public policy which is based on the negotiation between government and social partners, so as to establish the fundamental economic and social objectives for the community as a whole. This method is the result of a long tradition of collective bargaining that, especially at the beginning of the Eighties, produced a number of positive outcomes for society, such as the strengthening of the overall social cohesion and the establishment of sound industrial relations that allowed a significant decrease in social conflict (Dau, 2002, p. VII).

Nevertheless, Italian industrial relations have not always been so balanced and effective and from the postwar period till the beginning of the 1980s, the country went through very critical times characterized by the explicit antagonism between trade unions and employers' organisations. In particular, the second half of the Fifties was one of the most difficult periods for Italy's industrial relations also because of the divergence of two currents of thought within trade unions: one promoting class struggle and, hence, the tough confrontation with the employers' organisations, and the other supporting negotiations at all levels (national, sector-based, territorial) and on all subjects (ibid.).

140. The Treaty of Amsterdam (1997).

141. The author wishes to thank Mr. Michele Dau, CNEL director, for the important information provided.

Consequently in 1957, an institution dedicated to the promotion of social dialogue in Italian society was established, namely the *Consiglio Nazionale dell'Economia e del Lavoro* (in English: National Council for Economy and Labour), an administrative body foreseen by the Italian Constitution.¹⁴² According to the purpose of the Constituent Assembly, CNEL would have offered the opportunity to combine the political representation with the representation of the professional categories. Therefore, CNEL was established in a period when the social partners and the institutions of the young Italian Republic were still weak a democratic State which had just started to develop. In this context, the aim of the Government and the Parliament was the interception of the social consensus, in order to channel it into a new institutionalised procedure.

It is interesting to point out that the need for consolidation of the democracy has characterized the emergence of most Economic and Social Councils in other parts of the world (East Europe, Africa and Latin America as well). During the first years of its activity (from 1958 to 1961) CNEL exerted a strong influence on the decision-making process of the Government but over the following years, as a result of the rapid economic growth and the strengthening of the democratic institutions, social partners became more powerful, thus gaining new room for direct dialogue with the Government.¹⁴³

Currently, the role of CNEL is that of auxiliary body of the Parliament, of the Government and of the Italian regions. These can ask CNEL for surveys and analysis and can also be given autonomous remarks and proposals by CNEL itself in the field of economic and social policy. As a monitoring body CNEL discusses the outcomes of the collective bargaining process and the Document of Economic and Financial Planning (DEFP) which is submitted each year by the Government to the Italian Parliament for approval. DEFP is a crucial document since it precedes the national budget law.

Currently, one of the most relevant assignments of CNEL is the organisation of the preliminary phase of the process of collective bargaining which precedes the negotiation among social partners. This task concerns the arrangement of some informal meetings among social partners, in order to focus on the issues to be addressed during the phase of bargaining. The aim is helping social partners identify a shared analysis of the problems addressed, so as to avoid controversies in the preliminary stage of the negotiation relating to the data and information concerning the subject approached. One of the most important current activities of CNEL regards the process of social dialogue undertaken in order to support the process of local development policies. This institution plays a central role in the design and in the implementation of the so-called Patti Territoriali (Territorial Pacts), a new tool of what the Italian legislation calls *programmazione negoziata* (negotiated planning).¹⁴⁴ The Territorial Pacts are instruments dedicated to the support of the local development process through the launch of new economic initiatives. In particular, they

142. The structure of CNEL is outlined in article 99 of the Italian Constitution which provides for the organisation and the explanation of the functions of this institution. Its structure consists of experts and representatives from the professional categories who reach a total of 112 members: one chairman, 12 experts (eight appointed by the President of the Italian Republic, four designated by the Government) and 99 representative from the professional categories (44 representatives of the subordinate workers, 18 representatives of the self-employed workers and 37 representatives of the enterprises).

143. Social pacts begun to be signed by the Prime Minister, the Treasury and the Labour Ministers plus the social partners to the Government main offices.

144. Law 341 of 1995.

encourage different stakeholders to meet and discuss the methods for implementing these new economic activities. Normally, they are promoted by local governments, by other public actors performing at local level, by the local representatives of employers and workers and by other private bodies.

The role played by CNEL in the framework of the initial phase of implementation of the Territorial Pacts was particularly important because it promoted the agreements between social partners, supported the design of the intervention plans arranged, and certified that the collective bargaining process really took place (Magnati et al., 2005). In the following years¹⁴⁵ the tools established in the framework of *programmazione negoziata* changed and so did the respective function of CNEL. Notwithstanding, it maintained the faculty of promoting the pacts. The involvement of CNEL in *programmazione negoziata* has to be underlined since it shows that this institution has quickly grasped at the new phase of Italian collective bargaining which at present is increasingly applied at local level, so as to strengthen the process of local economic development as already claimed in the first paragraph of this chapter. In this framework, CNEL performs the function of seconding and connecting the process of local bargaining to the central level as well. As far as its origin and development are concerned, CNEL represents an interesting method of liaison between social partners and institutions, in particular in recently-formed democratic States such as Latin American countries. On the other hand, the new role played by CNEL in the support of local social dialogue related to the achievement of local development objectives, is an approach to be carefully observed as a new method for fostering territorial collective bargaining, like in the case of Latin America.

Nowadays, the availability of institutionalized places expressly dedicated to social dialogue which allow social partners (and other actors as well) to meet and discuss issues of common interest, is specifically required in the Latin American region. In this regard, the emergence of new bodies advocating interests and concerns which cannot always find institutionalized channels of expression, is a hard problem to be dealt with by the young democracies of the area.

13.6. Social dialogue in Latin America

In the last fifteen years, most Latin American countries which during the past decades were dominated by (military) dictatorships, have re-established democracy. Over the 1990s, groups of citizens started to utilize the increased freedom and begun to make their interests and pledges manifest. This new independence felt by the people led to a growing activism by the citizens both at local and national level. People started demanding accountability and transparency from the institutions and broader access to information. Furthermore, citizens begun to request the provision of basic services for the advantage of the whole population (FOCAL, 2006).

In this framework, a number of civil society organisations emerged, while, at the same time, historic trade unions started reorganizing their structures and activities. The Nineties can be considered as the period of the application of new liberal economic policies and new

145. Especially with the enactment of the budgeting law of 1996.

measures for the structural adjustment promoted by the International Monetary Fund for the rationalisation of public expenditures. Moreover, the economies of the area started opening to the international markets.

These circumstances had a high impact on Latin American trade unions: actually the widespread process of privatisation and of deregulation of work, produced a deep change in the labour market which led to a huge increase of the informal economy (according to a number of surveys, about 56 per cent of the active population of Latin America work in the informal sector) (Wachendorfer, 2007, p. 36). Because of the specific characteristics of this sector, informal workers usually find several difficulties in organizing themselves in trade unions. This situation has led to an overall decrease in the number of traditional trade unions members. For compensating these circumstances, Latin American civil society has organized social movements which often represent the effective interests of peculiar sectors of the population (informal workers, indigenous people, etc.). These groups expect to be alternative channels of political participation. Unfortunately, since in many countries adequate institutionalized mechanisms of social dialogue still do not exist, the relationships between government and civil society movements have often been (and still are) suspicious and uncooperative.

Certain scholars think that this situation is due to the fact that Latin American policy-makers are unprepared to manage these circumstances because of the complexity of the new democratic scenario they have to face (Dominguez, 2007, p. 16). There is a sort of institutional sloth (probably the inheritance of the long dictatorships that dominated the regions over the last decades) that leads to the simplification of reality by political elites who often presume that all decisions can be taken with a top-down approach.¹⁴⁶ Subsequently in many cases democratic consolidation in Latin America seems to be a task restricted to the political elites without including people's participation.

This situation has caused a division which has opposed people to political elites. As a result, on one hand, policy-makers have established non-democratic practices of social dialogue and on the other hand social movements go on undertaking democratic initiatives which are legitimate, but cannot draw on an adequate institutional representation. For this reason, in the framework of the process of democratisation in the Latin American region, it is essential to strengthen the connection between participation and political debate.

Despite the complexity of this challenge, a few Latin American experiences of civil society participation have directly influenced the implementation of particular policies especially at local level. A straightforward example of the impact of political participation of people on local governments is given by the experiences of participatory budgeting which have been carried out in some Latin American towns over the past years.

13.7. Participatory budgeting: A Latin American experience of social dialogue for the promotion of social cohesion¹⁴⁷

Participatory budgeting (*orçamento participativo* in Portuguese) has been in the limelight over the last 15 years as a new kind of governance based on citizen participation and on

146. Dominguez claims that in Latin America, the Authoritarian State has been replaced by the Autistic State, that is to say a set of institutions characterised by the limited capacity of communication with the outside world (Ibid., p.16).

147. The author wishes to thank Mr. Riccardo Troisi, member of the Rete Lilliput and policy advisor of the Regione Lazio (Italy) in the field of participatory budgeting, for the information provided.

competent and accountable civic administration (Chavez Miños, 2002). This is an interesting decision-making tool through which the population give priority to the investments in public services and works (ibid., p. 3).

Participatory budgeting originated in Porto Alegre, the capital town of the State of Rio Grande do Sul, Brazil, in 1989. Porto Alegre has always been one of the most advanced Brazilian capital cities in terms of human development indexes. Besides, since the beginning of the 20th century, it has boasted a particularly rich social fabric which relied on a significant presence of grassroots associations involved in the spread of urban services and the basic facilities in the poor suburbs (ibid., p. 7).

In 1988 a leftist government won the elections. In order to face the great expectations of the citizenship and the open hostility of the opposition, the policy makers decided to involve the population in the decisions regarding the use of municipal assets. The purpose of the government was the establishment of this particular method for decision-making which allowed to make choices in a difficult context such as a large Brazilian town, without undermining social cohesion. For this reason, the municipality of Porto Alegre decided to implement a method of participation, so as to identify the choices suitable to meet the basic needs of the population who counted on scarce resources. The municipality started organising a set of open assemblies aimed at informing the citizens about municipal budgeting problems and at consulting people on the possible approaches to be adopted in order to solve these matters. After these meetings, the town was divided into 16 budgetary regions and each of them defined three priorities among 13 thematic options (basic sewage, housing, health care, education, local economic development, street pavement, urban transport, green areas, sport, street lighting, culture and environment).

The key aim of participatory budgeting is enabling the town population to actively participate in the development and elaboration of municipal policies. Participation was carried out on a territorial basis, in particular relying on single districts. During some of the public meetings, the population from each district was asked to indicate needs and priorities in different fields such as environment, education and health care. This process is integrated with a complementary form of participation, organised on a thematic basis through the involvement of professional categories (e.g. trade unions, employers and students' associations) so as to have a thorough view of the problems of the town.

In each meeting, both territorial and thematic, a representative of the municipality have to be present and provide technical information. Nevertheless, she/he would abstain from influencing the decisions of the participants. At the end of this process, each group (both thematic and territorial) communicate the priority to the Planning Office of the municipality, so that the latter can take into account the indications provided by the citizens during budget design, approved by the council of the municipality.

Since its beginning, participatory budgeting has been supported by the population of Porto Alegre and has been replicated in the following years. Moreover, this experience quickly diffused all over Brazil and in other Latin American countries such as Peru, Venezuela and Colombia.

Actually, despite the high levels of social and economic indicators registered in Porto Alegre before 1989, the access to participatory budgeting by the citizens could take place because of the expansion of the basic municipal services.

Nevertheless, it cannot be denied that the experience of Porto Alegre is based on a sound and deep social fabric which already existed before the launch of the process of participatory budgeting (ibid. p. 12). According to some studies carried out ten years after the implementation of the initial process, 75 per cent of the participants in participatory budgeting belonged to different types of civic organisations, thus pointing out a direct connection between the social movements that arose in the city in the Seventies and participatory budgeting.¹⁴⁸

On the other hand, it is logical to state that participatory budgeting encouraged social movements, as the reinforcement of the influence on public policies exercised by them after the implementation of participative governance testifies (Chavez Miños, 2002, p. 12).

Participative budgeting represents an experiment of local social dialogue directly conceived and carried out in Latin America.

The reason for its success lies in four key elements that can be considered at the basis of any effective process of social dialogue to be implemented:

- *Strong political commitment*: this is the most important factor. Without the determination of the local government to grant part of its decision-making power to the citizenship, this experience would have not started.
- *Advanced administrative and political decentralisation*: the institutional reforms which gave Latin American local governments more administrative powers represent a key factor for the enhancement of citizens' participation.
- *Municipal capacity*: as demonstrated by the experience of Porto Alegre, there is a direct connection between municipal budget and capacity as well as the nature and the extent of people's participation
- *Autonomous organisation of the community*: as already mentioned, Porto Alegre already had a well-organized social fabric long before the launch of the process of participatory budgeting. This feature testifies the importance of the existing strong social capital in a territory where the process of social dialogue needs to be introduced.

Porto Alegre represents an important element within the system of Poverty Reduction Strategies which have been carried out in the framework of the process of local economic development (ibid, p. 19). For the first time a citizen's approach was adopted, intended as the acknowledgement of poor people as capable of participating in the process of decision-making. For several scholars, participatory budgeting has turned into a sort of *school of citizenship* since new forms of participation have been experimented through it, in order to overcome individualism and to meet the needs of the population (ibid.).

148. It is interesting to notice that low participation of people members from political parties and trade unions was registered in the assemblies.

13.8. Social dialogue and participation in Europe and Latin America: A comparison

From the overview outlined, it is possible to analyse the main challenges and difficulties to be faced through social dialogue in Europe and in Latin America. Similarities between the two regions have been identified.

With regard to the traditional model of social dialogue (understood as the negotiation among trade unions, employers' organisations, and, in some cases, the government) it can be noticed that the traditional corporative model is going through a critical moment.

The reasons for this situation lies principally in the current crisis of the role played by trade unions to whom the monopoly of the representation is no longer recognised.

Actually the deregulation of the labour market which has spread worldwide in recent years, have led to the creation of new job profiles (e.g. the so-called atypical workers in Europe and informal workers in Latin America) that lack adequate representation at institutional level.

In this regard, the old method of concertation, intended as the institutionalised system of interactions that assigns fixed roles to trade unions and enterprises both in the planning and implementation of public policies, is absolutely unsatisfactory in terms of representation.

On the other hand, in both the regions examined, the diffusion of a number of social movements who constitute new interest groups, has been registered.

These are formed by individuals who are organised on a voluntary basis and who mobilise assets in order to affect the decision-making process. Often at institutional level, these bodies are not recognized as interlocutors of the same relevance and value of the traditional social partners; so, they are denied to participate in the decision-making process relating to public policies.

Notwithstanding, this situation is limited to the national contexts of the European and Latin American countries, while at local level some important experiments of social dialogue have been carried out.

These initiatives are promoted above all in the framework of the strengthening of the local development process, namely the capacity of local governments of highlighting the specificities of their territories, so as to face the process of economic globalisation.

The European regions have already embarked on the process of internationalisation, whereas in Latin America this new approach have just begun to spread.

Actually, after decades of unsuccessful development policies which claimed the necessity for the growth of the macroeconomic variables in order to foster economic development that could reach all the sectors of the population, a new model of development has been established. The latter refers to the specific territories of a certain country and to its local governments. This kind of development must be achieved through a participative process that must involve new economic and social actors throughout the territory.

It is in the framework of the achievement of the local development objectives that, for example, the experience of the Italian *Patti territoriali* and the participatory budgeting initiatives implemented in Brazil must be analysed.

These are very interesting experiences for establishing a new institutional architecture for the decision-making process in which new social actors can participate and indicate their priorities.

In conclusion, the challenges that are to be faced both in Europe and in Latin America in the field of social dialogue refer to the possibility to transfer these forms of social dialogue to the central level, thus modifying the old practices carried out in this sector.

In Italy a small step –albeit not sufficient– has been taken in this direction with the partial involvement of a central body like CNEL in the planning of the *Patti territoriali*.

On the contrary, in Latin America, the need for formal acknowledgement by the central level of these new forms of social dialogue that are taking place at local level is urgent.

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14. Social cohesion and undeclared work: Measurement challenges

ELISENDA ESTRUCH PUERTAS

14.1. Introduction

Together with high inequality, informal work has been widely acknowledged as a major policy issue both within the European Union (EU) and throughout Latin American (LA) countries. Concerns about informal work have also been identified in the EU-LA Strategic Partnership. In conclusion of the 2006 Vienna Summit, the importance of “setting adequate social protection and fiscal policies to promote equitable economic growth with social justice conducive to quality and productive employment and to seek to incorporate the informal sector into the formal economy”, was underlined. At operational level, the EUROsociAL programme has devoted attention also to this policy issue, namely the linkages between informality and social protection were extensively discussed in the 3rd Networks Meeting of EUROsociAL (*Encuentro de Redes*) in Mexico DF, 23-25 June 2008.

Before getting started, it is worth recalling that this chapter encounters a series of limitations linked to the phenomenon under examination. The concept of informal work is formulated on the basis of different but similar terms which contribute toward creating confusion about the underlying phenomenon. Terms such as underground economy, shadow economy, hidden economy, and so on, often refer to the conduction of economic activities in the informal sector. An agreement is difficult to reach since determinants and effects of informality vary sharply across countries. Strictly related to the aforementioned points, robust and comparable measurement of such an unobservable and widely heterogeneous scenario is almost unattainable. The focus of this chapter is placed on employment in the informal sector; thus, terms such informal work and undeclared work are adopted. This chapter relies on broader definitions at international and EU-LA level to be used as operational starting points for discussing the most common methods for estimating the size and the (social cohesion) policy implications of undeclared work.

Traditionally speaking, literature has argued that market rigidities would explain the existence of the informal sector, which would absorb workers since the formal economy is unable to cope with the high costs associated with labour legislation. More recently, it has also been reasoned that informality provides access to income-generating activities. Informality may act as a social buffer by introducing employment dynamism where job creation would be not sufficient (Smith, 2002). The informal sector may be a small-scale entrepreneurial sector arising from workers’ decision to become self-employed, so as to avoid not only high labour costs, but also the official taxation and the costs associated with

bureaucracy and corruption. Overall, no agreement about the dynamics of the informal sector still exists, which to a great extent, conditions the conceptual framework and, ultimately, measurement methodologies (Perry et al., 2007). While so far, the informal sector has been considered to be a benefit for the economy, as it is one of the most dynamic and productive sectors of activity, it presents however many disadvantages linked to its regulation avoidance, falling public revenues, erosion of tax morality, and loss of the credibility of public institutions. The quality and career perspective of this type of employment as well as the implications of social cohesion which have been mentioned, also remain open to question.

Focusing on the social cohesion agenda, informal work may hinder the achievement of greater social cohesion, especially if it concentrates on the disadvantaged categories of workers by preventing them from developing their social rights. These may not benefit from equal access to the main instruments of employment and social policy, such as employment protection, income support, and social insurance, as well as active labour market programmes. Informality as a whole may hinder the states' capacity to provide universal access to high-quality social services. This point is of particular relevance since, to a larger extent, providing access to social security to informal workers is rendered complicated by inherent limitations with regard to raising revenues and collecting social security contributions (OECD, 2008; ILO, 2002).

To understand the links between informality and social cohesion is a critical factor for the formulation of suitable policies. Benchmarking social cohesion and undeclared work in concrete terms is needed to provide guidance to those involved in policy-making, whereas the robust measurement is necessary for the adequate identification of the determinants and implications which are required to design effective interventions. Consistent indicators provide the means to monitor progress effectively, while pointing out weaknesses and then providing for improvements. The theoretical and methodological discussion and the use of social cohesion indicators at policy level have significantly advanced in Europe and have been also comprehensively discussed in LA. In view of the relevance of informality in Latin America, as well as in many European countries, such indicators need also to account for undeclared work and its determinants. However, current data and information sources are still largely inadequate for achieving this objective. As a matter of fact, estimating the size, composition, and dynamics of undeclared work remains problematic.

With regard to all these aspects, this chapter concentrates on the measurement and policies experiences within the context of the EU-LA relations. Hence, it provides an overview of the state of the art of the phenomenon definition and measurement. This chapter seeks to contribute to the on-going and intense debate on conceptual and measurement issues related to informal work. Interest is also attributed to the need for better data and innovative methods for assessing social cohesion-challenges specific to informal workers. Given the importance of certain country factors in understanding the phenomenon, a comparison between EU and LA experiences (at regional and, when relevant, national level) exploits the differences for policy recommendation.

The chapter is structured as follows. In the second section, the most common definitions applied to undeclared work are reviewed by highlighting their main strengths and

weaknesses when promoting social cohesion. The third section describes methods used to measure undeclared work. The main EU experiences and a national European experience, namely Italy's, are outlined, in order to discuss their potential in LA countries, bearing in mind existing experiences, such as the ECLAC approach. The following section presents additional elements that should be included in the measurement of undeclared work in a social cohesion perspective. These refer mainly to societal aspects, like perceptions about institutions and interpersonal trust. The last section provides some concluding remarks and orientations for further research.

14.2. Undeclared work: Definitions

There are multiple definitions of undeclared work.¹⁴⁹ Depending on the focus or the aim of the analysis, researchers and practitioners focus on a certain conceptualisation of the phenomenon which at best is partially observed. By recognising that the country-specific factor conditions to a large extent how is undeclared work perceived, the International Labour Organisation (ILO) definition is used as an internationally accepted benchmark, also in comparison with the main definitions in the EU and LA.

14.2.1. ILO Definition

ILO has pioneered research on informality and has devoted significant effort within its labour statistics department to develop international recommendations for defining (and measuring) informal sector and informal employment. The conceptual debate started in the late 1970s. It can be traced in the works of the Regional Employment Program for Latin America and the Caribbean initiative (in Spanish: PREALC) which principally dealt with urban informality (see next). In 1982, the 13th Conference of Labour Statisticians (ICLS) explicitly recommended to develop "appropriate methodologies and data collection programmes on the urban informal sector and the rural non-agricultural activities". In the following years, the ILO debate led to the conceptual distinction between "employment in the informal sector" and "informal employment".

In 1993, the 15th ICLS adopted an enterprise-based framework for defining the informal sector that could be applied across different countries. "Employment in the informal sector" corresponds to the employment provided by those enterprises which are classified as informal along with a common set of criteria, namely legal organization of the enterprise, market production, size and/or registration¹⁵⁰. It includes employers operating informal enterprises, wage workers in these enterprises, informal own-account workers,

149. The present work focuses on the labour market perspective on informality. See Feige (1990) for a review on underground activities and De Soto (1989) for a normative approach to informality.

150. "Legal organization of the enterprise": Informal enterprises are private unincorporated enterprises for which no consistent set of accounts are available that would allow the financial activities of the enterprises to be clearly separated from those of the owners. Informal enterprises may be owned and operated by household members, although informal partnerships and cooperatives, whose ownership structures may extend across households, are also included. "Market production": A portion of the goods or services produced by the informal enterprise must be sold or bartered in market transactions. Household activities which produce exclusively non-market goods or services do not constitute informal enterprises. "Size and/or registration": Informal enterprises are frequently defined in terms of the number of paid employees, i. e. in informal enterprises the number of employees falls below a given threshold. Alternatively, informal enterprises may be defined in terms of their registration status with respect to national regulatory frameworks and legislation. (Husmanns and du Jeu, 2002; Heitz, 2008)

and contributing family workers, as well as informal partnerships and cooperatives (Husmanns and du Jeu, 2002).

However, in practice, this definition and the corresponding set of criteria cannot be consistently applied. For instance, the legal status of many firms may not be known, and it may, at best, only be presumed. In such cases, if the size and/or the registration criteria were those applied, they may result in a biased estimation of the size of the informal sector in a certain country (Heitz, 2008).

By recognising these limitations, the 17th ICLS in 2003 endorsed a new and complementary definition of informal employment. The new framework broadens the definition of informality by including workers in informal employment relationships, and not only workers in informal enterprises. While the enterprise approach used firms as units of observation, this definition relies on jobs as basic unit of observation.

“Informal employment” comprises: (i) workers in the informal sector; (ii) workers in informal jobs in formal sector enterprises; and (iii) paid domestic workers in households (ILO, 2003; Husmanns, 2004). Related guidelines offered substantial scope for countries to adapt to national circumstances¹⁵¹. Cross-country differences were recognised to be significant and hence, a stricter framework would not be realistic. However, this degree of flexibility comes at the expense of comparability at international level. And given that workers in informal jobs in formal sector enterprises are assembled with informal sector workers, further complexity is added to an already largely heterogeneous aggregate.

On the basis of this definition, the informal status of a job is determined by whether the worker holds a job position from which he/she enjoys access to a defined set of social protections provision, including contributions to a social security fund, a pension, and/or paid leaves, and even access to employer-funded training. Alternatively, the status may be determined on the basis of the existence of a written or enforceable contract. This definition accounts for the multidimensionality of the phenomenon, and allows for the measurement of the phenomenon as a continuum of informality. ILO (2004) performed such assessment by giving different scores to individuals according to their status along different dimensions, including regularity, contract, workplace, employment protection and social protection. The results exemplified the complexity and heterogeneity of the issue throughout countries (Jutting et al., 2008).

Thus, informality can be classified by type of job (e.g. self-employed, employees) or by unit of production (e.g. formal firms, informal firms, households). Importantly, it was the ILO report on “Decent work and Informal economy” that underlined this complementarity between the two approaches, as both provide useful insights for policies promoting quality jobs (ILO, 2002).

151. According to this, the ICLS framework includes the following guidelines: (i) Own-account workers, employers, and members of producer cooperatives are engaged in informal employment if the enterprise in which they work is informal. Hence, for these categories, the definition of employment in the informal sector corresponds to the definition of informal employment; (ii) All contributing family workers are classified as being engaged in informal employment (the ICLS considers that this type of employment is hardly ever covered by legal and social protections); (iii) Paid employees are considered to work in informal jobs whenever those jobs lack basic legal (e.g. enforceable contract) and/or social protections (e.g. legally binding benefits), and/or if the employment relationship is not subject to national labour regulation or taxation; (iv) Own account workers producing goods for their (or their households') own final use are defined as working informally if they are also considered to be employed. (Husmanns, 2004)

14.2.2. EU Definition

In April 1998, the European Commission issued the EU definition for undeclared work: “any paid activities that are lawful as regards their nature but not declared to public authorities, taking into account differences in the regulatory system of Member States”.

Two points can be easily discerned: (i) it is a broad definition, which sets a common basis to allow for national specificities, and (ii) it excludes illegal activities. In other words, it includes all remunerated activities that are legal but are hidden from the public authorities’ reach.

This definition also acknowledges the national accounts perspective which is preferred in many EU countries in as much as it takes into consideration “productive activities” rather than only “paid activities”. This is assumed to have more policy relevance within the European Employment Strategy (EES) framework, which aims at transforming undeclared work into regular, formal labour. In particular, the European approach includes: (i) linked undeclared activities, which are undeclared activities taking place within a formal framework; (ii) semi-autonomous undeclared activities, which correspond to undeclared production by formal enterprises; (iii) autonomous undeclared activities, related to the production of final goods for the consumer; and (iv), domestic and communal sector, which includes do-it-yourself activities, self-service, and reciprocal work.

The EU understanding of the main determinants of undeclared work can be derived from this definition. Undeclared work may be interpreted as a situation in which individuals or firms adopt informal work arrangements in order to take advantage of the system. Undeclared work may also be explained by the inappropriateness of legislation on new employment and productive patterns. In such a mixed grouping as the EU at 27 Member States, the relevance of cross-country differences, in terms of extent and composition of undeclared work, is recognised. Countries facing undeclared work due to opportunistic behaviour by market agents, policy suggestions favour a focus on deterrence (i. e., sanctions and awareness-raising). In other countries, it may be more adequate to concentrate on preventive actions (including, among other things, simplification of procedures, recognition of new occupations and competences, tax exemptions on labour) (Williams et al., 2008).

At EU level, undeclared work is not addressed by the Social Inclusion Open Method of Coordination, but by another policy coordination process that focuses solely on employment (i. e., the EES). Undeclared work is perceived mostly as a labour market management issue, albeit with inter-linkages to other sectors, such as taxation and social protection.

Current concerns about informality in the EU emerge from a series of challenges (OECD, 2008). For a number of countries (especially new Member States), informality, fight against corruption and ineffectiveness of tax collections are still critical issues. (Older) Member States have increasing fears about the linkages between sizeable informality and other phenomena such as illegal migration and cross-border criminal activities. Undeclared work could undermine the EU objective of achieving greater social cohesion, especially because of its potential negative effects on the coverage and financial sustainability of social protection systems and on the increased risk of poverty and social exclusion of workers

participating in undeclared work. This latter factor may acquire increasing relevance in view of the greater exposure of migrant workers to informality in many EU countries, which is in turn linked to the immigration policy debate.

14.2.3. LA Definition

In Latin American countries, “informal work” rather than “undeclared work” is a better concept to define the underlying phenomenon. The reason lies in the fact that there is a wide gap between tax and legal entitlements and effective fulfilment/enforcement of taxation and legislation (OECD, 2008; Pfau-Efinger, 2008).

The conceptualisation of informal employment in the LA region is linked to early efforts by ILO under the PREALC programme (Regional Employment Program for Latin America and the Caribbean, 1968-1993) in the 1980s. The first definition of informal employment grouped workers in small-sized firms, unpaid family workers, domestic workers, and self-employed (except those in professional jobs) under the definition of informal. Nevertheless, this definition excludes those workers employed in larger firms but uncovered by labour laws and social protection, or more in general any work relationship that circumvents or underreports to the institutional framework of reference. This definition was excessively narrow and certainly would lead to underestimates of the underlying phenomenon (Feige, 1990).

Later, the definition was reviewed to include all employees whose jobs were outside the coverage of national labour laws and/or the social insurance systems. This new conceptualisation has been very influential in later reports, and emphasises the negative connotations of undertaking informal employment, mostly due to increased likelihood of exclusion and marginalisation (Portes and Haller, 2005).

PREALC adopted this approach in view of recent developments in the LAC economies over the 1980s and 1990s, during which globalisation, macroeconomic adjustment and labour supply-side developments lead to growing informality across the region. On one hand, there was the so-called “top-down informality” which is explained by growing exposure on (especially small-sized) domestic firms, which seek to remain competitive in increasingly open markets by lowering labour costs (i. e., atypical contracts, and informal employment). On the other hand, “bottom-up informality” arose which is linked to the faster growth of the economically active population compared to job creation in the urban formal sector (i. e., jobless growth). The main factors affecting the theoretical framework at LA level were the heterogeneity of the productive structure together with the labour market segmentation that emerged over time.

At operational level, further features of informal employment were identified, so as to facilitate its measurement. It was emphasised that it related more to self-employed individuals rather than employees (i. e., in most cases there was not a formal employer–worker relationship) and that, in such context, the role of the State through labour law was minor. The PREALC approach focused on the urban environment, in view of a high concentration of population in urban areas with reference to other regions in the world (PREALC, 1987, 1989; Tokman, 1987).

This approach would oppose the legalist or neo-liberal one defended by De Soto (1989), to whom informality would be a source of economic dynamism, responding to legislative barriers which impede the formal economy to expand as a consequence of the market forces. Conversely, the structuralist approach, adopted by PREALC, stressed that regulation was not the cause of informality; and, instead, operating beyond the regulatory framework would be a way to carry out economic activities in a situation characterised by surplus labour.

In line with the latter, another approach discussed within the Latin American case would take a neo-Marxist imprint, under which focus is placed on economic adjustment and class cleavages. In this light, the informal sector would be functional for entrepreneurs, but at the expense of workers, who are trapped in unfavourable working conditions (Portes and Haller, 2005, 2004).

As a matter of fact, the international conceptualisation of informal employment adopted by most of the international institutions has been influenced by the LA experience and the understanding of informality. The above-mentioned ILO definitions were also the result of the theoretical debates within the PREALC initiative.

The PREALC framework has been challenged as the informal sector has become progressively more heterogeneous, and the line between formality and informality has become more blurred. While previously especially self-employed and household workers would be involved, nowadays also employees would be included, for whom the contractual relationship may go under-reported (ILO, 2002). Over recent years a growing body of literature has emerged which has acknowledged the increasing complexity of the phenomenon. For instance, Perry et al. (2007) analyse the subjective dimension of undertaking informal work arrangements. The aspects related to voluntary acceptance of these job positions would be linked to the institutional background, but also to the socio-economic features of the workers. While for more vulnerable workers informal employment would be linked to survival aspects with access to income-generating activities, it is also true that mobility hereon to formal employment has still not been adequately discerned, neither mobility on the opposite direction. On the other hand, self-employment would be an attractive choice for many LA workers to access higher income levels. (Perry et al., 2007)

14.2.4. Comments to the concepts

Any EU-LA comparative analysis on informal work requires a conceptual framework that liaises production and employment perspectives within informal economy. This must be broad enough to encompass the entire heterogeneity of types of informality that characterise high-income, middle-income and low-income countries. As stressed by Pfau-Efigner (2008): “A conceptual framework which encompasses the statistics available from both low- and high-income countries is needed to permit comparisons and potentially allow tracking of the transition process in which many middle-income countries are engaged”.

The linkage of undeclared work with survival aspects (i. e., low paid, low productivity work) has particular relevance in LA countries, contrarily to EU, where it seems to be more deeply linked to tax evasion aspects, albeit in recent years there is a growing concern

about its linkages with the risk of poverty and social exclusion. Nonetheless, the individual motivations for undertaking undeclared jobs seem relevant in both regions.

Several policy implications can be delineated. First, such conceptual frameworks recognise the multidimensional nature of informality and, hence, they require the use of different measurement methodologies (which are described in the next section). Second, any effective policy dealing with informality has to be broad enough to include interventions in several sectors, including taxation and employment policies, but also governance issues. Interactions between the different policy sectors need to be taken into account. In some cases, a gradual policy strategy may be needed. Third, certain policies which prove to be effective for certain types of informality may not be so for others. Policies should respond to current realities and policy transfer from a country to another should be adequately assessed. For instance, in countries with a high incidence of undeclared work, social assistance benefits to help the most vulnerable groups cannot be targeted on the basis of administrative records of household income. Likewise, the targeting included in active labour market policies cannot rely on registered unemployment. On the contrary, a more effective policy would be to pay adequate unemployment benefits combined with effective public employment services and reinforced enforcement of fraud checks (OECD, 2003).

14.3. Undeclared work: Measurement

Undeclared work, and, more in general, informal activities, often elude enumeration and measurement in official statistics. Undeclared workers are, by definition, elusive, hard-to-reach populations, as they do not only bypass institutional channels but they are also reluctant to be monitored by fear of risking penalties. As stated by Feige (1990, p. 993): “Any attempt to measure a social phenomenon whose *raison d’être* is to defy observation is fraught with empirical difficulties.” Certain methodological criteria are required in order to set the framework through which the reliability and policy relevance of estimates of informal work can be assessed.

The main methods for measuring undeclared work identified by literature correspond to micro and macro, indirect and direct methods. Any measurement strategy should though be broad and gather evidence combining estimates from different procedures, because each of them is likely to cover different components of undeclared work. Actually, the EU has acknowledged the need for an integrated measurement strategy and has developed measurement methods which combine various sources of data.

14.3.1. Micro data approaches

Micro-level approaches are based on evidence from individual or household surveys, census, as well as from tax returns and unemployment records, or even from the combinations of several of these sources. Micro-level methods are particularly useful for exploring the characteristics of undeclared work, including motivations and type of work of informal workers. They provide disaggregated information, which is necessary to gather evidence about the characteristics of firms and individuals engaged in informal activities.

The main drawback of these methods is linked to high non-response rates or representativity and for which they tend to under-estimate the overall size of undeclared work. Besides, at international level, comparability of estimates may be limited, due to differences in the definitions and methods applied.

To date, few specific surveys have been carried out with sufficient level of representativity. These surveys could be seen as ad hoc exercises with a rather explorative nature as time series are generally not available. European examples of such surveys on undeclared work are the Rockwool Foundation (1998) and the Special Eurobarometer (see next).

Key indicators about undeclared work are estimated through data from the official surveys. ILO mostly refers to measurement on the basis of the Labour Force Survey (LFS) data (and other household and individual surveys). Following the above-mentioned definitions by ILO and PREALC, indicators for self-employment, unemployment and activity rates may be used. Employment in small-sized firms may be also used to compute informal employment. It is necessary that the survey collects information, thus allowing for the identification of the different worker categories defined as informal. Specifically, data need to be broken down by type of production unit and type of job.

In this regard, Hussmanns (2002, 2004) proposed a set of ten questions to be incorporated into LFS which applies the ILO conceptual framework. The module would cover questions regarding the firm or employer, such as the number of workers and their position within the firm and the type of firm, as well as whether the firm is registered or not, and under which form. This module was adopted by the Delhi Group on Informal Sector Statistics¹⁵² and presents several advantages. It is a cost-effective solution for the countries already conducting such surveys, and it ensures the provision of information about informality on a regular basis. Estimates can be directly cross-checked against individual socio-economic characteristics and seasonality and changes in the informal sector and in informal over time work can also be captured.

Some limitations should be recognised. For some workers it may be particularly difficult to provide accurate information about the legal status or the organisational structure of the firm. Besides, hard-to-reach populations may not be included in the sample methodology of the official survey, such as irregular migrants or individuals who live in collective households and in institutions. This is relevant from the point of view of social cohesion as many of these groups may in turn be more likely exposed to poverty and social exclusion. For instance, in the LA case, challenges to the measurement of undeclared work can refer to issues on whether to include rural areas, workers in small-sized firms, and household workers.

Specific operative criteria applied at country level for defining informal work need also to be taken into consideration when carrying out cross-country assessments on the basis of LFS data. For instance, whether to include agricultural activities in the estimates remains open to the choice of individual countries.

Another methodological choice relates to the share of undeclared labour employed in small-sized firms. It can be assumed that firms under a certain size are most likely to operate

152. The Delhi Group on Informal Sector Statistics is an international forum for sharing experiences in the measurement of the informal sector, see also [<http://unstats.un.org>].

informally or under-report. Evidence about informal work is then obtained by examining the evolution of the number and proportion of workers in these firms compared to the total workforce. This requires the determination of the thresholds according to which a firm is deemed small. The standard criterion recommended by the Delhi Group is to set the cut-off point at less than 5 workers, but there are still differences among countries in this regard. Nonetheless, this indicator may be biased in two ways. On one side, there is an upwards bias because not all small-sized firms carry out informal activities. On the other, there is a bias in the opposite direction since there might be firms which escape any form of counting or register. And it is not possible to determine whether these divergences compensate one another. Informal employment cannot solely be measured by the share of workers employed in small-sized firms, since even in larger firms there may be work practices which fall within the definition of informal employment.

Overall, survey-based methods shall be more reliable in contexts of high informality (e. g. LA countries), but not in cases of under-declared work or pure tax evasion (e. g. most EU countries). In the latter situations, further efforts may be devoted to hide any involvement in undeclared work by individuals, given the lower levels of societal acceptance of informality. Still, the questionnaires could be modified in order to directly ask about pure tax evasion and cash payments of employee earnings. This would then approach the concept of underground production, even if potentially high rates of non-response would persist.

Questionnaire surveys mainly capture socio-economic features of those participating in informal work, which, from the point of view of social cohesion, particularly relevant for understanding the underlying motivations for undertaking informal work. Given the heterogeneity of informal work at aggregate level, sub-classifications should be elaborated in order to identify sub-groups for which policies can be then adjusted or specifically developed. Another aspect to be taken into account would be to obtain estimates of informal employment which can be matched with income data. This is essential for examining the liaisons between poverty and informal employment. Two possible approaches are either to ensure that all information is collected through a single data source, or to apply statistical matching which combines different sources by using similar sampling units. Nonetheless, survey-based evidence of undeclared work should preferably be complemented with other estimates since it tends to under-estimate the real size of the phenomenon.

14.3.2. Macro data approaches

Macro-level approaches consist of indirect methods for the measurement of undeclared work and informality. They mostly involve discrepancy measures and are used to estimate the size of undeclared work (usually expressed as percentage of the GDP). The essence of these methods is that they interpret divergences between observable and comparable phenomena as signs of the invisible part of the economy. A preliminary requirement for any discrepancy approach to be feasible is the availability of a measure independent from any form of informality. On the basis of this measure, a comparison can be carried out with another estimate which is known to suffer from such bias. The discrepancy between the two approximates the net effect of the informal activity (Freige, 1990, p. 995).

Several approaches exist to obtain such measures. Most monetary methods calculate the ratio of cash on demand deposits, thus providing a rather robust measure of unreported and unrecorded income. They assume that most transactions in the informal sector are carried out in cash, because this renders the avoidance of detection easier. In developing countries, access to formal credit may be more difficult also for informal participants. Any such procedure should account for specific structures of incentives inherent in national tax systems and price controls, which affect the preference for cash over other means for payment. As indicated by Feige (1990), there are also cases in which other systems of payments can be used without risk of detection by the authorities.

With regard to national accounts, it is possible to compute the size of the unrecorded sector on the basis of the discrepancies between data on income and expenditures, provided that they are measured on different data sources and according to independent methods. It may occur that both sides underestimate actual economic activity. Still, the discrepancies resulting from this approach are useful as an initial measure for identifying those particular sectors of the economic activity which are most likely to present significant levels of underground activity. There are also methods based on electricity consumption, assumed that most undeclared work is energy-intensive, and, hence, compared to the amount of energy required in declared activities to measure the actual consumption.

Other common macro methods rely on econometric models, such as the so-called DYMIMIC (Dynamic Multiple Indicators Multiple Causes). This model is structured in two components: a measurement model, which links unobserved variables to observed indicators, and a structural equations model, which specifies causal relationships among the unobserved variables. This method captures the structural dependence of shadow economy on variables and may be useful in predicting its movement and size over time¹⁵³ (Feige, 1990, pp. 995-996).

Macro methods are most useful for detecting longer run trends in the growth of informality (specifically, its unreported and unrecorded components), but these techniques are incapable of providing detailed information on its composition and specific characteristics. These approaches tend to be applied in advanced economies, to which national accounts and administrative registers provide a more reliable statistical basis for carrying out such analyses (Feige, 1990). These countries count on the advantage that they can rely on the statistics which are already systematically collected, and are not costly. This is relevant especially in countries in which the informal sector is deemed to have minor policy importance.

The reliability of the results obtained through these methods is subject to the assumptions and the data sources used. It is not always certain that at least one of the measures used is not affected directly or indirectly by informality. If both the measures used are affected, the discrepancy will be indicating the difference between these two, rather than the magnitude of the unobserved segment. Another issue pointed out by OECD (2003) concerns the pricing applied to the estimates of undeclared work,¹⁵⁴ especially in

153. For an application of the model, see Schneider (2002).

154. Measuring the GDP share of undeclared work or informality based on market prices which is the conventional approach to GDP estimates, will understate the real size in cases of widespread undeclared work. Wage-related measurement difficulties are noted. The hourly wage for undeclared work may be lower than that for formal work because workers undertaking informal employment may be in disadvantaged bargaining positions; this latter case is most likely in developing countries. It could also be higher, when it includes a premium to compensate for the risk of

countries where informal employment is relatively low but tax rates are relatively high. In this regard, statistics on informal economy to GDP should also be treated with caution. More in general, these methods tend to assume that informality started at a certain time point, which might be set arbitrarily. And, from these indirect methods, it is difficult to differentiate between informal and illegal components.

Last, indirect methods also capture the underground economy including both the registered and unregistered population, thus covering a larger share of hard-to-reach populations than survey methods (Baldassarini and Pascarella, 2003). This comes, though, at the expense of a lack of detail in terms of socio-demographic characteristics and types of job, and also about transitions from informality to formality, which in certain sectors or even in certain countries may be particularly relevant. Again, this indicates the importance of complementing aggregate measures of undeclared work with micro-approaches.

14.3.3. Examples of measurement

Policy-makers have recognised that appropriateness of policy intervention is conditional to the effective assessment of the extent and features of undeclared work. However, from a cross-country perspective, comparative data on informality are particularly difficult to obtain, and the reliability of the existing estimates is limited.

14.3.3.1. The EU experience

Measuring undeclared work at EU level is recognised to be a crucial issue (EEO, 2004, 2007). Several initiatives have been pursued over the last years to develop a methodology that delivers a comparable measure of undeclared work which, at the same time, is built on significantly heterogeneous national realities.

The 2004 study on *Undeclared Work in an Enlarged Union* provides an overview of the main methods and assesses advantages and disadvantages as to the EU context. There was high heterogeneity of how EU countries approached the phenomenon, which was mostly defined and measured through the national accounts (applying the SNA'93/ESA'95 rules), to which adjustments for exhaustiveness were introduced under the guidance of Eurostat.¹⁵⁵ Only some countries had adopted more active and complementary approaches to measure the size and composition of the informal sector (e.g. Italy, the Netherlands, and Portugal). In the context of the EES, it was argued that further investigation was necessary in order to develop comparable indicators to assess, in a co-ordinated manner, the advance of policy interventions to deal with undeclared work. The 2004 report concluded that direct methods could provide the means for gathering information about main determinants and effects of undeclared work over the EU (Renooy et al., 2004).

detection or/and for reduced social security contributions. Besides, there might be sectoral and occupational variations which are difficult to take account for.

155. In order to improve the "exhaustiveness" of national accounts in measuring certain types of informal activity, estimates are adjusted by including especial additional measures based on surveys of household spending and on the commodity balance for construction materials, as well as findings from tax audits. Other methods consist of using labour force surveys, population censuses and industry surveys, for estimating the proportion of employment that is not covered in the register of enterprises (that is the common source for the production and income estimates of GDP). (Eurostat, 2003)

In 2007, an ad hoc Special Eurobarometer Survey was conducted for collecting evidence about undeclared work throughout the EU. Despite some interesting results, this experience also pointed to significant limitations, so as to carry out such survey on a continued basis. Particularly crucial, but sensitive issues, like the income earned or the time devoted to undeclared work, presented high non response rates and/or under-reporting. These problems concentrated in certain hard-to-reach categories, such as irregular migrants, who in turn happen to be those more likely to fall into undeclared work and social exclusion.

Another European initiative is the Rockwool Foundation¹⁵⁶ which collected data on undeclared work through surveys carried out on a group of countries (Germany, Sweden, Denmark and the UK). For a few years, the Rockwool Foundation conducted detailed questionnaire surveys to estimate the size of the “black economy” and some related concepts. The same questionnaire was submitted to all countries, so international comparisons were possible. These surveys paid particular attention to the different sub-concepts when dealing with informality and undeclared work. The questionnaire was designed so as to distinguish between “purely informal” activities and “underground” or “undeclared” activities. For instance, the surveys differentiated “black activities” from “tax evasion”. This is a relevant distinction which allows for treating the self-employed separately from other categories and which has implications as to the overall size of informality. If undeclared work and pure tax evasion are differentiated from the self-employed, one can grasp at undeclared work defined not only by concealment from government, but also by collusion between the employer and the employee, or between the self-employed and the customer (Petersen, 2003).

Such surveys may be more difficult to be conducted in developing countries. Although production and work may be liable to tax (or other regulations) by law, there might be problems of enforcement, and it is difficult to draw the line between the different areas of informality.

In line with international literature, the EU has realised that indirect methods, especially discrepancy methods, may be suitable for an overall measurement, even if some cases may suffer from upwards bias. Direct surveys reach a greater level of detail but they may under-measure the actual amount of undeclared work. Consequently, in 2007 the European Commission recognised the need to combine both direct and indirect methods, even if, to date, the best estimates on undeclared work at EU level have been obtained through indirect measures deriving from the 2004 study. For the EU integration process as a whole, measurement of undeclared work should still be further reinforced to provide reliable measures. This in turn is relevant to adequately determine the national contributions to the EU budget or to assess macroeconomic performance (e.g. lower undeclared work shall rise the measured employment rate, which contributes toward the achievement of the Lisbon goals).

In 2009, the Commission pointed out that a great bulk of administrative information remains unexploited, which could be used as the basis for both direct and indirect analyses (e.g. labour and tax inspections). The latter can be a useful and cost-effective source of information, in order to keep the evolution of undeclared work on constant monitoring.

156. For further information, see The Rockwool Foundation [www.rff.dk].

As a matter of fact, a project was launched under the support of the European Commission (Progress 2007-2013) with the aim to assess the possibility of exploiting administrative archives to measure undeclared work. Such a solution is by no means without difficulties. For instance, given administrative differences at national level, cross-country analysis is complicated. Caution is also necessary in those countries where labour inspections and/or tax audits are undertaken only in cases of suspicion of evasion, as the results cannot be inferred to obtain estimates of informality for the economy as a whole (Konijn, 2003).

14.3.3.2. The Italian experience

The Italian experience with reference to the measurement of undeclared work has been recognised as a case study in the European context. In Italy, undeclared work is significantly widespread, with peaks in the weakest and backward areas (i. e., the South), in low-productivity sectors (i. e., agriculture and construction), and in small firms. At national level, much effort has been devoted to produce reliable estimates about the size of undeclared work and its distribution across regions and sectors. Most relevant estimates are provided by ISTAT (National Institute of Statistics) and SVIMEZ (Association for Industrial Development in the South). Another approach has been proposed by the “Comitato per l’Emersione del Lavoro non regolare” (Committee for the Regularisation of Undeclared Work).¹⁵⁷

The ISTAT method provides an interesting example of how combining micro and macro sources of data leads to reliable estimates of undeclared work, which can be traced over time and disaggregated by region and sector of economic activity. The following paragraphs outline the key steps and sources of the data used (Zizza, 2003; Baldassarini and Pascarella, 2003; Marigliani and Pisani, 2006).

The method exhaustively uses the statistical information available in the Italian context. Census, LFS and other supply-side sources are combined with demand-side information from corporate tax declarations and other administrative archives about firms. The unit of observation are work units (i. e., ULA –*unità di lavoro/anno* or work unit/year–) which are compared with the economic aggregates from the national accounts. The work units are defined as a measure of how much work, as a factor, contributes to the national productivity within a specific length of time. So, work units are calculated by converting the working positions held in full time units by each person employed in the period of reference. Such conversion assumes that each individual works an amount of hours which equals the hours effectively worked in that specific sector of economic activity and in that professional full time position.

More in detail, the process is as follows (see Figure 14.1). First, the data collected from different sources is harmonised in a single dataset. Second, data from households are cross-checked with reference to those derived from firms. The assumption is that, when there is no undeclared work, the total numbers of workers should match. Hence, supply-side and demand-side figures are compared by geographical unit, sector of activity and occupation.

157. The Italian Ministry of Finance has recently estimated a yearly time series of informal activity on the basis of the non-reported Value Added Tax (VAT) base, as well. Above all, when the focus is on tax evasion, this approach is useful, since evading VAT means underreporting production, labour activities and revenues. (Marigliani and Pisani, 2006)

The different segments of undeclared and regular work are defined by applying the following concepts: regular workers (number of workers who appear as employed from both the household's side and the employer's side); full-time irregular workers (number of workers who appear to be employed according to household statistics but who are not recorded on the employers' side; i. e., the totals from household statistics exceed those from the demand-side); and multiple regular positions (these are work units recorded from the firms' side, but not from the supply-side; i. e., totals from the demand-side exceed those from household statistics). Third, estimates are calculated for those segments who cannot be directly observed through official statistics (i. e., irregular migrants) and additional analysis is performed for specific categories (i. e., work by officially inactive people –students, retirees, who nonetheless, have declared to carry out some work).

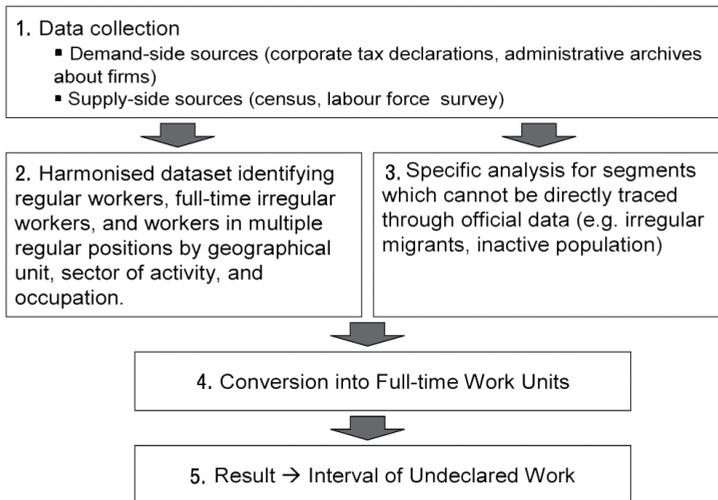
Fourth, the job positions are converted into full-time work units. Specific assumptions are adopted at that stage. It is assumed that the economic agent who does not declare (or partially declares) the whole labour used in the production will not declare the resulting (part of) output. It is also assumed that all workers reach the same productivity levels, a factor which implies that informal workers are applied the same work per capita. This leads to a re-assessment of the overall added-value, intermediate costs and output relative to the original national accounts figures. The cases of under-reporting of revenues and over-reporting of costs are thus identified and corrected. The procedure uses specific economic aggregates from the national accounts (i. e., production, added value). Several steps are necessary for the conversion: (i) relative per-capita average figures are derived from firms-based surveys; (ii) these values are adjusted along the definitions applied in the national accounts system; (iii) the results are then inferred from the universe of reference for estimating the labour input, and the estimates are broken down by sector of economic activity and firm-size; (iv) the data of the productive segments for which the work units are not used (e.g. household services) are then added, which leads to the preliminary estimates on the supply side; (v) the estimates by sector are considered within an input-output system through which they are compared with the corresponding estimates on the demand side. This is a crucial stage, given that independent estimates from the very same underlying phenomenon are placed side by side.

Two adjustments are hence foreseen. On one hand, the Franz method (1985) is applied for an upwards adjustment of the revenues. This method is adequate both when the firm under-reports revenues but it correctly declares the costs and when the firm over-reports costs while it correctly declares the revenues. On the other hand, there is a downwards adjustment of the production whenever the purchases/inputs are overestimated. There is no formal distinction between the integration regarding undeclared work and non-reporting, because it is already taken into account when inferring on the basis of the work input. Another distinction has been made between the correction for tax evasion and that of undeclared work, because survey data are adjusted to tax evasion with the Franz correction and only then they are inferred from the universe of reference (see also Zizza, 2003; OECD, 2002; and ISTAT, 2008).

In terms of results, an interval of undeclared work is obtained. The lower limit is derived from the input of undeclared work and the under-reporting of revenues. The upper limit is derived by including the figures obtained from the integration of the

demand-side component. The “real” value is somewhere in between. A major advantage of this approach concerns the fact that it allows for measuring not only informal work but also under-reporting.

Figure 14.1. Italian experience in the measurement of undeclared



However, the potential transferability of this approach to other national realities should take due account of the fact that it responds to a specific national reality such as Italy’s, in which much has been invested. This refers not only to adjusting questionnaires in the household surveys, but also the methods of national accounting to the measurement of informal work. Besides, some of the assumptions required by this method may present flaws in other contexts. In particular, it heavily relies on the accuracy of the replies of individuals to LFS, since it assumes that they have fewer incentives than firms to conceal the nature of their work (Eurostat, 2003; Campanelli, 2003).

Alternatively, the Italian Committee for regularization of undeclared work has submitted a method based on administrative data and fieldwork (Campanelli, 2003). It relies on data from social security services (INPS, INAIL), enterprise registers, as well as professional lists. This approach assumes that the dimension and composition of regular work is an important indicator of the situation of the economy from which the undeclared component can be derived. The determinant of undeclared work would be the lack of regular jobs, which can be computed as the differential between the actual number of regular workers and the target employment rate (which in the Italian case refers to the Lisbon goals). Significantly low employment rate, or a high differential with respect to the target, could be an indication of misuse, or non-use, of active workforce. Logically, further analysis is necessary, given that such aggregate figures include different categories of workers that require diverse types of policy intervention, namely informal workers, unemployed workers and inactive population. In this perspective, the Committee’s approach is confirmed to be a more policy-oriented

approach of measurement than the ISTAT method, as well as innovative in the sense that exploits multiple sources of administrative data.

This approach encounters some constraints. It should be limited to a restricted geographical area as it needs to be complemented with fieldwork and qualitative information. Besides, it requires relatively more resources for data collection and management. Provided that the administrative system is well organised, the quality of reporting is sound and coverage is reasonably complete, the use of administrative data has many advantages, such as low collection costs, reliability, great level of detail, and continuity over time. However, there may be high processing costs to convert administrative records into useable forms. Another constraint of administrative data is that concepts, definitions and classifications respond to the legislation and/or administrative procedures which are often different from those required to meet statistical user needs.

More recently, with reference to the policy efforts to deal with informality, in the 2007 Budget Law, the Italian authorities proposed a new index, the so-called “congruence index” (*indice di congruità*). The latter is meant to set a minimum threshold, which is based on the congruence or correspondence between quality of produced services or goods and the amount of working hours necessary to produce them.¹⁵⁸ If reported labour costs (including social security contributions) would be lower than the index, undeclared work would be presumed for the firm under examination. The Ministry of Labour is in charge of the definition of the congruence index for the sectors which have been identified as the most exposed to undeclared work. To our notice, its implementation has not been started yet.

14.3.3.3. ECLAC indicator of informal work

Moving to the LA region, a brief note has been here introduced to recall a recent experience in the measurement of informal work in the context of the reviewed indicators for benchmarking the progress towards the Millennium Development Goals (MDGs). An indicator for informal work has been included into the set of additional indicators that ECLAC proposed for LA countries. In this regard, this research is actually an interesting example of how the policy implications of the phenomenon have been acknowledged at regional level.

The indicator follows, to a large extent, the PREALC approach to informal work. It concentrates on urban informal work, which mainly refers to those employed in precarious, low productivity jobs. The latter are defined in terms of wage, job duration, social security, etc. The indicator includes self-employed and employees who work for small-sized establishments (up to five persons, i. e., micro-enterprises), in domestic employment; or those who are independent low qualified workers (including own-account and unpaid family workers with neither professional nor technical qualifications). In operational terms, the indicator is computed by ECLAC on the basis of national household sources. It

158. A wider range of methods were proposed in two recent legislative documents (Law N. 248/2006 and the 2007 Budget Law) to address the problem of informality. These include, among others, ensuring stronger inspection powers; increasing sanctions; obliging employers to report the hiring of workers on the day before the employment relationship begins. Some of these elements resort to previous interventions (Law 448/1998, Law 266/2002), which established the Committee for the Regularisation of Undeclared Work (Comitato per l'emersione del lavoro non regolare) operating at regional and provincial level through local commissions, as well as the Committees for Work and its Emergence (Comitati per il Lavoro e l'Emersione, CLES).

is expressed as the ratio of those employed in the urban low productivity sector to the total employed urban population. The indicator has been derived for almost all LA countries for the period 1989-2007 (ECLAC/CEPALStat).

Since the focus is on urban environment¹⁵⁹ and on small-sized firms only, it is likely that the actual size of the phenomenon is under-estimated. Despite remarkable efforts by the ECLAC Statistical Division, many national available surveys do not include key variables,¹⁶⁰ such as those which explicitly distinguish workers in the formal sector from those in the informal sector, or the variable “size of the establishment”, which allows for the identification of informal work in micro-enterprises.

Hence, existing estimates under-measure the real size of informal work. National statistics institutions should increase their efforts to gather evidence on more remote areas. At the regional level, efforts should concentrate in fostering harmonisation of methodological frameworks, to ensure cross-country comparability of informal work estimates. Improvements are expected in the coming years in view of the efforts carried out at regional level for the harmonisation of household survey methodologies.¹⁶¹

14.3.4. Comments to measurement

Most constraints to the measurement of undeclared work arise from the coexistence of different definitions that apply to the same phenomenon. Figures using these definitions might be similar, but they may refer to diverse groups of individuals, ranging from self-employed to informal employees in informal or formal firms or household workers (Jutting et al., 2008). Some of the efforts at international level (i. e., ILO, EU) have resulted in internationally-agreed and comprehensive definitions that allow for cross-country comparisons. Even if a definition is agreed, problems remain as regards to the difficulty of quantifying unobserved factors on the basis of available statistics. Another issue regards the adequate accounting for country-specific elements, which in turn may condition the concepts, methods and policy measures adopted by policy-makers. Further limitations derive from the heterogeneity of informal workers, including small entrepreneurs, self-employed and salaried workers, as well as from the scattered spatial distribution. Measurement of undeclared work should also capture its increasingly dynamic nature, which responds to the increased complexity of modern labour relations processes, linked to processes such as globalisation, and growing individualisation of economic and social relations.

Direct methods, based on survey evidence, would be more suitable for contexts with higher levels of informality and less effectiveness of State’s control and detection of the phenomenon. This framework would ensure higher quality of the survey data, as

159. Only Honduras and Guatemala include the agricultural sector, in view of the relevance of this sector in both economies.

160. Only the household surveys in Colombia, Ecuador, Mexico, Panama, and Peru contain required variables, in compliance with the ICLS guidelines (ECLAC, 2008).

161. Project “Regional Program of Technical Assistance for Improving the Surveys of Living Conditions” (ISLC/ MECOVI) established by ECLAC, IADB and The World Bank, together with the countries of the region, in 1997. For further information, see [<http://www.eclac.cl/deype/mecovi/index.htm>]. Under the EUROsocial programme, the sector focusing on Employment has also devoted efforts to the issue of measurement of informal work, as it was for instance one of the main items of the Workshop EUROsocial Empleo: “Medición de Indicadores del Mercado de Trabajo”, organised in Lima, 3-7 April 2006.

respondents would be less concerned about the risks of being uncovered. On the other hand, indirect methods may be more suitable when informality takes more hidden forms, which are more likely in contexts with relatively lower levels of informality and more intensive State's intervention. Generally speaking, the first case would relate more closely to LA countries, while the second would refer to EU countries, albeit there are significant within-region divergences which should also be accounted for. However, given the shortcomings of both micro- and macro-approaches, literature also emphasises that comprehensive measurement strategies should be favoured, as micro and macro methods tend to complement each other.

More robust estimates could be attained by combining survey-based estimates with the estimates from the national accounts as well as with those based on tax revenues (OECD, 2003). By using them in a complementary manner, a richer and more precise picture of the nature and extent of the various types of undeclared work may be provided, which enables the identification of the policy issues related to each of them.

Apart from combining macro and micro techniques, to emphasise the importance of qualitative information would also be important. Interviews, Delphi consultations and other forms of qualitative analysis which collect evidence from institutions and relevant actors may provide further insights about the nature and implications of undeclared work. When defining social cohesion-oriented policies, these approaches can contribute toward identifying processes which cannot be observed through quantitative evidence.

In-depth sectoral analyses may also be a useful approach for examining sectoral specificities, especially in terms of labour costs, wages and salaries. For instance, in the household services sector, non-wage labour costs are frequently below the all-sector average, which could be used as an indication for higher undeclared work in this sector.

It is necessary that these methods take full account of the implications of undeclared work on the multiple dimensions implicit in the concept of social cohesion. However, the relations between informal economy/informal jobs and relevant factors of social cohesion (i. e., health and occupational-related health outcomes, educational attainment and others) have not been sufficiently studied. Despite the already mentioned methodological constraints, social cohesion emerges as an important area of research, with clear and direct policy implications. In this regard, methods estimating undeclared work should also emphasise the relationship that individuals hold with the institutions, including the role of informal relationships in sustaining informal work practices.

Table 14.1. Methods to the measurement of undeclared work

Micro/direct approaches	Macro/indirect approaches
<p>Advantages</p> <p>Useful for exploring the characteristics of undeclared work, including motivations and type of work of informal workers.</p> <p>Provide disaggregated information, which is necessary to gather evidence about the characteristics of firms and individuals engaged in informal activities.</p>	<p>Advantages</p> <p>Useful for detecting longer run trends in the growth of informality</p> <p>Cover also the underground economy (i. e. unreported and unrecorded components).</p>
<p>Disadvantages</p> <p>Problems mainly linked to high non-response rates or representativity.</p> <p>Cross-country comparability of estimates may be limited, due to differences in definitions and methods applied.</p>	<p>Disadvantages</p> <p>Cannot provide detailed information on its composition and specific characteristics.</p> <p>The results obtained through these methods depend on the assumptions and data sources used.</p> <p>It is not always certain that at least one of the measures used is not affected directly or indirectly by informality.</p>
<p>Overall</p> <p>Tend to under-estimate the overall size of undeclared work.</p> <p>Relevant to understand underlying motivations to undertake informal work and identifying potential difficulties in accessing formal jobs.</p> <p>Reliable in contexts of high informality and less effectiveness of State's control and detection of the phenomenon.</p>	<p>Overall</p> <p>Tend to over-state the overall size of undeclared work.</p> <p>Tend to be applied in countries with reliable statistical basis from national accounts and administrative registers.</p> <p>Suitable in contexts with relatively lower informality and more intensive State's intervention.</p>

14.4. Undeclared work and its relevance for social cohesion policies

Social cohesion can be defined as a multidimensional concept with two central components: one mainly oriented toward reducing poverty and social exclusion, and the other toward reinforcing social ties among individuals, related to a sense of belonging (ECLAC, 2007). Hence, social cohesion policies are those promoting both these dimensions. Their linkages with undeclared work need also to be accounted for.

In the introduction to this chapter, it has been argued that informality may undermine social cohesion, not only in terms of tax evasion and growth potential, but also because (low-income) informal workers are excluded from employment and the social protection systems. In the presence of informality within an economy, policies aiming at fostering social cohesion should account for the interaction of the state/regulation (coverage/labour law) and civil society (informal networks which support informal activities parallel to the

rule of law). Furthermore, a different effect depending on the group of informal workers under observation may be expected (Portes and Haller, 2004).

Overall, social cohesion-oriented policies would require to incorporate informal workers into the formal sector. Schneider and Karcher (2007) and Tokman (2007) would support comprehensive policy packages for incorporating informality, and would insist on inclusive mechanisms rather than preferential systems for the informal sector. The latter would present higher risks of perpetuating duality, with increased opportunistic behaviour towards tax and legal evasion. Instead, comprehensive policy packages should encourage the adjustment of the legal system to facilitate and ensure full access and compliance.¹⁶² So, they should cover a wide range of issues such as the recognition of property rights to informal entrepreneurs as well as of employment relationships with the informal workers as a whole.

A number of LA countries have introduced a series of reforms since the 1990s in order to push labour markets towards increasing flexibility, but growing concerns about job precariousness and inequality have brought demands for expanding social security coverage to include atypical workers and the sizeable share of informal workers. Many of these policy programmes have attempted to combine contributory and non-contributory elements and to provide adequate incentive structures, but cross-country differences exist. For instance, Brazil has opted for providing access to universal health care, with focus on low-income groups, through a unique system financed with tax revenues. Colombian health care combines two systems, of which one is based on contributions and another on subsidies, thus providing universal access to basic services. In the area of pensions, interesting experiences have also emerged; e. g. Costa Rica combines solidarity schemes with a specific scheme for the self-employed.¹⁶³

Logically, in view of widespread informality, there would be policy lessons to be drawn from a LA country to another, through exchanges of experiences such as the ones promoted by the EUROsociAL programme. However, structural constraints and societal factors need to be taken into account when assessing the transferability of any policy intervention dealing with informal work.

The transferability of any policy measure may be conditioned by the actual regulatory and institutional capacity and the socio-cultural structure in which it operates. In fact, the level of urbanisation, wage employment, together with the public perception of institutions and the rule of law are crucial elements to be considered.

An excessively active role and/or relatively high levels of intervention cannot prevent the emergence of informality. Succinctly, they may give rise to latent social linkages which operate parallel to the official channels. There is a threshold beyond which the State shall encounter problems in order to incorporate informal workers into the formal sector. In turn, it is difficult to consider which the nature and significance of such constraints might be.

Much depends on socio-cultural factors that characterise the relationship between individuals-communities and the State (Tokman, 2007; Portes and Haller, 2004, 2005). This includes not only the opinion of individuals about public institutions and the enforcement

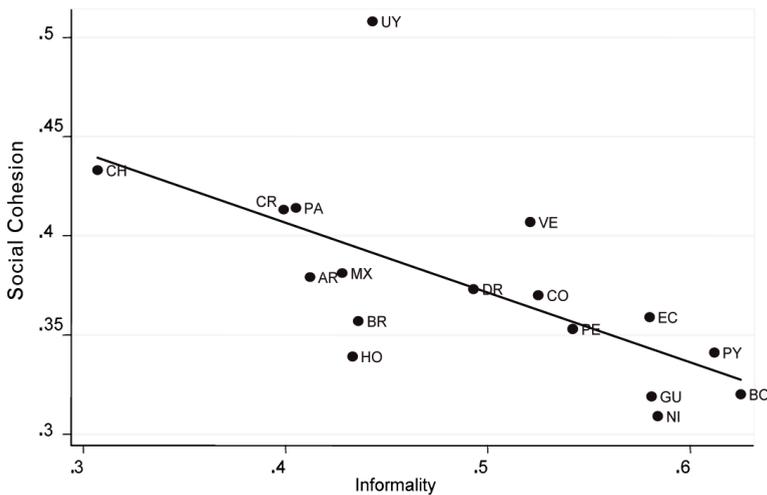
162. A third approach mentioned by Tokman (2007) would be to recognise *de facto* informality, without changing it *de jure*. A minimum threshold of compliance is then to be required to all firms.

163. For further information, see also: Taller Intersectorial "Informalidad y Protección Social", III 'Encuentro Internacional de Redes EUROsociAL; Mexico D.F., 23-25 June 2008.

of the rule of law, but also the perception of individuals about insecurity and the levels of inter-personal trust. The features and the density of linkages at community levels may in turn differ from country to country and evolve over time.

The following figures (Figures 14.2 and 14.3) show how LA countries position themselves when these elements are analysed together with an indicator of informality. Given all measurement constraints described earlier on, the explanatory power of the correlations is limited. Still, the graphs are illustrative of the ideas exposed. They are based on the most common data sources in the LA context, namely ECLAC indicator for informality and some other indicators for social cohesion which are derived from the Latinobarómetro opinion poll. More specifically, the latter are obtained from the Social Cohesion Summary Index designed by the Sustainable Development Department at Inter-American Development Bank (IADB) (Ferroni et al., 2006; 2008). This index includes both indicators summarising the two social cohesion dimensions. On one hand, the “distribution of opportunities” sub-indicator covers issues related to inequality and poverty; on the other hand, the “social capital” sub-indicator includes indicators in compliance with the law, interpersonal trust, and confidence in public institutions.

Figure 14.2. Social cohesion and informality in LA countries

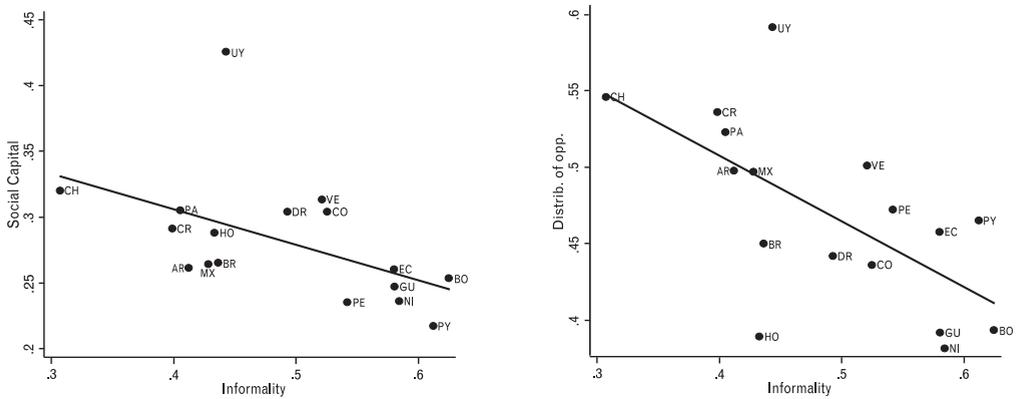


Source: Own elaboration based on data on informality from ECLAC and Social Cohesion Index (Ferroni et al., 2008).

The figures depict what has been conceptually argued by the main literature and in this chapter: a sizeable informal sector tends to be associated with lower levels of social cohesion (Figure 14.2). Informal workers cannot be granted social and economic rights that reinforce their sense of belonging at societal level. There is also a sizeable heterogeneity throughout LA countries; the position of certain countries (e. g. Colombia, Peru) changes if

the two sub-dimensions of social cohesion – social capital and distribution of opportunities, are taken into consideration (Figure 14.3). Uruguay always appears as an outlier, in view of its moderate levels of informality but relatively high social cohesion.

Figure 14.3. Social cohesion sub-dimensions and informality in LA countries



Source: Own elaboration based on data on informality from ECLAC and Social Cohesion Index (Ferroni et al., 2008).

The aforementioned observations highlight the need to further explore the inter-linkages between the determinants of informality and the role of social capital in the feasibility of social cohesion policies. Future research should use subjective indicators in order to better assess the relationship between informality and trust in the institutions. Surveys and opinion polls are key instruments. In the LA context, the Latinobarómetro would be a key reference, since it has the advantage to be annually conducted at regional level. Still, the results should always be treated with caution given that its original purpose was not to study this type of issues.

14.5. Conclusions

Undeclared work emerges as a policy issue which poses a number of challenges on the promotion of social cohesion-oriented policies. An adequate measurement of undeclared work is recognised as crucial for appropriate policy design, implementation and evaluation. This chapter has attempted to outline the central issues at stake in this debate.

Informal economy is prone to escape to measurement. Informal work is highly heterogeneous and composed of several categories of workers, and appears to be very responsive to changes in the regulatory framework. Then, efforts are needed to develop consistent indicators capable of monitoring the progress of policies, while pointing out weaknesses and then providing for improvements.

The review of the concepts used in both regions has evidenced the different relevance attached to the phenomenon of undeclared work in each of them. The linkage of undeclared work with survival aspects (i. e. low paid, low productivity work) has particular relevance

in LA countries, as defined within the PREALC approach. Conversely, in the EU, there seems to be more concern about tax evasion aspects, but there is growing concern about its linkages with the risk of poverty and social exclusion. Nonetheless, the individual motivations for undertaking undeclared jobs seem relevant in both regions.

Several common policy implications can be delineated. By recognising the wide range of workers classified as informal, certain policies which prove effective for certain categories may not be so for others. Interactions between the various relevant policy sectors need to be taken into account at level of any policy strategy, and/or policy analysis; a gradual policy strategy may be useful on several occasions. Furthermore, policies should respond to current realities and policy transfer from a country to another should be adequately assessed. It is in this latter point that policy recommendations as to the design and implementation of the policies tackling undeclared work in the EU countries will typically differ to those in LA countries.

The chapter has reviewed the main advantages and disadvantages of methods to estimate informal work. Direct methods, based on survey evidence, would be more suitable for contexts with higher levels of informality and less effectiveness of State's control and detection of the phenomenon. This framework would ensure higher quality of the survey data, as respondents would be less concerned about the risks of being uncovered. On the other hand, indirect methods may be more suitable when informality takes more hidden forms, which are more likely in contexts with relatively lower levels of informality and more intensive State's intervention. Generally speaking, the first case would relate more closely to LA countries, while the second would refer to EU countries, albeit there are significant within-region divergences which should also be accounted for. Given the shortcomings of both micro and macro approaches, literature also emphasises that comprehensive measurement strategies should be favoured, as micro and macro methods tend to complement each other. Together with these quantitative estimates, qualitative information could also be useful. It can be collected through interviews, Delphi consultations and other forms of qualitative analysis. In-depth sectoral analyses may provide insights about relevant sectoral specificities, especially in terms of labour costs and wages and salaries. If all these sources of information are adequately combined, a richer and more precise picture of the nature and extent of the various types of undeclared work may be achieved, which facilitates the identification of the policy issues related to each of them.

Importantly, methods estimating undeclared work should also emphasise the relationship that individuals hold with the institutions, including the role of informal relationships in sustaining informal work practices (Portes and Haller, 2004). The interaction of the role of the state/regulation (coverage/labour law) and civil society (informal networks which support informal activities parallel to the rule of law) may play a role in the presence of informality within an economy.

In conclusion, there is scope for further discussion and cooperation within the EU-LA partnership in terms of policies tackling informal work, and, hence, on measurement methodologies of the phenomenon. Further attention should be devoted to aspects such as the coherence between measurement practices and policies, as well as the coordination between social cohesion policies in the various sectors when dealing with informal work. This might be a potential cross-sectoral area for sharing experiences, for instance, in the

context of the EUROsociAL programme. It is necessary to invest in improved statistics and measurement tools to assess labour market and social conditions. Once timely collection of high-quality data is achieved, indicators should be constructed and selected to capture the realities on the ground. The experiences by the LA regional bodies, such as the Social Cohesion Index by the IADB, can be considered as points of reference. The interest in subjective indicators has been recalled for capturing the societal perspective of undeclared work, which must take into consideration aspects such as the sense of belonging, interpersonal trust and confidence in institutions, which are in turn sub-dimensions of social cohesion. Besides, individual analysis is not always the most appropriate level of analysis, as households or extended families often design strategies together. The challenge shall be to combine individual level data with household level data. Last, the determinants of informal employment across countries should be assessed further in depth, and, when possible, with a longitudinal approach. It may provide particularly useful insights for policy so that it can account for change and the heterogeneous nature of the phenomenon.

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PART IV



15. EUROsociAL in perspective. A review of the Euro-Latin American cooperation experience for social cohesion

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15.1. Introduction

Since the independence movements of the early nineteenth century, Latin American countries have tried several development models that have had different effects on economic growth, the consolidation of national societies and international relations in the region. From 1850 to 1930, development was based on the promotion of primary sector exports and subsequently focused on import substitution industrialisation (Ruesga, 2005). Since the external debt crisis of 1982, a ‘neoliberal’ strategy of external liberalisation and market deregulation has been adopted, guided by the principles of the “Washington Consensus” but this has shown its limitations and is no longer considered valid. In general, simplified terms, the role of the State during these periods swung between *laissez faire* and *dirigisme*.

Latin America is a relatively heterogeneous region. While it is made up entirely of middle-income countries (with the exception of Haiti), there are significant social and economic differences between them. However, there are common elements that serve to characterise the region as a whole. The first one is political and relates to the generalised extension of democratic regimes since the eighties, emerging from a long, troubled phase of recurring authoritarian leadership. The second common element is socio-economic, and relates to the significant growth in almost every country between 2002 and 2008, boosted by a favourable external environment and the high prices of commodities, which has also led to a sustained (though insufficient) reduction in poverty. All this means that, as a whole, the region is in a better position to face the effects of the current international crisis than in the past. But how? The question leads to a third ‘common’ element for Latin American countries: the search for endogenous “post-Washington Consensus” development models.

Although the elements of these models are still to be determined, it seems clear that one of the core points will be active participation by the State in the promotion of more integrated, fair and equitable societies. It is here that the idea of social cohesion appears in the region’s academic and political debates. This is probably a consequence of the European-Latin American dialogue consolidated since the late nineties through biannual summits of Heads of State and Presidents. In fact, the first documented use of the concept of social cohesion was within the framework of a ministerial meeting of the European Union with the Rio Group held at Vouliagmeni, Greece, in 2003, which led to its incorporation in the final declaration of the Guadalajara Summit, in 2004. One year later,

the European Commission (2005) fully integrated this issue in its strategy for co-operation with Latin America, as can be seen in the communication to the Council and the European Parliament entitled *A Stronger Partnership between the European Union and Latin America*. Social cohesion has been included in all declarations of successive summits (Vienna, 2006; Lima, 2008) and has been incorporated as a priority in the European Commission Regional Programming Document for Latin America for 2007-2013.

Though clearly European, the concept of social cohesion, understood as a framework or a horizon for public policies and action by society, characterised by a search for greater levels of equality (real equality and equality of opportunity), seems relevant to Latin America, the World's most unequal region in terms of income distribution and access to assets and services, where States have seen their effectiveness decrease and there are significant levels of dissatisfaction regarding institutions. Whereas development in Latin America during the eighties and nineties was marked by pacification and consolidation of democracy, and subsequently by emphasis on economic growth, it is understandable that social issues are now given priority.

Based on the foundations created by the political dialogue on social cohesion, a Euro-Latin American co-operation programme named EUROsociAL was created (see Box 1). Its express objective is to promote social cohesion in Latin American countries by increasing the effectiveness of public policies and administrations in five sectors: education, health, employment, taxation and justice. It is an initiative providing public sector technical assistance via the exchange of experiences between European and Latin American administrations. In other words, EUROsociAL seeks to foster the dissemination of practical knowledge linked to the design and implementation of public policies and programmes with proven effects on social cohesion, based on real experiences in states in the European Union and in Latin America.

Box 1. EUROsociAL at a glance

EUROsociAL is a programme lasting four and a half years, which started at the end of 2005 and will end in March 2010. Its total budget is more than 36.5 million euros. The contribution made by the European Commission amounts to 30 million, while the rest is co-financed by the participating institutions. A substantial part of the co-financing is provided by the Spanish Agency of International Cooperation for Development and by the French Ministry of Foreign and European Affairs.

The programme is made up of five sector-specific projects (Education, Employment, Taxation, Justice and Health), as well as a Coordination Office. General guidance is provided by a Committee which brings together the European Commission, the Inter-American Development Bank (IDB), the United Nations Development Programme (UNDP) and the Economic Commission for Latin America and the Caribbean (ECLAC). The implementation of the sector projects is the responsibility of consortia of specialised institutions from the European Union and Latin America, led by the Centre International d'Études Pédagogiques in France (Education), the Instituto de Estudios Fiscales in Spain (Taxation), the Fundación Internacional y para Iberoamérica de Administración y Políticas Públicas in Spain (Justice) and the Institut de Recherche pour le Développement (Health). EUROsociAL Employment activities are implemented by the International Labour Organization (ILO).

The Programme works mainly through exchanges of experiences between public administrations: visits, technical assistance, seminars, workshops and training courses. Its objective is to promote policies and strengthen institutions so that they contribute to social cohesion in Latin American countries, while at the same time encouraging more active citizenship. In addition to exchanges of experiences, the Programme organises and finances awareness-raising meetings, studies and communication activities.

Since its creation, EUROsociAL has carried out more than two hundred exchanges of experiences. During its first three years of existence, some 1,200 institutions and 5,600 people –mostly members of public administrations in Latin American and European Union countries– have actively participated in the programme.

In line with the principles of the Declarations of Paris and Accra on aid effectiveness, EUROsociAL is an initiative that encourages ownership by partner countries. The programme is therefore demand-driven, based on specific requests made in Latin American countries for support for processes of policy change and greater institutional effectiveness. Subsequently, the programme acts as a broker between the practical needs of one or more Latin American countries and the previous experiences of other nations in the region or the European Union which are relevant and can be transferred, with some modifications.

The purpose of this article is to make a preliminary assessment of the performance of EUROsociAL; our working hypothesis is that the activities carried out reflect Latin American priorities in the field of social cohesion, as well as the way in which this issue is understood in the countries of the region. Therefore, knowing what the Programme has achieved and analysing its results may help us to decipher some of the most pressing needs of the public administrations of Latin American countries regarding social cohesion. This may then provide clues to the new development ‘consensus’ that is starting to take shape in the region.

The analysis must be carried out and interpreted with great caution, for three main reasons. Firstly, because the design of the programme itself, with five sectors managed by consortia and specific issues predefined as priorities in each of them, has to some extent influenced the prioritisation of national demands and the activities carried out. Secondly, because those who have participated most in the programme are mid- to high-level civil servants with technical and management skills and qualifications, but limited power in terms of political decision making. Lastly, because despite the important advances made in recent years, especially but not exclusively by ECLAC (2007a; 2007b), the concept of social cohesion that the programme wishes to transmit is far from being understood unequivocally by all the countries and relevant agents in the region.

The second part of this paper examines the concept of social cohesion in more detail, providing the basis of a framework to analyse the actions of EUROsociAL and its potential impact on Latin American development. The third section presents the development of the programme, reviewing its geographical coverage, the institutional response it has generated and the issues that have been prioritised during its three years of existence. Lastly, some conclusions drawn from the analysis have been included in the form of lessons learned from the EUROsociAL experience, which allow us tentatively to identify challenges and proposals for the future of Euro-Latin American co-operation in the field of social cohesion.

15.2. Conceptual framework: institutional quality and public policies for social cohesion

The promotion of public policies that improve social cohesion in countries with a high degree of inequality and exclusion is a task which sometimes proves impossible, at

other times is frustrating, and is always complex. In general, these countries lack high quality, effective, strong and legitimate institutions to tackle the necessary political and institutional reforms. Vicious circles of social fragmentation, institutional deterioration and underdevelopment are difficult to break, and it is necessary to find the levers that could turn these into virtuous circles (social cohesion → institutional effectiveness → development → social cohesion). EUROsociAL's threefold aim of promoting the quality of institutions, the reform of policies and citizen participation could be a key to triggering these positive mechanisms and favouring a more inclusive framework of policies and regulations, more effective institutions to implement them and more active citizen participation.

As pointed out in the introduction, the failure of the Washington Consensus recipe to reduce poverty rates and improve income distribution meant that, towards the end of the nineties, all eyes were back on the State and its essential role in the promotion of development. This meant arguing for an effective State – neither minimalist nor intervening excessively – to provide social goods and services, as well as effective regulation (World Bank, 1997). In 1998, the Summit of the Americas produced the 'Chile Consensus', which was intended to act as a catalyst for the agenda of the present decade, as the Washington Consensus had done for the previous period, and adopted an ambitious agenda of institutional reform with objectives in the field of education, financial, judicial and public sector reforms (Burki and Perry, 1998).

Although this new consensus in Latin American public policies has not had a clearly visible impact, it is true that, since then, there has been a generalised perception that institutional quality has a positive influence on development, and vice-versa. During the last decade, there has been in-depth analysis of what the factors determining that institutional quality might be (as well as the actual level of development). A number of studies show that the degree of social cohesion existing in a territory or society influences the quality of its institutions positively and partly determines their strength and legitimacy, while political and economic inequalities are associated with deficiencies in institutional development (World Bank, 2006). High levels of social fragmentation and inequality would thus limit the willingness of the parties involved to engage in co-operative action and would reinforce their tendency to resort to informal institutions, lessening the efficacy (and in some cases the credibility) of the formal institutional system (Alonso and Garcimartín, 2008; Easterly, 2006; Ritzen et al., 2000).

The degree of social cohesion in a given society depends on historical factors, such as linguistic differences or the legacy of relative equality or inequality between the masses and the elites, but it is also partially dependent on its leaders and on national policies for promoting greater equality and inclusion (Easterly, 2006). On the other hand, the promotion of social cohesion requires the existence of solid and credible institutions, legitimised to represent and channel the interests of different groups and to create arenas for public dialogue and participation, which generate the confidence of citizens in their government and provide it with the necessary room for manoeuvre to carry out reforms (Alonso and Garcimartín, 2008: 162). Indeed, even the best political leaders experience serious difficulties when it comes to carrying out reforms where there are severe inequalities and social divisions in their countries (Ritzen et al., 2000).

The above implies that the mutual interactions between institutional quality and social cohesion have a determining effect on the processes of development, which can certainly be negative when inequality interacts with weak institutions. This has been verified in the recent history of many Latin American countries (World Bank, 2003). Furthermore, institutional quality in Latin America, a decade after the Chile Consensus, is in general poorer than one would expect in view of its level of development (with the exception of some countries such as Chile, Uruguay and Costa Rica). Inefficient fiscal systems and an unequal income distribution, both indicators of social fragmentation, are the variables that seem to best explain the region's institutional problems (Alonso and Garcimartín, 2008). Any level of development becomes unsustainable with these characteristics, given the links existing between social cohesion, fragile states and conflict (GSDRC, 2008). Without quality institutions and adequate conflict resolution mechanisms, and without a high degree of social cohesion to legitimise them and provide greater stability, the opportunities for crime, insecurity and conflict increase significantly (Alonso and Garcimartín, 2008).

Power structures are at the core of the interaction between social cohesion and institutions. Policies aimed at overcoming 'inequality traps' (World Bank, 2005) have to face a serious hurdle; the interests of those who cannot make their voices heard will never be represented. The empowerment of the weakest and most vulnerable is a requirement for the redistribution of opportunities. The participation of citizens in the processes of reform –with a voice and a place for the most vulnerable– affects the sense of belonging and is essential for the effectiveness of inclusive policies and institutions; in short, for social cohesion.

Inclusive policies, effective institutions and an active citizenry are thus three cornerstones in a strategy to promote a cohesive environment in which all members of society have similar opportunities to be actors in the social sphere, influential in the political sphere, and productive in the economic sphere.

As described in other chapters of this publication, the experience of integration in the European Union proves the importance of simultaneously tackling economic, social and territorial inequalities through policies of inclusion, while more capable public administrations are being promoted, as well as greater participation by all levels of society. Policies for regional development, social protection and employment, promoted both within the member States and on a supra-national level, have made it possible to form the world's largest integrated area, with a clearly economic purpose but an undeniably social will. Despite the debates on the future of European welfare regimes and the threats to the models of development derived from globalisation, it is evident that the European Union has made economic, social and territorial cohesion one of its identifying characteristics and one of the factors in its success.

Although the situation in Latin America is completely different, some elements of the European experience, critically adapted and contextualised, may undoubtedly be relevant for a region with very high levels of inequality, whose state apparatus has been weakened and where people are mostly unhappy with the performance of their governments. This idea is at the core of the recent co-operation between both regions and has led to different efforts to "Latin-Americanise" the idea of social cohesion (ECLAC, 2007a), while at the same time pointing to possible policy routes to approach this objective in the region. The

European Union has emphatically pointed out that its intentions are far from trying opportunistically to promote a “European development model” in Latin America, but rather to contribute through its own recent experiences to making it easier for the region’s countries to find their own paths.

Policy reforms are complex processes of negotiation between the State and its citizens. They are always based on internal decisions and international co-operation cannot and should not impose criteria, models or blueprints, regardless of their success in other cases. What can and should be done is to give support and advice for ongoing processes decided on by partner states, show good (and bad) practices which help in the decision making process, and engage in policy dialogue, shedding light on some options, raising concerns, or triggering positive internal mechanisms. Put simply, international co-operation can facilitate negotiation processes between the State and the people within the framework of their own institutions.

This has been the role and the objective of EUROsociAL, which has aimed to support reform initiatives being implemented in Latin American countries with the potential to boost social cohesion, whether in the phases of discourse (conceptual), decision (policies), or implementation (institutional). It has focused on areas with great influence on cohesion and equality, particularly taxation, access to justice, education, health and employment. As well as aiming to be a vehicle for inspiration and helping to consolidate social cohesion as a key element for democratic governance, EUROsociAL’s support has been based on two of the conceptual cornerstones already mentioned: (1) the design and implementation of public policies that promote equality, especially with regard to opportunities; and (2) support for institutional reforms in progress, making the application of these policies more effective. The third conceptual cornerstone for the promotion of social cohesion, public participation, has not in practice guided the choice of activities. However, the goal of building citizenship has influenced a number of activities in an instrumental sense, and in this way (as can be seen in the next section), the participation of civil society in the programme has been significant.

15.3. The experience of EUROsociAL (2006-2008)

This section provides an analysis of the experience of co-operation for social cohesion between the European Union and Latin America, from the start of the core activities of EUROsociAL, at the beginning of 2006, to the end of 2008. The review is based on information concerning over 300 activities carried out during this period (registered on the programme’s information system¹⁶⁴) and especially on the management experience of the directors of the five priority sectors and the co-ordination office. In order to describe some

164. EUROsociAL’s Activity Information System (SIA) collects data on all the activities carried out in the five sectors of the Programme, including details of the participating institutions and persons. An “activity” is defined as an independent event reported as such by the sector(s) in charge of carrying it out, whether it is ongoing or completed. An “institution” is defined as an organisation with functional autonomy, even if it belongs or is attached to a higher level organisation. In the database, institutions are classified according to their function in the exchange activities, as “receivers” (those learning about experiences in order to use them in their reform processes) or “transferors” (those presenting experiences carried out by their administrations). A “participant” is any person who has taken part in the activity, representing an institution. Participants are classified by their country of residence, except for members of Embassies, who are counted as being from the countries they represent.

specific results, information has also been obtained from senior officials in Latin American government bodies that have actively participated in the Programme. This is included in the book prepared for the Lima Summit (FIIAPP, 2008) and in the intermediate evaluation of EUROsociAL, carried out by an external team and managed independently (report issued end of May 2008).

The section is divided in two parts: the first provides a description of the geographical coverage and the mobilisation of institutions and people stimulated by EUROsociAL, while the second offers an overall view of the main themes dealt with by the Programme.

15.3.1. Coverage and mobilisation: who is interested in social cohesion?

EUROsociAL has involved all eighteen countries that benefit from the Programme in its activities, plus the Dominican Republic, which has participated in approximately ten activities (with its own resources).¹⁶⁵ On the European side, institutions from sixteen European Union countries have participated, though only four of them –Spain, France, Germany and Italy– have done so in a significant number of activities.¹⁶⁶ In all, from November 2005 until November 2008, the 228 exchanges of experiences organized by the Programme involved 1,176 institutions (862 from Latin America and 314 from the European Union) and 5,638 people (4,708 from Latin America and 930 from the European Union).

Of the Latin American countries, Argentina has participated in more than one hundred exchange activities (almost 45 per cent of the total), while five countries, representing all the sub-regions (Chile, Costa, Rica, Colombia, Guatemala and El Salvador), have done so in more than eighty. The country with the highest number of participating institutions and people is Brazil. Institutional mobilisation has also been very significant in Colombia, Argentina and Guatemala (between 80 and 90 organisations). In terms of people, the countries with the highest levels of participation (after Brazil) have been Argentina, Costa Rica, Chile and Nicaragua. The countries showing the lowest levels of participation, both in terms of the number of activities and participating institutions and people are Cuba, the Dominican Republic and Venezuela (see Table 15.1). The reason for this low level of participation (with the exception of the Dominican Republic, which is not formally a beneficiary of the programme) is probably of a political nature, related to the attitude of their governments to European co-operation.

165. The countries considered to be part of "Latin America" in the European Commission Development Co-operation Instrument are Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela. Other Latin American countries, such as the Dominican Republic, are not part of this group, as they benefit from the European Development Fund.

166. Spain, France, Germany and Italy concentrate 83 per cent of the institutions and 88 per cent of the participants in exchanges of experiences. Spain, in particular, has participated in more than half of all activities, while France has participated in one in five.

Table 15.1. Latin America: activities, institutions and participants per country

Country	Activities			Institutions			Participants		
	No.	%	Rank	No.	%	Rank	No.	%	Rank
Argentina	101	44.3	1	82	9.5	3	550	11.7	2
Chile	87	38.2	2	52	6.0	8	391	8.3	4
Costa Rica	87	38.2	2	38	4.4	10	451	9.6	3
Colombia	82	36.0	4	90	10.4	2	320	6.8	7
Guatemala	80	35.1	5	80	9.3	4	323	6.9	6
El Salvador	80	35.1	5	22	2.6	15	223	4.7	9
Paraguay	78	34.2	7	30	3.5	13	269	5.7	8
Brazil	77	33.8	8	125	14.5	1	605	12.9	1
Mexico	74	32.5	9	64	7.4	5	190	4.0	13
Uruguay	72	31.6	10	41	4.8	9	200	4.2	11
Honduras	72	31.6	10	33	3.8	11	195	4.1	12
Ecuador	70	30.7	12	33	3.8	11	152	3.2	14
Peru	66	28.9	13	52	6.0	7	216	4.6	10
Nicaragua	52	22.8	14	53	6.1	6	379	8.1	5
Panama	45	19.7	15	18	2.1	16	83	1.8	16
Bolivia	42	18.4	16	24	2.8	14	86	1.8	15
Venezuela	29	12.7	17	14	1.6	17	52	1.1	17
Dominican R.	10	4.4	18	6	0.7	18	18	0.4	18
Cuba	4	1.8	19	5	0.6	19	5	0.1	19
TOTAL	228	100		862	100		4,708	100	

Note: the five top-ranked countries for each of the categories are marked in grey.

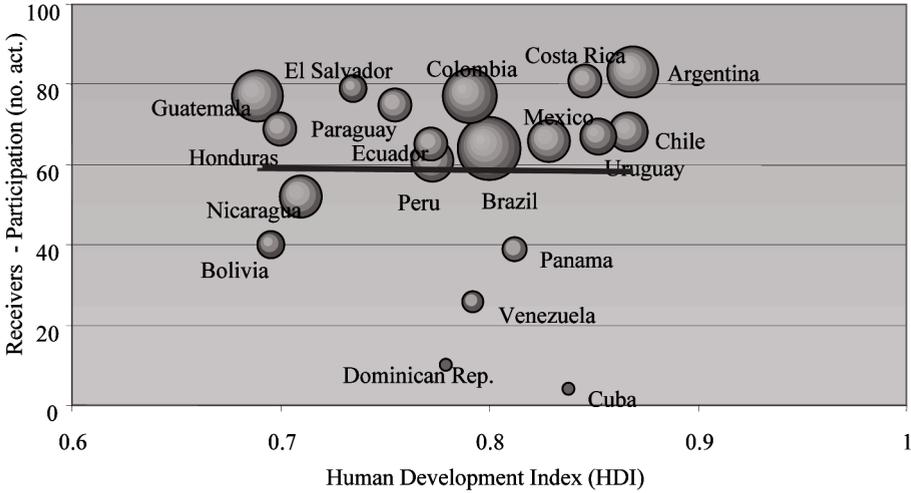
We can obtain a more detailed analysis of the role of the countries and the institutions if we distinguish between receivers and transferors in the exchanges of experiences. In the first case, although some countries such as Argentina and Colombia still maintain their high ranking, a higher position can be observed for countries with lower income per capita such as Honduras, El Salvador, Guatemala, Paraguay, Ecuador and Bolivia, while the ranking of Chile, Brazil, Mexico and Panama decreases.

The countries with the highest rate of participation as transferors are some of the region's most advanced: Argentina, Chile, Brazil, Mexico and Costa Rica. Compared to the general ranking, Peru, Venezuela, Brazil and Mexico go up, while Guatemala, Paraguay and Honduras go down.

The above results allow us to reach a general conclusion: the co-operation for social cohesion channelled by EUROsociAL has been relevant for the region as a whole, regardless of income levels and even of the institutional development of the countries. However, these factors do determine the participation of countries as transferors of specific experiences in areas covered by the Programme. This conclusion is confirmed when the participation of countries in EUROsociAL activities as receivers and transferors is compared with their Human Development Index (data for 2005 included in the UNDP Human Development Report of 2007). Figures 15.1 and 15.2 show that there is no correlation between participation

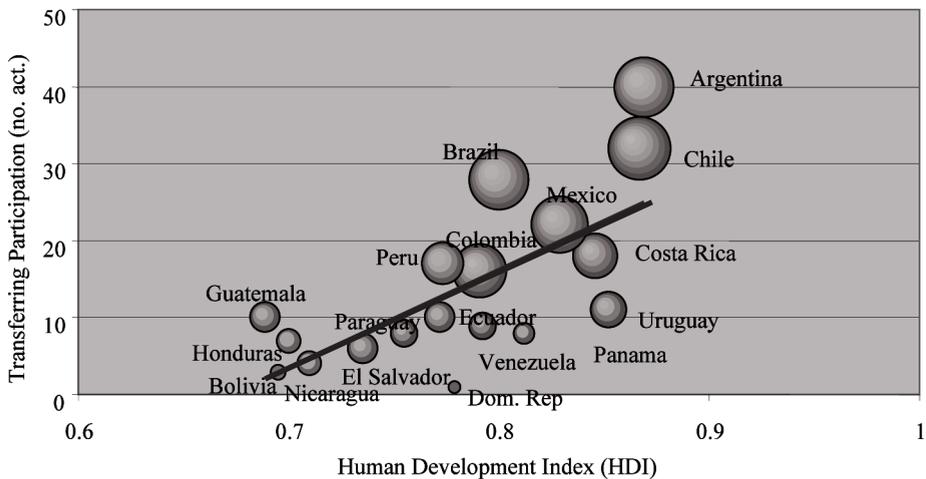
as receivers and the Human Development Index, whereas there is a positive correlation when the index is compared to participation as transferors.

Figure 15.1. Participation as receivers and HDI of Latin American countries



Note: the size of the circles reflects the number of receiving institutions.

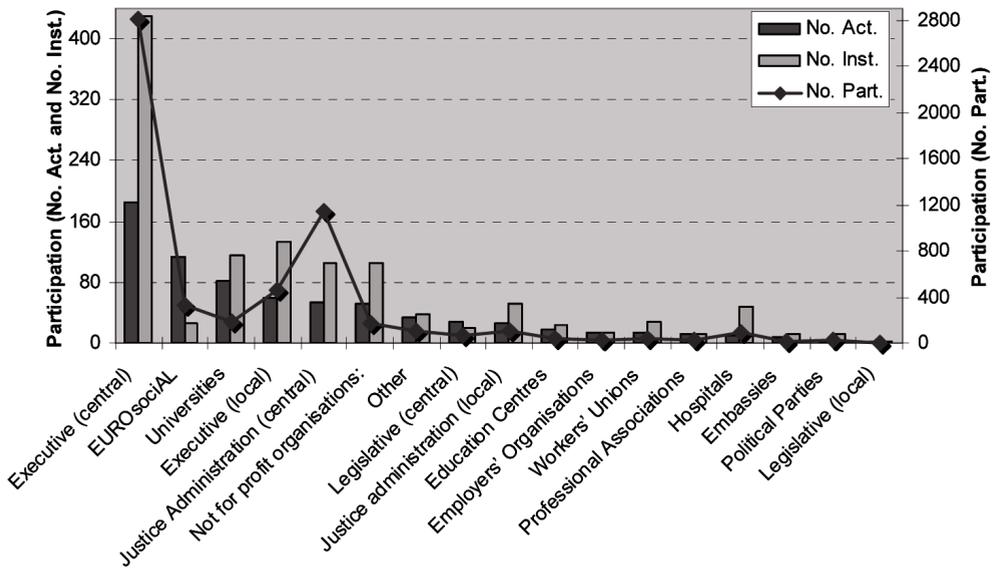
Figure 15.2. Participation as transferors and HDI of Latin American countries



Note: the size of the circles reflects the number of transferring institutions.

Beyond the general picture by country (heavy line), it is interesting to review what kind of institutions and people have participated in EUROsociAL. It is important to point out that, by definition, the Programme has focused its efforts on the institutions of the executive branch of government (see Figure 15.3). The bodies that make up the State's central or general executive administration have participated in more than 80 per cent of the activities. Considering central and local administrations together, more than 50 per cent of the institutions and almost 70 per cent of the participants in the exchanges of experiences are part of the executive branch. This was to have been expected, considering the definition of target groups and EUROsociAL's working methodology. At the same time, the inclusion of justice as a priority sector in the Programme has led to institutions responsible for the administration of justice (on a central level) participating in almost 20 per cent of the activities, while those on a sub-national level have done so in 10 per cent of the activities. Both categories represent around 10 per cent of the total number of institutions and 12 per cent of the participants.

Figure 15.3. Activities, institutions and participation by type of institution



In order to complement the expertise of public administrations, the Programme has also mobilised universities and education centres, which have participated in over a third of all activities. Non-profit making organisations (foundations, NGOs) have been involved in almost one quarter of all exchanges. Both of these categories comprise around 10 per cent of the institutions and 3 per cent of the participants in EUROsociAL.

Some types of institution deserve a special analysis for different reasons: the participation of legislative institutions, sub-national governments and civil organisations.

Firstly, in a programme designed to monitor policy reform, a high level of participation by representatives of legislative bodies would be expected. However, the different legislative

institutions of the European Union and Latin American countries have participated in only 29 exchanges of experiences, 13 per cent of the total, within the Taxation, Justice and Employment sectors. This is related to the fact that these sectors have carried out several activities supporting legislative and normative reforms, whereas the others have focused more on “micro-processes” of institutional strengthening.

Secondly, there are significant levels of decentralisation in the implementation of certain policies, both in the European Union and in Latin America. In the case of EUROsociAL, the sub-national public administrations of the Executive and the Judiciary have participated in 77 activities (34 per cent of the total). The initiatives were related to all five sectors of EUROsociAL, although 80 per cent of them correspond to three of them: Justice, Taxation and Education. The leading position of Justice is related to the substantial level of activity by provincial bodies holding judicial power, especially in Argentina, Germany and Spain. In Latin America the largest concentration of EUROsociAL sectors is found in large countries with a federal political regime, such as Brazil, Argentina and Mexico. In Brazil, for instance, sub-national bodies represent 46 per cent of the total number of institutions that have participated in the Programme, while in Argentina they represent 37 per cent, and in Germany and Spain they represent 32 per cent and 29 per cent, respectively.

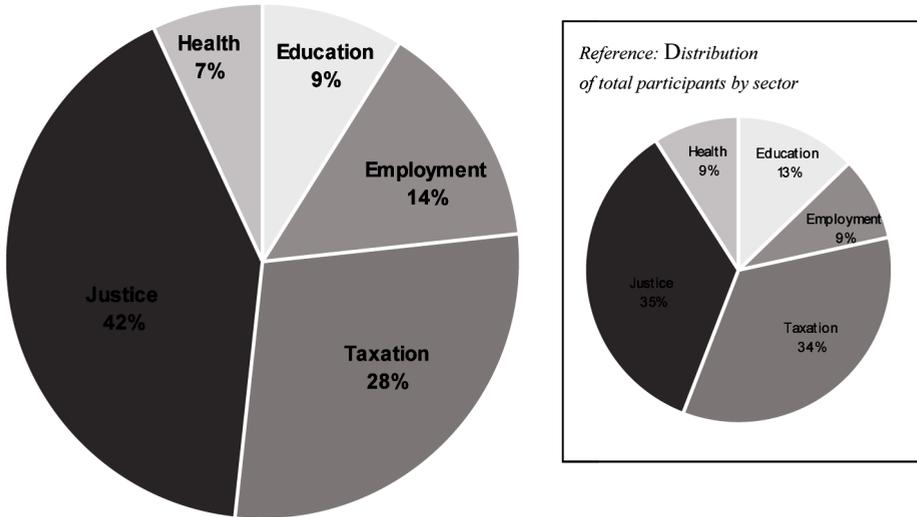
Lastly, EUROsociAL has also involved non-profit making organisations in 22 per cent of its activities. These are foundations, associations and non-governmental organisations that participate actively in the design of social policies and sometimes also in their implementation, working with the public administration (forming part of the so-called “non-state public sector”). The activities in which these organisations participate are distributed more or less evenly across all sectors. As to distribution by countries, in Latin America the Programme has involved non-profit making organisations from 13 countries, especially Guatemala (21 institutions), Nicaragua (15) and Peru (11). Associations from Colombia (6), Paraguay (4), Uruguay (4), Argentina (3), Honduras (3), Mexico (3), Brazil (2), Bolivia (1), Costa Rica (1) and Venezuela (1) have also participated. The leadership of Guatemala and Nicaragua in this category is essentially explained by the participation of a very large number of women’s associations in two specific activities carried out by EUROsociAL Justice to discuss initiatives against gender violence. In Peru, participation has generally been by NGOs supporting local economic development and productive micro-entrepreneurship in activities organised by EUROsociAL Employment.

An analysis of the different responsibilities and positions of the participants shows that the programme has concentrated on mid-high level civil servants, with high technical qualifications and management abilities, but without much power to make policy decisions. In fact, only 7 per cent of the total of participants can be classified as policy makers.¹⁶⁷ A more detailed analysis shows that these are concentrated in activities in two sectors, Justice and Taxation, which could be due to the fact that more activities related to macro-level policy reforms have been carried out in these areas. A special case is that of the Employment sector, which, despite having mobilised a relatively modest number of participants

167. For the purposes of the analysis, “policy makers” are considered to be those civil servants of the executive or judiciary with a rank equivalent to general manager or above. Also included in this category are legislators and justices.

(9 per cent of the total), includes 14 per cent of the policy makers. The effectiveness of the International Labour Organisation in mobilising high level civil servants in its activities may well partially explain this fact (see Figure 15.4).

Figure 15.4. Distribution of policy makers by sector



Based on the previous analysis, it is possible to reach three general conclusions, which to some extent answer the question in the title of this section: who is interested in social cohesion?

- The relative level of development of Latin American countries does not seem to have influenced their participation in exchanges of experience as receivers, though it has been a determining factor in their participation as transferors of experience. In this regard, social cohesion seems to be an interesting idea for the region as a whole, and for some of the countries it also provides an opportunity to share their recent political and institutional experiences. In fact, EUROsocial has mobilised more than two hundred Latin American institutions (23 per cent of the total) as transferors of experience, distributed across all of the region's countries except Cuba. Most of these institutions are concentrated, as already mentioned, in countries with a higher relative development (almost 75 per cent in Argentina, Chile, Brazil, Mexico, Colombia, Costa Rica and Peru). This fact demonstrates the existence of a critical mass of institutions and officials with relevant experience in several countries in the region. It is more easily transferable given the similarity of contexts, and justifies a commitment to intra-regional co-operation.
- We can identify two main factors that explain the participation of Latin American countries and institutions in the Programme: a) the existence of

specific, circumstantial demands linked to needs that coincide with the priority issues defined by EUROsociAL (for instance, fiscal reform in Brazil, the development of policies against gender violence in Central American countries, or the definition of a new policy on blood donation in Chile); and b) the creation of the implementing consortia for the sector projects. Although the correlation is not strict and takes different forms in each sector, it does seem evident that members of the implementing consortia have found themselves in a position that has made it easier for them to participate in the Programme, sometimes as receivers of experiences, and at others as transferors.

- Although, as expected, given its original design and working method, the Programme has mainly reached institutions belonging to the Executives and Judiciaries of the countries of both regions, it has also mobilised a significant number of non-profit making organisations, which must also be considered as important agents in the current development policies of Latin America. It is also valuable to work with sub-national levels of government, given that many Latin American countries have federal structures and are engaged in ongoing decentralisation processes. In addition, as proved by the European experience, the implementation of social cohesion policies and projects relies heavily on local administrations, which are closer to the public.

15.3.2. Issues and processes: emphasis on institutions

One of the main ideas behind the concept of social cohesion is that the State should play a major role through the development of public policies that generate inclusion, solidarity and shared projects. For this to happen, the State needs resources (taxation) and legitimate, trustworthy, quality institutions. Efforts to improve social cohesion should consequently involve both public policies and institution building. Reforms should be geared to both objectives, establishing mechanisms that strengthen virtuous circles between institutional quality and social cohesion. All of this should be carried out taking people's rights into consideration, aiming for the empowerment of the weakest and most vulnerable in order to increase their negotiating power and guarantee effective access to the full exercise of their rights as 'first class' citizens.

Although the design of EUROsociAL has been based on these principles, a detailed analysis of the issues prioritised in the five sectors shows that, in general, the programme has dealt with aspects and areas related more to administrative improvement and institutional quality; it has been less concerned with policy reform processes, and has only marginally affected participation.¹⁶⁸

This could be explained by the role of the institutional consortia in determining demand, but at the same time it could mean that EUROsociAL has not been able to attract enough political support to get involved in ongoing large-scale reforms. Put differently,

168. The analysis has considered more than three hundred activities implemented by the five consortia from the beginning of the Programme until the end of 2008, including exchanges of experiences (which have been the subject of the analysis in section 3.1), awareness-raising campaigns, networks or consortia meetings, study visits, internships, technical assistance activities, etc. In order to identify general trends, the analysis simplifies a situation which is in fact much more complex, more heterogeneous and less clear cut.

Latin American countries have not considered EUROsociAL as an inspiration for reforms and institutional development, but rather as a means to obtain specific information about institutional experiences that could shed some light on directions which have already been taken. However, it is well known that comprehensive policy reforms face great levels of resistance, whereas incremental improvements in procedures and institutional mechanisms can be more viable and can lead to changes in policies in the long term. In fact, there are examples which illustrate this in EUROsociAL, cases in which simple exchanges of experiences have led to reflections on policy, triggered reactions or led to substantial changes related to social cohesion in large-scale reforms (as in the case of gender violence in Guatemala).

The concept of social cohesion has only very recently been incorporated into the Latin American political agenda, which explains why a substantial proportion of the activities carried out by the programme have been devoted to informing and raising awareness about this issue, as well as to promoting institutional networks. Lastly, it is also important to point out that the sector structure of the programme has made it difficult to carry out integrated initiatives, despite the general will to work on them.¹⁶⁹

This section will analyse the priority issues and some of the results obtained in each of the five sectors of the programme. The text is illustrated, through Figures, with real examples of activities carried out in the priority fields of action, related to policy reform, institutional development and building citizenship.

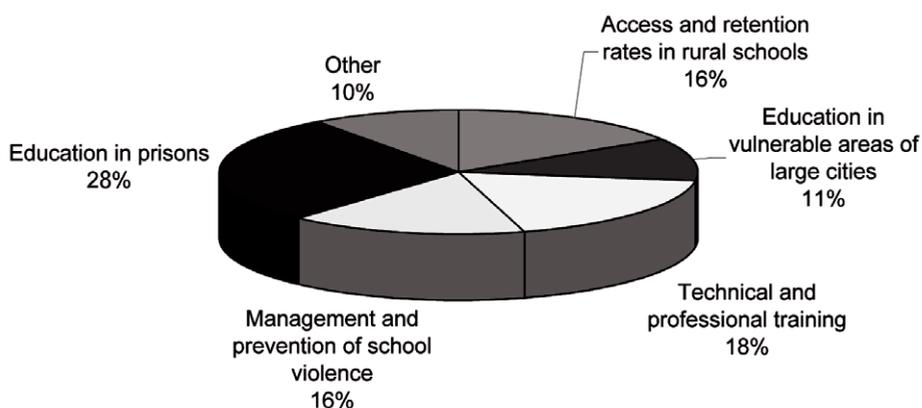
15.3.2.1. Education

EUROsociAL Education has organised exchanges of experiences focusing on seminars, workshops and orientation visits. Technical assistance activities have only started during the last phase of implementation, with the aim of consolidating the transfer of experiences identified by receivers as relevant. Participants in the activities organized by the consortia have generally been civil servants from the Ministries of Education, with managerial and coordination responsibilities and, therefore, with the ability to influence the implementation of policies (more than their definition). In this sector, as in the others, there have been cases in which the continuity of managers participating in the activities has been broken, causing delays or problems in ensuring the sustainability of results. The sector has limited the number of awareness raising meetings, which has led to a lower involvement of policy makers (with the exception of some countries, such as El Salvador, which have been involved very actively in the programme at the highest level).

The issues dealt with in this sector (see Figure 15.5) were pre-established by the consortium, considering general and conceptual criteria of social cohesion, except in the case of education in confined environments (prisons), which was included at the request of Brazil and proved to be a need that was also felt by other countries in the region. The work in this field has also led to the creation of a Latin American network (see Box 2) and has received the greatest attention in terms of the number of activities (28 per cent of the total carried out by EUROsociAL Education).

169. Despite this general trend, it is important to point out that one of the lines of work undertaken by the programme, social protection, has actively involved three sectors (Taxation, Health and Employment) and has generated some inter-sector processes which have had very interesting results.

Figure 15.5. Priority issues for EUROsociAL education



Box 2. Institutions: Latin American Network of Education in Contexts of Confinement (RedLECE)

Education is a right that should be available to everybody, especially to those at risk of exclusion. Restoring this right to people in prison, who have previously been deprived of it, not only reduces the damage that might be caused by confinement, but also makes it possible to create new life projects in which they actively participate and which have a direct effect on social cohesion in the short term.

One of the instruments promoted by EUROsociAL in order to generate processes of discussion and mutual learning is the creation of thematic networks. The RedLECE network was created in 2006 at a meeting organised by EUROsociAL Education and included 11 Latin American countries. It is an important source of support for many national efforts in this field, promoting the exchange of good practice, technical co-operation and research.

In addition, EUROsociAL Education has supported bilateral contacts: a regional seminar in Argentina to present its experience and other monitoring and support activities, involving technical teams, supervisors and teachers at penitentiary institutions; a national seminar in El Salvador for the Ministries of Education, Justice and the Home Office; and several visits by the members of the network to Europe, particularly Germany and Spain.

Almost one in five activities in this project was devoted to vocational training, with general seminars and forums, but also with activities for specific technical assistance, such as the design and certification of professional competences in El Salvador, Guatemala, Honduras and Colombia.

16 per cent of the activities focused on the issue of school management in contexts of violence, consisting of debates on inclusive education and social cohesion, as well as exchanges regarding teacher training and preventive management of conflict.

Since its foundation EUROsociAL Education has given priority to rural education policies as a mechanism to promote social cohesion; 16 per cent of the activities organised have corresponded to this area. The programme has covered issues regarding integrated schools in general seminars and through technical assistance missions

to Mexico and El Salvador; the incorporation of information and communication technologies, particularly in Costa Rica; and the continuous training of rural teachers (on a regional level). The project has supported the development of one of the main Latin American initiatives in this field, the EDUCO Programme in El Salvador, also promoting more in-depth knowledge of this initiative among other countries in the region (see Box 3).

Box 3. Policies and citizenship: the EDUCO programme in El Salvador

Education is a right whose exercise increases human skills, evening out future opportunities for development when access to it is guaranteed for all. In addition, the participation of the beneficiaries themselves and their co-responsibility in the education process leads to an active assumption of that right, which encourages full citizenship.

The EDUCO initiative in El Salvador is an example of co-management between the State and local communities in order to extend the educational network in rural areas, through an effective decentralisation towards the local level, where Communal Associations for Education (Asociaciones Comunales para la Educación, ACE) take responsibility for the administration of education. The achievements of the programme have led to a significant level of acceptance by institutions and society, and EDUCO has become an experience that other countries wish to know more about so that they can apply its lessons to their own circumstances.

In addition to sharing their own experience, with their participation in EUROsociAL Education, the authorities of El Salvador have been able to learn about other rural education programmes in Europe and Latin America, including issues such as *escuelas unitarias* (one teacher schools), permanent teacher training programmes, or the introduction of information and communication technologies. This has enabled them to identify ways in which EDUCO needs to be improved, particularly by supporting their key agents with new materials: teachers, directors and members of the ACE.

Lastly, the strategic issue of education in vulnerable areas of large cities has taken up 11 per cent of the exchanges, which have mainly concerned educational inclusion policies, where the experiences of Argentina, Uruguay, France and Spain have been shared. Other (cross-cutting) activities have dealt with the management and organisation of school centres and teacher training.

To summarise, EUROsociAL Education has had effects on institutional procedures and on the reforms of pedagogical and organisational methods, whereas it has participated much less in the debates regarding the ongoing large-scale educational reforms taking place in some countries in the region.

15.3.2.2. Employment

EUROsociAL Employment has promoted the largest number of inter-sector activities in the programme, and has also attracted high levels of participation by institutions and countries. This has been the case especially with regard to the issue of Social Security, jointly with Taxation (see Box 4), and with regard to social protection, jointly with the Health sector. In fact, almost one third of the activities of EUROsociAL Employment,

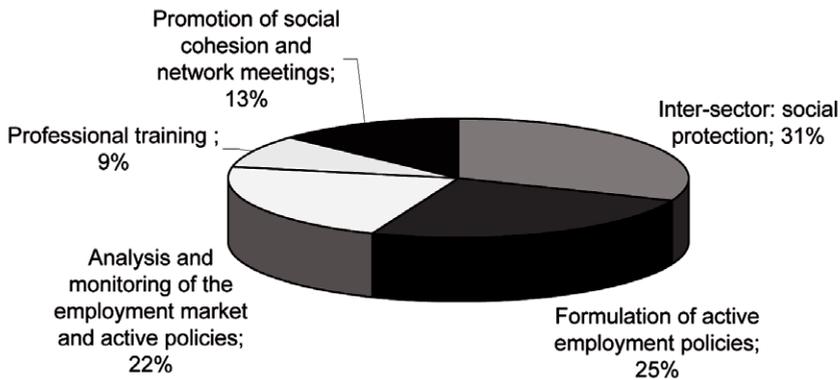
managed by the International Labour Organization, have been carried out jointly with other EUROsociAL sectors (see Figure 15.6).

Box 4. Institutions: procedure for the collection of social security payments in Honduras

The debate regarding the financing of Social Security is one of the key elements of any cohesion policy, and although the social protection system as a whole demands complex decisions, some operational improvements in aspects such as collection could make a great difference to its effectiveness. In view of the delays in the payments of contributions by employers, the Honduras Institute of Social Security conceived a payment notice project with three strategic measures: dissuasive, persuasive and executive. As a result of the application of this strategy, delays in payments fell by 40 per cent in the first year.

In designing this project, the Institute was able to learn about experiences in several Latin American and European countries (Belgium, Spain, France, Italy and Portugal) which participated in the inter-sector workshop “Strategies for improving social security payment collection”, organised jointly by EUROsociAL Employment and EUROsociAL Taxation and the Ibero-American Social Security Organisation (OISS). In addition, an inter-sector Employment-Taxation workshop on good practices in Social Security payment collection was held, complemented by a seminar on auditing and control of Social Security expenditure.

Figure 15.6. Priority Issues in EUROsociAL Employment



As previously mentioned, together with Justice and Taxation, EUROsociAL Employment is the sector that has become most involved in public policy debates. Specifically, active employment policies and the different strategies for their design have been the subject of 25 per cent of the activities. Given the characteristics of this theme, the workshops, seminars and training courses organised (most of them in Argentina, Peru, Italy and Spain) have been attended by a large number of countries. The meetings have dealt with topics related to the integration of specific groups (young people, women, indigenous peoples and, especially, the rural population) into the employment market via local development plans (see Box 5).

A further 22 per cent of the activities have been devoted to studying in greater depth some of the more technical aspects of employment policies, especially regarding indicators, employment statistics, monitoring and evaluation in countries where informal practice predominates, such as those of Latin America. A number of workshops and seminars have been organized in different countries such as Peru, Panama, Argentina and Costa Rica, to share experiences regarding these issues.

It is worth noting that, despite its relevance for social cohesion, the wealth of experience regarding social dialogue in Europe has only been the subject of two general awareness-raising activities, related to professional training, in Panama and Peru.

This thematic perspective can be completed by mentioning meetings for reflection and those dealing with networks for social cohesion and employment, as well as activities on professional training, in particular qualifications for professional skills, which are highly developed in Europe.

Box 5. Policies for local economic development in the North of Patagonia

The promotion of local employment, based on the comparative advantages of the territory and on local needs, has proved to be a powerful mechanism for local development and social cohesion. The agreement between local public and private agents and representatives of civil society in the design of development strategies is a vigorously inclusive instrument. It is seen in this way by the Institute for the Promotion of Local Development of Argentina (Instituto de Promoción del Desarrollo Local de Argentina or IPDEL), which since 2005 has supported local, individual and collective productive entrepreneurship, by means of financing and training. This favours interaction between those involved, and generates joint experiences and useful links between entrepreneurs and local people.

Within the framework of EUROsociAL Employment, a workshop was organised in which heads of government bodies, workers' unions, employers' organisations and civil society bodies in 9 Latin American countries took part. A number of participants shared their experiences of local socio-economic restructuring, in order to fight the adverse effects of globalisation, with an emphasis on territorial employment agreements in Italy and Spain. The workshop also included study visits to businesses in different areas of both countries.

The issues dealt with in this sector have been relevant and central to the political debate, though possibly somewhat dispersed, leaning more towards basic exchanges on many fronts rather than more focused exchanges between receiving and transferring countries, in which there could be a more in-depth analysis, supporting innovative political-institutional processes and specific reforms which are relevant to social cohesion.

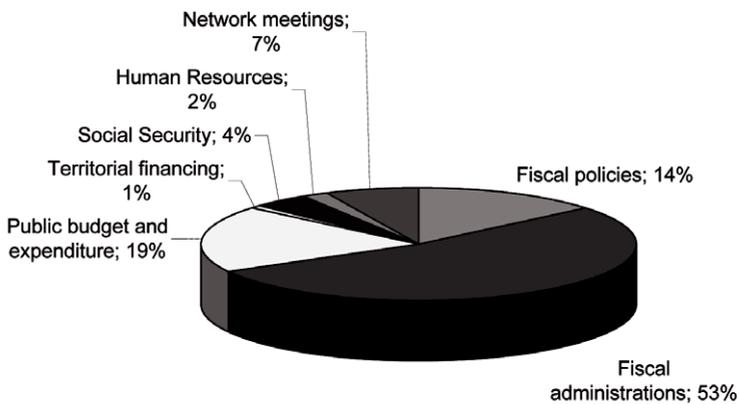
15.3.2.3. Taxation

The activities carried out in the last three years by EUROsociAL Taxation are a good example of the general methodology of the programme. A significant part (30 per cent of all activities) has consisted of international seminars and workshops, with the participation of a large number of countries from both regions, the main aim being to share knowledge and discuss general policy guidelines. The project has organised a similar

number of orientation visits by Latin American administrations to their European Union counterparts, and to other countries in the region, in order to study in depth specific details of their shared experiences. This has also been the aim of the technical assistance activities (17 per cent) to individual countries for specific issues, which have benefited, among others, Ecuador, Paraguay, Honduras, El Salvador and Argentina. Lastly, the sector has also organised meetings for reflection (15 per cent), focusing on specialised issues, such as money laundering or specific taxation policies, or on more general issues regarding the links between fiscal policies and social cohesion.

With regard to the topics covered, EUROsociAL Taxation has tackled very specialised aspects of fiscal and finance policies. The consortium has classified its activities in the strategic areas included in Figure 15.7. Only 14 per cent have dealt with large-scale fiscal policy issues, the emphasis being more on raising awareness of the importance of social cohesion for fiscal policies (and vice-versa), and less on support for reform proposals. One exception is the work carried out supporting the ongoing debate on indirect taxes in the tax reform process in Brazil (see Box 6).

Figure 15.7. Strategic issues in EUROsociAL Taxation



Box 6. Policies: the tax reform project in Brazil

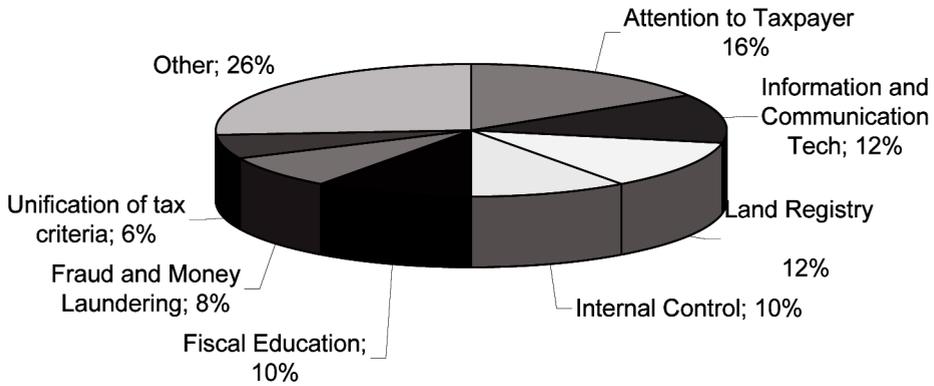
During 2007 in Brazil there was a long, in-depth debate regarding the need to reform and rationalise its complex taxation system, which led to a project for tax reform presented in Congress in 2008. Among the measures considered, the simplification of indirect taxation was a pressing issue, as it was producing unfair competition between states in attracting investment via exemptions.

The promotion of social cohesion requires solidarity in territorial financing mechanisms and the European experience showed that other taxation measures or development funds were more effective for regional development than reducing the tax burden, a principle that had initially been included in the Law.

The sharing of European experiences, promoted by EUROsociAL Taxation through meetings and seminars with massive attendance in Brazil, contributed to a change in this principle. Specialists from France and Germany were able to share technical and political aspects of the simplification of taxation on consumption and regional development models with Brazil, while Spain and Sweden shared experiences of different models of territorial decentralisation.

Most of the activities of EUROsocial Taxation (53 per cent) correspond to its objective of strengthening and improving tax administrations. In this regard, innovations to improve attention to tax payers have been given special attention, particularly telephone services in different countries (Ecuador, Honduras, Paraguay, El Salvador). The application of new technologies for tax returns, improvements in the quality of land registries, the incorporation of internal control processes, fiscal education, the fight against fraud and money laundering, and the unification of tax criteria have been the issues receiving most attention by the consortium in its support for the modernisation of fiscal administrations (see Figure 15.8).

Figure 15.8. Most frequent issues related to tax administrations



Although specific activities for boosting citizen participation were not identified, some of the initiatives aimed at modernising institutions also had a significant effect on citizenship building, via the generation of higher levels of trust towards the administration. This is the case, for instance, of the activities related to fiscal education, and particularly to social acceptance of taxes and the extension of the ‘tax culture’ in countries such as El Salvador, Guatemala, Peru and Paraguay (see Box 7).

Box 7. Institutions and citizenship: social acceptance of taxes in Paraguay

Social acceptance of taxes is not only a way of increasing the amounts collected for the provision of public services; it also constitutes one of the key elements of social cohesion and governance, by strengthening a body of citizens who participate, contribute and demand, laying the foundations for negotiation between the public and the institutions legitimised by the State.

In recent years, Paraguay has undertaken a process to re-engineer its taxation system in order to provide a better service, which implies a significant change in processes and structure. Among the initiatives carried out are the improvement of services to the public and communication campaigns such as “Exigí, Juntá, Ganá” (Demand, Collect, Win), which gives prizes to students and schools that collect the highest number of legal receipts.

EUROsociAL Taxation has supported the extension of the ‘taxation culture’ and the strengthening of tax administrations with training for call centre operators in attention to tax payers, seminars on strategies for encouraging voluntary compliance, technical assistance by the Chilean and Argentine tax administrations in Paraguay, and by Paraguayan civil servants in Guatemala and El Salvador.

Fewer activities have focused on the third strategic area, public budget and expenditure, though topics of great interest have been addressed, such as budgeting techniques to increase social cohesion, or transparency in public expenditure and its parliamentary control.

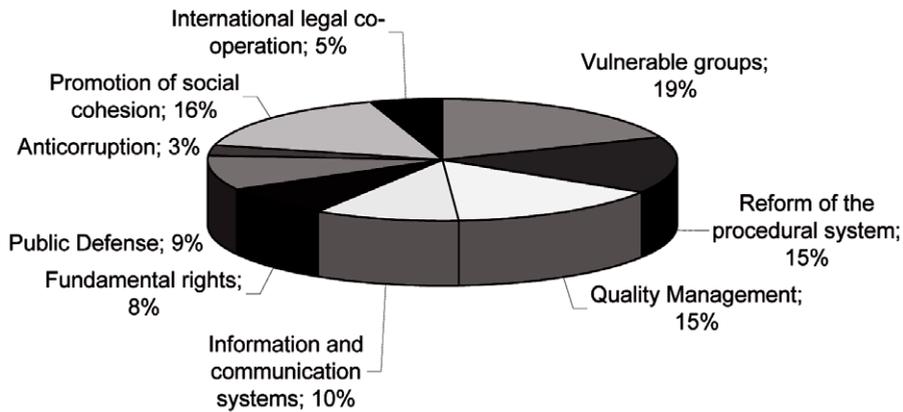
Having started later than the first three strategic areas, activities in the others (social security, human resources and territorial financing) have had less impact. Worth noting, however, is the inter-sector work with EUROsociAL Employment on the financing of Social Security policies and on information systems for the internal control of public expenditure. In any case, these initiatives confirm the consortium’s emphasis on “micro”, technical and management aspects.

15.3.2.4. Justice

The concept of social cohesion itself is relatively new in the Latin American judicial context. This explains why a significant percentage of the meetings organised by EUROsociAL Justice (16 per cent) have been concerned with introducing the concept and exchanging ideas, via awareness-raising activities and network meetings between European and Latin American justice administrations, leading to the adoption of the concept in the agenda of many of the existing networks.

The core issues identified by EUROsociAL Justice through the activities carried out have covered many of the most significant weaknesses of the sector in the Latin American region (see Figure 15.9). The implementing consortium, aware of some of the weaknesses of the initial concept of the programme (such as the absence of an approach by stages and an insufficient analysis of political will and institutional commitment), has gradually adapted its methodology, opting for longer cycles of exchanges of experiences, combining different activities, and better monitoring of political commitment so that the reform process can be tracked for a longer period and the consortium’s activities can be more effective.

Figure 15.9. Priority issues of EUROsociAL Justice



This approach allowed the sector to influence policies for improving access to justice and the protection of vulnerable groups (especially witnesses and victims, including gender violence victims). The treatment of violence against women has been one of the central topics of the work carried out by EUROsociAL Justice. Activity in this field has been intensive, focusing on certain countries where a great number of institutions have participated, in particular Nicaragua, Guatemala, Honduras and Costa Rica, the case of Guatemala standing out because of its recent approval of the law against gender violence (see Box 8). Also worth noting are the activities with Paraguay and Uruguay. In late 2008, activities started in the Andean area (Bolivia, Ecuador, Peru and Colombia), with promising results.

The reform of procedural systems has also attracted considerable attention. In this line of work, there has been a chance to debate issues regarding the reform of civil procedure in Chile, in jurisdictional, administrative and technological terms, and support has been given to legislative reforms for implementing an oral hearing system in penal processes in four Mexican states. In addition, experiences have been shared regarding reforms in the way the justice system treats certain groups, such as children and teenagers.

Box 8. Protection policies with regard to gender violence in Guatemala

In Guatemala an average of two women per day are murdered in gender-related crimes, crimes which are often left unpunished due to the inability of the legal and judicial system to provide a satisfactory answer to this serious social problem. Aware of this, the country has started a series of institutional initiatives, not only in the justice system, but also in specialised gender organisations and across sectors, as well as in research, awareness raising and training. A fundamental milestone of this process has been the approval of the Law against femicide and other forms of violence against women in April 2008, which could become the first step towards an integrated public policy of protection from gender violence.

This Law has been partly based on the recent Spanish experience, presented in activities organised by EUROsociAL Justice, which made available technical and political expertise concerning the integral protection of victims. This included an internship of Guatemalan civil servants in Spain and a large-scale meeting in Guatemala, which brought together women's institutions and movements. Substantive agreements were reached and alliances were established between collectives that had never before shared a negotiating table.

Despite being one of the EUROsociAL consortia that have had most influence on sector policies, most of this project's activities have been directed at strengthening institutions to improve the administration of justice as a public service. Among other initiatives, attention has focused on improving the quality of management (professionalising the judiciary) and of information and communication systems (judicial statistics). More specifically, protocols for the application of existing laws have been created for judges, and counsels for the defence and for the prosecution (Chile, Colombia); and protocols for the investigation of crimes of human trafficking and child pornography (Chile). Projects regarding the assessment of the performance of judges in Costa Rica (see Box 9), El Salvador and Argentina have also been carried out

Box 9. Institutions: performance assessment of the judiciary in Costa Rica

When the aim is to replace the scheme of “justice as power” with that of “justice as public service” –accessible, high quality and efficient– the main administrators of the system, the judges, must be aware of this; they must be trained, they must show results and they must be held accountable. Costa Rica has embarked on this process, and is taking decisive steps towards a change in institutional culture and towards strengthening the effectiveness of the judiciary.

EUROsociAL Justice has supported this process by creating systems for the assessment of the performance of judges, organising an exchange of experiences for Costa Rica, El Salvador and Argentina. Subsequently, civil servants from the Costa Rica judiciary have been able to learn more about the European experience by visiting different Spanish and French institutions, as well as receiving technical assistance from Spanish experts in their country. Lastly, since the end of 2008 a pilot project has been under way for the design of a “Model of Quality Management and Standard Practice for Court Offices”. It will be implemented in two courts, the Domestic Violence Court and the Second Court of the Supreme Court of Justice, and extended to others when it has been evaluated.

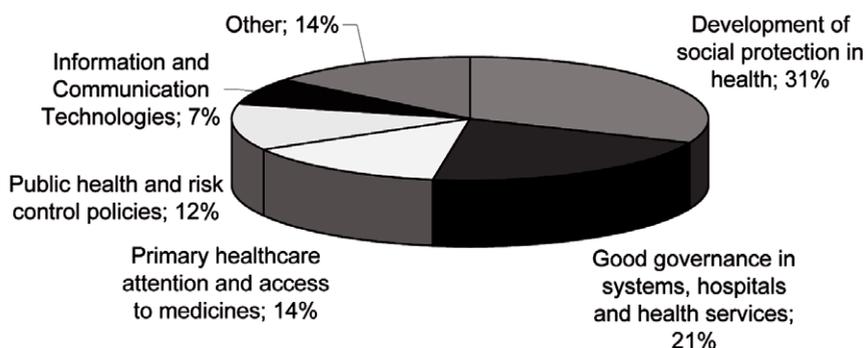
Other meetings and exchanges have dealt with transparency, anticorruption and fundamental rights, particularly regarding constitutional doctrine, a network of lawyers and constitutional advisors having been set up. Finally we should mention the strengthening of public defence, particularly in Costa Rica, Uruguay, Bolivia, Mexico and Chile.

15.3.2.5. Health

For internal reasons related to the constitution of the implementing consortium, the work by EUROsociAL Health started later than in the other sectors. Probably for this reason, the analysis of its activities reveals a predominance of workshops and seminars in which a great number of countries have taken part, as a forum to raise awareness and reflect, with a more comprehensive approach, on a wide range of subjects and their connection with social cohesion. More recently, internships, specialised assistance and workshops have also been provided in certain countries (for instance, to raise awareness regarding altruistic blood donation in Colombia).

Figure 15.10 shows that social protection in health has been the main issue dealt with in the activities of this consortium (31 per cent of the total), especially with regard to policies for its extension to vulnerable groups: the indigenous population, informal workers, farming sector, migrants or disabled people. Several workshops have been held regarding these issues in conjunction with EUROsociAL Employment. The extension of the coverage of social protection to vulnerable groups is undoubtedly an issue that has been present on the Latin American agenda for some time now, but the activities of EUROsociAL may have helped to give a more comprehensive view of some of the ongoing reforms to ensure that services become more universally available.

Figure 15.10. – Priority issues in EUROsociAL Health



Half of all the activities covered by the second priority, good governance, have centred on the financing of health and social security systems, key elements of social protection policies in the widest sense. The remaining activities include seminars and workshops on

hospital reform and management of public hospitals, such as the exchange of experiences linked to the improvement of Regional High Specialisation Hospitals in Mexico (see Box 10).

Box 10. Institutions: overcoming distance barriers through hospital management in Mexico

The task of decentralising specialised public medical attention and bringing it closer to the public is an essential step in making access easier for those affected by barriers of distance and earnings (specialised public hospitals are far away and private hospitals cannot be afforded by all). But this is only a first step. It is also necessary to have good hospital governance, with autonomous management, qualified managers, community participation, information systems for the management and flow of patients, etc., so that people can exercise the right of access and for the service provided to be of high quality.

EUROsociAL Health has made it easier to share the experience of the creation of Mexico's Regional High Specialisation Hospitals (HRAE) with ten other countries in the region, through meetings, seminars and workshops. In addition, Mexico's Department of Health, and particularly the managers of some of the HRAE, have benefited from Spain's experiences in hospital management, accessing first-hand knowledge of decentralised management, its organisation on a national level, self-managed hospitals, levels of attention, and public participation in these processes.

The integration of the different levels of service for primary attention and concern about staff permanence in less favoured areas, as well as policies for purchasing essential medicines, have been the central issues addressed in the third priority area, which accounts for 14 per cent of all activities in the sector.

12 per cent of the activities of the sector have dealt with public health and risk control policies, especially regarding national systems and policies for altruistic blood donation, and organ transplant management and regulation. Lastly, certain exchanges of experiences have taken place regarding the application of information and communication technologies in the health system in general and in primary attention in particular.

The activities of the sector have been extensive, bringing together a relatively high number of countries, except for some sub-regional 'bilateral' (one receiver, one transferor) internships and workshops. Analyses of public health policies have centred on essential medicines and blood donation, and in some workshops and seminars, on the extension of social protection and the financing of social security. Approximately one third of the activities have dealt with issues related to public health policies, whereas the rest have focused on potential improvements to management models. In general, as with the programme as a whole, attempts to incorporate high level decision makers have met with limited success. However, even though the support of EUROsociAL Health has been very specific, it has helped to inform policy makers, as in the case of the health system reform in Uruguay (see Box 11), social protection in Costa Rica and blood donation in Chile.

Box 11. Policies: the reform of the health system in Uruguay

Universal access to an equitable health service of consistent quality is a powerful mechanism for social cohesion. The recent reform of public health in Uruguay aims to tackle a situation of progressive deterioration and inequality in expenditure, by introducing a system which deals simultaneously with attention, management and financing, through three laws that have provided a significant extension in the coverage of health services and improved infrastructure and management.

The reform of this national policy goes beyond the scope of any single cooperation activity. However, EUROsociAL Health has enabled a number of civil servants from Uruguay to learn about other experiences in Latin America and Europe, specifically in France, Italy and Spain, regarding the central issues of the programme. Sub-regional workshops have also been organised in Uruguay, bringing together different parties involved in the system, such as managers, healthcare professionals, and health service users. Within the framework of these meetings, EUROsociAL has supported a strategic plan for facilitating agreements between the health financing body and the service providers.

15.4. Conclusion: lessons learned and challenges

The way in which the concept of social cohesion can guide public policies and development models in Latin America is an open debate. The political dialogue with the European Union has undoubtedly contributed to the issue being incorporated in some of the region's political agendas, while the work of ECLAC, the IDB and several "think tanks" in Latin America and Europe, especially during 2007, has also played an essential role. Lastly, EUROsociAL has had a place in this debate, involving public institutions and administrations in both regions and influencing the way in which political and strategic discussion can lead to practical, tangible results.

If the guidelines of the 2007-2013 European Union co-operation programme are implemented, Euro-Latin American co-operation for social cohesion will be much more intensive in coming years. The initiatives now under way can take advantage of some of the lessons learned during the implementation of EUROsociAL in this first phase (there are plans to continue the programme in the period 2010-2013), many of which were expressed in the 2008 intermediate evaluation.

The first lesson is related to the role of cooperation to achieve social cohesion in a region like Latin America. Despite the doubts that this concept may have triggered in many leaders of the region (some of whom see it as a European imposition), the interest that EUROsociAL has awakened in institutions and the level of mobilisation achieved are good indicators of the importance of the issue and of this type of inter-institutional cooperation. These are also the first conclusions of the independent evaluation of the programme.

A second lesson is the need to be flexible in the design of a co-operation programme of high political content, which aims to monitor and support endogenous reform processes. Co-operation must be able to take different initiatives into account and take advantage of political opportunities whenever they arise. Even though this characteristic has led to EUROsociAL's activities being somewhat dispersed, it is evident that it constitutes a strength that has allowed it to support some of the most important reform processes

carried out in the last three years. In brief, co-operation needs to be able to adapt to political calendars.

A third lesson learned from the implementation of EUROsociAL is the need to prioritise. Although all the issues tackled by the programme have been relevant, the final result is characterised by a great dispersion of activities and results. Sometimes, dispersion is synonymous with superficiality. This is understandable in a programme that has pioneered the introduction of a new area of concern, but the tendency must be corrected if the cooperation is to have an effect on the key problems of cohesion in Latin American societies. In short, it is important to identify and prioritise those issues that are most relevant for the region (e.g. public safety, social protection, territorial inequalities within countries, exclusive sector policies), which must then be tackled individually in each of the countries. It should be noted that these are cross-cutting issues by definition, involving all the sectors in which the programme has worked. Social cohesion is the result of a series of policies, which means it will be necessary to determine the best policy mix for each of the partner countries.

A fourth reflection is the imperative need to adapt cooperation tools to the aims being pursued. If a cooperation programme is aimed at changing policies, strengthening institutions and encouraging public participation, then procedures should be developed to make it possible to reach the relevant receivers with appropriate tools to facilitate the transition from the exchange of knowledge to political-institutional action.

In this regard, the activities of this first phase of EUROsociAL have focused especially on public administrations. This has made it possible for civil servants to benefit from the support of their peers, potentially more relevant and effective than traditional technical assistance (through private consultancy). However, at the same time, many of the activities have been limited to sharing information, and have not had any influence on action. The best results have been recorded in initiatives supporting simple institutional reforms which are less politically conflictive and more technical in nature.

But even for this kind of reform, carried out by civil servants, to be implemented it is necessary to have political support, institutional commitment and certain other conditions. In this regard, EUROsociAL has not been able to exert sufficient political pressure to facilitate the implementation of changes. If we take into account the problem of the turnover of mid- and high-level civil servants, and the lack of continuity and depth of EUROsociAL action, it is easy to see how its impact and sustainability are adversely affected. Institutional development requires firm commitments, not from individuals, but rather from organisations: it is about much more than an isolated event to provide information and requires long-term monitoring and support.

The tools used in the EUROsociAL exchanges of experiences have been necessary but not sufficient to engage with and track political commitment to change. The methodological changes introduced by EUROsociAL Justice for more complex exchanges between certain institutions and countries, with continuity over time and the combination of several tools, constitutes a step forward in this respect. The recent start up of several pilot projects by different sectors could also be a positive development, though it is still too early to reach definite conclusions.

The European Union has developed numerous instruments for inter-institutional cooperation, especially in the framework of its enlargement policy and, more recently, its neighbourhood policy. Twinning and the technical assistance services developed are interesting resources, which might be difficult to adapt to other regions but should be considered.

A fifth consideration is that the support of stable networks of institutions constitutes a useful strategy for overcoming some of these barriers and providing certain continuity to large-scale conceptual discussion of social cohesion. However, until now the networks promoted by EUROsocial have been based on sectors (taxation, education) or topics (education in prisons, trainers for indigenous peoples, fiscal education). In future, it would also be important to promote national networks involving different government institutions interested in social cohesion policies and the donors supporting these strategies.

As a final reflection, a common challenge in 'institutional strengthening' programmes is public participation in reform processes. Supporting government institutions tends to strengthen their structures and perpetuate existing imbalances of power. Although they may build institutions, measures which do not tend towards a redistribution of bargaining power and give a voice to the most vulnerable ignore a fundamental aspect of social cohesion: the sense of belonging, equality of access and opportunity, the right to make oneself heard and the right to full citizenship. This must be a central feature in the design of future action for the promotion of social cohesion in Latin America.

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16. Final remarks

JOSÉ LUIS RHI-SAUSI

In this volume we have set ourselves a number of complementary aims. The first was to provide, through the contributions of a group of European scholars, an informative and analytical picture of European policies for social cohesion and the debate which has taken place in recent years concerning reforms of the welfare state. We considered this work to be necessary because an idealised view of the “European social model” has often prevailed in the Euro-Latin American dialogue on social cohesion. It is an image in which European social policies are represented by a homogeneous whole which does not take account of the significant differences between individual countries and which, above all, is characterised by a static model that does not evolve over time. As Hemerijck points out in his chapter, there are certainly elements that enable us to refer to a European social model with certain common features. The author draws attention, for example, to the proportion of their budgets that European countries have consistently allocated to the welfare state over long periods. However, it would be reductive and substantially incorrect not to consider the numerous significant factors which have transformed and differentiated European social models.

The illusory vision of a single European “social model” has actually hindered bi-regional dialogue which, instead, looked for a common ground to discuss ideas and formulate policies for social cohesion. The lack of confidence in the very concept of social cohesion, which has affected the EUROsociAL programme from the start, has been reinforced by its association with a supposed European desire to apply a particular model in a completely different setting. This explains the emphasis on highlighting the differences between individual contexts by EUROsociAL’s network of civil servants, specialists and operators. The essays published here do not, therefore, seek to provide arguments in favour of the “European social model”. The aim is, rather, to update our knowledge of discussion concerning social cohesion in the European Union and of policies promoting it. In particular, the aim is to show how dynamic and controversial its development has been and the specific differences existing between member countries. For the purposes of analysis the following have been considered priority areas for EUROsociAL: employment, education, health, taxation and social dialogue.

This work is an update of European social cohesion policies and pays special attention to the responses or reactions of different European welfare systems to the transformations which have taken place internationally. These transformations are not only material but also ideological and have led to the incorporation of new ideas and views of social cohesion. As pointed out in various chapters of this book, we need look no further than the influence that neo-liberal policies have had on some of the pillars of the European welfare state, as they were established in the post-war period. No less important, and still part of a process

of redefinition of the European welfare systems, is the impact of the current economic crisis. In short, the papers published in this book contribute to a more realistic and up-to-date reading of policies for social cohesion in the European Union. The Euro-Latin American dialogue on social cohesion should certainly consider the numerous differences between the two areas but should also recognise the significant number of problems they have in common.

A second aim of this volume has been to contribute to and take forward the theoretical debate on social cohesion. We consider it useful to bring a European perspective to the thinking on the subject to date, which has mainly been encouraged by Latin American scholars. A greater role for European thought on the matter, going beyond the theoretical work of European students of Latin American affairs, can lead to major progress in the debate on social cohesion. We also believe that theoretical reflection should be a major part of this Euro-Latin American dialogue. Although the final purpose of this dialogue is for social policies and reforms to lead to greater social inclusion and cohesion, the task of reflection can help to make specific activities and institutional relations more effective and give them a strategic slant.

To this end it is important for European and Latin American thinkers to define their terms of reference and the lines of their programmes more clearly, avoiding an excessively taxonomic discussion of the concept of social cohesion. The search for a classification and a “final” definition of social cohesion has not proved productive. An approach which may be more worthwhile, as Zupi suggests in the introductory chapter, is to accept the ambiguity and complexity involved in interpreting the concept, as its flexibility and communicative value enable it to connect different schools of thought, different issues and the corresponding policies and, no less important, different locations. Social cohesion is a process rather than an end in itself and this permits a less ideological conceptual discussion, in so far as the concept’s capacity to generate connections is used to construct an integrated and innovative view of social policies which allows for dialogue and synthesis between the different disciplines and institutions in Europe and Latin America.

In this regard, the chapters by Hemerijck, Ocampo and Zupi offer a particularly valuable series of theoretical and methodological considerations for Euro-Latin American debate and reflection on social cohesion.

The third and final aim of this volume has been to establish a dialogue of ideas, based on European experience, about the themes and priority policies of the EUROsociAL programme. In particular, taking as a point of reference Gudiño and Zamora’s analytical synthesis of the first EUROsociAL stage and the lessons learnt from it, the essays published here aim to show the European pathways that have been followed in terms of policies for social cohesion, considering their main characteristics, relevant and priority thematic areas, mechanisms for concerted action by institutions and social dialogue, as well as operative instruments. This all forms part of a reform process which is still in progress and is transforming all the priority areas of EUROsociAL: employment and the labour market, taxation, health and education. The perceptions and information included may help us to answer some of the key questions which EUROsociAL has asked itself:

Does social cohesion in the enlarged European Union have the same importance as in the past? What transformations is it undergoing with regard to the processes and means

to extend the rights of citizenship and universal access to social services? In the answers to these questions common ground can be found for Euro-Latin American dialogue on social cohesion.

Reforms of social policies in Europe are a politically sensitive issue affecting most of the population. What are the institutional mechanisms and processes for public participation in decision making for the introduction of such reforms in the European Union? This theme is a concern shared by both Europe and Latin America and, as EUROsociAL maintains, requires the cooperation programme in this field to be sufficiently flexible and, above all, to have greater political weight in relations between the two regions.

The wide range of policies and themes related to social cohesion makes it necessary to prioritise specific issues. This conclusion by EUROsociAL, referring to cooperation between Europe and Latin America, is equally valid within individual contexts. As can be seen, especially in the chapters by Adnett and Estruch-Puertas on European employment market policies and reforms, prioritising specific issues is essential, not only to reflect social priorities but also to generate effective action and for fiscal purposes.

The territorial focus is one of the most important pillars in European Union policies on social cohesion. As can be seen in various chapters in this volume, social cohesion in Europe is closely linked to territorial cohesion, a feature which has been emphasised even more by the reform process. This approach, as the lessons learnt by EUROsociAL have made clear, constitutes a promising area for Euro-Latin American encounters.

Lastly, we would like to point out how European social cohesion policies have paid special attention to institutional reforms and tools for inter-institutional cooperation in the reform of social policies. Gudiño and Zamora refer to this question in their conclusions, arguing for the need to identify innovative instruments to promote bi-regional inter-institutional cooperation. Europe has a wealth of experience in this area, as can be seen in this volume.

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FUNDACIÓN INTERNACIONAL Y PARA IBEROAMÉRICA DE ADMINISTRACIÓN Y POLÍTICAS PÚBLICAS (FIIAPP)

Formed in 1997, the *Fundación Internacional y para Iberoamérica de Administración y Políticas Públicas* (FIIAPP, International and Latin American Foundation for Government and Public Policies) is a public institution at the service of the state's foreign actions in the area of international cooperation for development. It accompanies processes of democratic construction and social cohesion in developing countries. The foundation helps the public institutions of these countries to become solid, trains leaders committed to the fight against inequality and poverty and encourages public policies that ensure that the whole population, above all the most vulnerable sectors, has access to basic services.

The FIIAPP has 150 employees of whom 97 work in its head office in Madrid (Spain). It is present through its representatives in 12 countries and is active in over 60 countries in Europe, Latin America, Africa and Asia.

The Sectorial Strategy for Democratic Governance, Public Participation and Institutional Development, which sets the directives for Spanish cooperation in this sector, gives the FIIAPP a relevant and active role in three areas of action:

- Social cohesion
- Public technical assistance
- Public leadership

The essential services provided by the foundation are:

- Public technical assistance and consulting
- Training
- Research and applied analysis

The FIIAPP aspires to become the reference action organisation in the democratic governance sector, promoting and accompanying the development processes in the countries and regions where Spanish and European cooperation act.

The foundation considers it essential to generate spaces for debate and to encourage critical reflection but with a constructive attitude, attempting to influence the national and international public agendas.

Site: www.fiiapp.org

CENTRE FOR STUDIES IN INTERNATIONAL POLICIES (CeSPI)

CeSPI, the Centre for Studies in International Policies, is an independent non-profit organisation established in 1985 which conducts policy-oriented studies and research. With around 25 researchers, CeSPI is the leading Italian centre for applied research in international development and cooperation.

The Centre carries out research, consultancy, training and information dissemination activities with respect to key international relations issues in network with several stakeholders: universities, international organisations, national and sub-national authorities, civil society organisations and private companies. The Mediterranean basin is a geographical priority for the research. Social cohesion and development policies, Territorial and decentralised cooperation, Transnational and translocal partnerships and practices for co-development are among its main research areas.

Site: www.cespi.it

