

# Vice into Virtue? Progressive Politics and Welfare Reform in Continental Europe

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For over half a century, the development of the welfare state has served as the principal means by which left-progressive governments have reconciled the pursuit of efficiency with the pursuit of equity. From a Keynesian perspective, welfare spending—and the taxes that financed it—provided an “automatic stabilizer,” smoothing aggregate demand in the face of fluctuations in the business cycle.<sup>1</sup> From a corporatist perspective, welfare spending greased the wheels of “political exchange,” compensating powerful, mobilized labor movements for their acceptance of wage restraint.<sup>2</sup> And even during the initial years of neoliberalism, welfare spending helped secure popular acquiescence to market reform, making intensified international competition and job loss more acceptable to the masses.<sup>3</sup>

In the 1990s, however, in the age of globalization, heightened concerns about budget deficits, and retiring baby boomers, welfare spending has come under intense pressure.<sup>4</sup> The fact that the left is in power in an unprecedented number of European countries—France, Italy, Britain, the Netherlands, Sweden, and now Germany—is not necessarily grounds for celebration. As luck would have it, leftist electoral planets have entered into alignment at precisely the moment when fiscal constraints have become extremely tight. With welfare expansion giving way

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An earlier version of this paper was presented to the European Forum on Recasting the European Welfare State: Options, Constraints, Actors, at the European University Institute, Florence, Italy, 21 October 1998. I wish to thank the following for their advice and critical comments: Suzanne Berger, Fred Block, Ruth Collier, Giuseppe Di Palma, Maurizio Ferrera, Susan Giaimo, Anton Hemerijck, Richard Locke, Julia Lynch, Paul Pierson, Gloria Regonini, Martin Rhodes, Andrew Tauber, Margaret Weir, and John Zysman. This paper was supported by a research grant from the German Marshall Fund of the United States.

POLITICS & SOCIETY, Vol. 27 No. 2, June 1999 239-273  
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to restructuring and retrenchment, leftist governments have lost their most prized policy instrument. Indeed, welfare reform confronts the left with difficult choices between cherished values and constituent interests, on the one hand, and economic efficiency and fiscal rectitude, on the other hand.

The dilemmas of the left appear especially pronounced among the so-called Christian Democratic welfare states of continental Western Europe, a group that includes such countries as Germany, Austria, France, Italy, Spain, and the Netherlands.<sup>5</sup> The Christian Democratic welfare regime is widely portrayed as sclerotic, spendthrift, traditionalist, and inegalitarian.<sup>6</sup> Its dysfunctions have sapped economic performance and employment creation while sending social spending skyward. Such circumstances do not augur well for progressive reform. On the contrary, in a context of slow growth and stagnant employment, expectations are that for now and many years to come the pursuit of equity will have to take a back-seat to the pursuit of efficiency.

This essay offers a more sanguine understanding of the plight of the Christian Democratic welfare regime, in particular, and of the relationship between progressive politics and welfare reform, more generally. Although fiscal and employment considerations have imposed constraints on social spending, constraints should not be equated with a race to the bottom. Between neoliberal retrenchment and a rearguard defense of the status quo, progressive policy makers have found room within the Christian Democratic system for a distinctive approach to welfare reform—one that is sensitive to shifting economic circumstances but also to equity considerations and, in many instances, to the benefits of concertational policy making.

The key to the left-progressive alternative is what I term turning *vice into virtue*. The vice-into-virtue approach targets inequities within the welfare system that are simultaneously a source of either economic inefficiency or substantial public spending. An example of such an inefficient inequity might be generous disability pensions paid to hundreds of thousands of people who are neither sick nor disabled. By attenuating these historic “vices” or inequities, progressive reformers have been able to extract resources with which to pursue a variety of “virtuous” objectives: redistributing income toward the poor without increasing public spending; improving the functioning of the economy without reducing benefits to the truly needy; and facilitating (through side-payments) the negotiation of far-reaching, tripartite social pacts to redesign basic parameters of welfare, labor market, and fiscal policy. In other words, inherited welfare vices can be manipulated so as to soften or even obviate the supposedly ineluctable trade-off between efficiency and equity. Furthermore, such an approach lends itself not only to a different kind of policy from neoliberalism, but also potentially to a different kind of politics—more concertational and consensual than the impositional style associated with Thatcherism.

The following presentation is divided into five sections. The first section provides an overview of the Christian Democratic welfare regime and identifies the mechanisms or logic within the regime that make it possible to enhance equity and efficiency simultaneously. Sections 2 through 4 describe instances of vice-into-virtue reform in three countries: France, Italy, and the Netherlands. The French case (section 2) illustrates the possibilities within the Christian Democratic regime for providing resources to left constituents without increasing government expenditures, the Italian case (section 3) for reducing public deficits by reducing equity deficits, and the Dutch case (section 4) for reversing economic decline and stimulating job creation while reviving concertation and improving social protections. The conclusion (section 5) considers the implications of these national experiences for the plight of the Christian Democratic welfare regime as well as for our understanding of the relationship between progressive politics and welfare reform.

#### WORLDS OF WELFARE REFORM

If welfare reform is on the agenda everywhere, it is an axiom of comparative politics and welfare studies that the challenge should be perceived (and addressed) in different ways in different countries. As Gøsta Esping-Andersen has argued most eloquently, “welfare capitalism” comes in multiple varieties—or “worlds,” as he terms them.<sup>7</sup> A first liberal, residualist world (United States, Canada, United Kingdom, Antipodes) delivers meager benefits, on the basis of need, as a last resort for those who are unable to support themselves through paid work. A second social democratic, egalitarian world (Sweden, Norway, Finland, and Denmark) offers comprehensive, generous benefits to all citizens as a matter of right. And a third Christian Democratic world (Germany, Netherlands, Austria, Belgium, France, Italy, and southern Europe), the world that concerns us here, provides wage-based, status-preserving benefits to those employees who have contributed to insurance funds.<sup>8</sup>

Many European scholars, less interested than Esping-Andersen in welfare regimes beyond Western Europe, distinguish between *Beveridgean* and *Bismarckian* systems.<sup>9</sup> Under the Beveridgean model (the Nordic countries and Britain, at least in the pre-Thatcher period), universal flat-rate benefits are financed through general taxation, with the state often providing critical services directly, notably health care and child care. Under the Bismarckian model (continental Europe outside Scandinavia), variable benefits are paid according to rough insurance principles, programs are administered by corporatist bodies largely autonomous from the state, and social services (in contrast to cash transfers) remain relatively underdeveloped. Since the Bismarckian model maps more or less onto Esping-Andersen’s Christian Democratic world, I will confine my usage to the latter term.<sup>10</sup>

Whatever the choice of label or typology, the central insight of the comparative welfare literature is that different welfare regimes display characteristic priorities, predispositions, and policy instruments; hence, each regime can be expected to evolve along a distinct path. As Esping-Andersen and others relate,<sup>11</sup> since the onset of recession in the mid-1970s, the liberal regime has adjusted in predictably liberal ways, rolling back already limited social protections. The result has been strong private sector job creation but at the expense of a significant increase in inequality. The social democratic has also stayed largely true to form, expanding public provision of health and social services in the 1970s and 1980s, thereby preserving full employment and incorporating women as full-time workers. Although this strategy reached its fiscal limits in the early 1990s and painful austerity measures became necessary, retrenchment has consisted principally of adjustments around the margins (less generous pension arrangements, lower reimbursement rates, and longer waiting periods for sick pay or unemployment insurance) rather than radical cutbacks. With the return to budget surpluses across Scandinavia and falling unemployment rates, the social democratic welfare model appears to have held.<sup>12</sup>

The situation of the Christian Democratic regime appears more precarious. Esping-Andersen portrays the regime in gloomy terms, as a world of “welfare without work” and rigid insider-outsider cleavages.<sup>13</sup> The prevalence of conservative, Christian “familialism,” encouraging women to stay home rather than engage in paid labor, has made it necessary to guarantee a high family wage to male breadwinners. High wages, in turn, have dampened employment creation, particularly in the area of low-productivity services. Aggravating matters, in the 1970s and 1980s, industrial restructuring was accommodated through a massive expansion of early retirement and disability programs, establishing expensive pension commitments to generations of relatively young, inactive workers.

According to Esping-Andersen, the logic of the Christian Democratic system tends toward “self-reinforcing negative spirals” rather than self-correction. Indeed, his analysis echoes many of the themes in the “Eurosclerosis” literature.<sup>14</sup> The protection of male breadwinners, through high statutory wages and restrictions on part-time and temporary work, prevents their wives and adult children from securing employment. Because of low labor force participation rates, the generous benefits paid to insiders must be financed through hikes in social security charges, further increasing wage costs and setting off new rounds of labor shedding. For this reason, Esping-Andersen concludes, the Christian Democratic model has “an inbuilt tendency to eat the very hand that feeds it.”<sup>15</sup>

At first glance, the case of Germany, the land of Bismarck and inspiration for Esping-Andersen’s Christian Democratic model, would seem to validate this vision of blockage, downward spirals, and welfare without work. For a number of years, the main political parties, along with the representatives of labor and capital, have remained stalemated over how to reform the overextended social security

system and relaunch growth. In the meantime, Germany's once-exemplary public finances have slipped to the middle of the European pack, at best, while unemployment has climbed to levels not seen since Weimar. That said, it is unclear to what extent Germany's problems stem from the burdens of reunification as opposed to internal dynamics. After all, only a few years ago, the rigidities in the German system were being celebrated as a source of competitiveness, helping to position Germany's political economy in high-end, high-skill, high-value-added niches.<sup>16</sup> Thus, it may be misleading to erect a pessimistic prognosis of the Christian Democratic regime on the basis of Germany's present difficulties.

Recently, a number of scholars of the Christian Democratic welfare world, usually focusing on countries other than Germany, have sounded a more optimistic note. In France and Italy, reformist, center-left leaders, forced to rely on prickly, unreconstructed Communist allies, have nonetheless managed to slash budget deficits while retaining and even boosting their popularity. The process has been especially impressive in Italy, where a bloated, patronage-ridden pension system has been brought under control through a series of reforms carefully negotiated with the trade unions.<sup>17</sup> Indeed, observers have begun to speak of a "resurgence of concertation" in Italy.<sup>18</sup>

Nor are such observations confined to the Italian case. Martin Rhodes suggests that a new model of "competitive corporatism" is emerging on the European periphery.<sup>19</sup> From Ireland, to Portugal, to Italy, to perhaps even Spain, "tripartite social pacts" have proliferated as a way of negotiating necessary adjustments to labor markets and labor-linked welfare measures, including pensions and unemployment insurance. These social pacts have improved the economic and fiscal positions of the concerned countries while preserving social consensus and even revitalizing long-dormant or discredited systems of collective bargaining.

The most spectacular turnaround within the Christian Democratic universe has occurred in Holland. The embodiment of welfare without work as recently as the mid-1980s, the Netherlands has registered rapid job growth and Anglo-American levels of unemployment (less than 4 percent) without any notable deterioration in income equality or social protections. In discussions among academic and policy-making circles, the phrase *Dutch disease* has given way to the *Dutch model* or even the *Dutch miracle*.<sup>20</sup> Indeed, the Netherlands has supplanted Sweden and Germany as the mecca of the "third way"—the fashionable alternative to neoliberalism, proving that efficiency, competitiveness, and employment need not be purchased at the expense of equality and social cohesion.

How are we to reconcile these contrasting images of the Christian Democratic welfare world? One possibility would be to repudiate the Esping-Andersen and Bismarck-Beveridge typologies altogether to argue that such diverse countries as Germany, Italy, France, and the Netherlands never truly belonged to the same welfare category and hence that their divergent evolutions are unsurprising. Objections can be raised against any effort at aggregation, however: just as Holland is

not Germany, Sweden is not Finland, nor is Britain Canada. Of course, every country is unique, but that fact should not prevent cross-national classification and comparison where appropriate. More important, recent discussions of Italy or the Netherlands do not deny these nations' Christian Democratic heritage but suggest that central features of their respective welfare systems are changing. Thus, to dismiss prior affinities with the Christian Democratic welfare model would be not only historically misleading but, graver still, would divert attention from the contemporary dynamics permitting significant reform to occur.

Rather than turn our backs on the typological insights provided by Esping-Andersen and others, I propose to build on these insights to better understand the reform processes at work—or not at work—across the Christian Democratic welfare world. I take as my starting point Esping-Andersen's critique of this world. Historically, the Christian Democratic regime has indeed displayed the kinds of economic dysfunctions and social inequities that Esping-Andersen rightly denounces: (1) wage-based financing of welfare programs, a system that is both regressive, since earnings from capital and property are not taxed, and destructive of employment, since social security charges sharply increase the price labor, especially at the low end of the pay scale; (2) excessive expenditures on passive labor market measures that pay people not to work (early retirement, disability pensions, and unemployment benefits); (3) low levels of workforce participation, stemming from passive labor market policies, high statutory wages and social security contributions, and restrictions on temporary and part-time work; (4) polarization of benefits, with insiders enjoying generous replacement rates covered by occupational insurance schemes, while outsiders, who are unable to secure stable jobs, go largely unprotected; and (5) exclusion of women from employment opportunities, owing to the effects of slow job growth, familialist social norms, tax treatment of married women's earnings (which are added to the husband's earnings, resulting in steep marginal tax rates), and the virtual absence of full-time, public child care facilities. Simply stated, the Christian Democratic welfare regime is fiscally regressive, too generous in some areas while not generous enough in others, discriminatory against women wage earners, and dissuasive of job creation.

Where I part company with Esping-Andersen is in the presumption that the Christian Democratic regime is locked into these self-defeating patterns. Such a rigid, deterministic vision understates the fluidity and malleability of welfare regimes. It also understates the salience of progressive politics. This essay demonstrates, on the contrary, that many of the characteristic dysfunctions of Christian Democratic systems can be remedied. What is more, when conducted by left-progressive governments and/or through corporatist negotiations with trade unions, the corrective process can enhance both equity and efficiency simultaneously. Put another way, it is possible for the left to pursue a distinct welfare agenda from the right—one that is not just efficient but equitable.

How is this welfare alchemy possible? My argument is based on two contentions. The first is that while the Christian Democratic regime may have been forged in the crucible of conservative clericalism, it was not cast in stone. Politics offers opportunities to transform this system. Christian Democratic welfare states are conservative in that both benefits and taxation tend to be status preserving and nonredistributive, and they are clerical in that they support “traditional families” and discourage women from working. Consequently, contemporary progressive reformers, operating within welfare systems constructed primarily by others and at odds with their values and constituent interests, will find much that they wish to change.

The second, related contention is that the defects of the Christian Democratic system may be something of a mixed curse. If these defects threaten the economic operation and social consensus of many European political economies, they also provide potential resources—fiscal, human, moral, and political—for welfare reformers, particularly those of a progressive bent. While cutting benefits to the poor is cruel, purging the welfare rolls of manifestly fraudulent claimants or curtailing benefits to the wealthy (a prominent feature of status-preserving Christian Democratic systems) is less objectionable. While launching new programs runs into fiscal constraints, turning traditional clerical programs to new ends can achieve the same objectives at no additional cost. While raising taxes is unpopular, compelling privileged groups that receive benefits far in excess of their contributions to pay their fair share seems only appropriate. While withdrawing protections from full-time, male workers smacks of social regression, enabling long-excluded women to enter the workforce, even if primarily on a part-time basis, is potentially emancipatory—especially if part-time workers enjoy (hourly) salaries, pensions, and benefits comparable to those of their full-time counterparts and if the possibilities for full-time employment are also expanding. These propositions are not simply abstract musings; on the contrary, they constitute the very real recent reforms of a number of Christian Democratic countries. Ironically, then, the historic political weakness of the left, which enabled the right to construct welfare regimes along conservative, clerical lines, appears to have created opportunities for contemporary left reformers seeking to reconstruct the welfare state according to progressive principles and not simply market principles.

I describe the emerging left-progressive strategy as one of turning vice into virtue. Characteristic vices of Christian Democratic systems—overtaxation of wage earnings, polarization of benefits, rigid insider-outsider cleavages, and indifference or even hostility to women trying to juggle maternal and career roles—have laid the basis for virtuous welfare reforms. By targeting these vices, progressive governments are able to extract savings or enhance economic performance in ways that do not substantially compromise commitments to the poor and disadvantaged. Efficiency and equity can be advanced together—or, at least, the gains of the one need not be purchased at the expense of the other. Moreover, in many

instances, these gains can be converted into sweeteners for far-reaching social pacts, corporatist agreements to reorganize labor market regulations, pension and unemployment systems, and even the mode of collective bargaining and wage determination.<sup>21</sup> Thus, the vice-into-virtue strategy appears to be underwriting a distinct, left-progressive strategy of welfare reform—one that is more equitable and often more concertational than that of the right.

The following sections analyze episodes of welfare reform in three countries: France, Italy, and the Netherlands. In each case, a distinctive left-progressive approach to welfare reform can be detected. Although the specific content varies from one country to the next, the reforms are linked by a common concern for preserving or extending equity. What is more, in all three countries, progressive-left initiatives have centered on the attenuation of characteristic Christian Democratic defects, notably regressive taxation, polarized benefits, burdensome passive labor market expenditures, and familialist bias.

Before turning to the case studies, it is important to note two limits to my explanation. The first limit is empirical. The reforms described in this essay, while of considerable importance, do not constitute the sum total of socioeconomic developments, or even welfare state developments, in France, Italy, and the Netherlands. In each country, vice-into-virtue initiatives are part of a broader reform process. Thus, developments in one policy area should not necessarily be equated with developments across the board, let alone with economic success. This is especially true of France and Italy, which continue to suffer severe social and economic problems and face a long reforming road ahead.

The second limit to my explanation is analytical. The primary aspiration of this essay is to identify and describe the features of a particular kind of reform strategy, the vice-into-virtue strategy. By contrast, I am not seeking to explain the actual politics of constructing the coalitions needed to carry out this strategy. While suggesting an affinity between progressive political orientation and vice-into-virtue reform, this essay does not purport to define the preconditions or tactics for constructing such a reforming coalition. Put another way, I am focusing on the policy substance of the vice-into-virtue strategy as opposed to its political genesis.

#### FRANCE: UNIVERSALIZING CONTRIBUTIONS, TARGETING BENEFITS

In October 1997, France's newly elected Socialist prime minister, Lionel Jospin, presented his first budget to Parliament. Jospin was in a tight position. On the one hand, in the run-up to European Monetary Union (EMU), he had to continue reducing the government budget deficit; a significant expansion of social spending was out of the question. On the other hand, as the leader of a fragile "plural left" coalition, encompassing not only Jospin's Socialists, but also ecologists and a relatively unreconstructed Communist party, Jospin needed to demonstrate that pragmatism was not synonymous with neoliberalism.

Seeking to square the politico-economic circle, Jospin's 1998 budget stayed the course on austerity but introduced two changes designed to placate the leftist faithful. In fiscal policy, the government transferred worker health insurance payments to a universal *contribution sociale généralisée* (CSG) levied on all forms of income, including earnings from pensions, real estate, and stocks and bonds. By widening the tax base, the shift to the CSG boosted government revenues by some \$8 billion while simultaneously lowering the average worker's contribution—in effect, providing a tax cut equal to 1.1 percent of take-home pay.<sup>22</sup> In family policy, the government introduced income testing designed to exclude the affluent, defined as those earning over \$60,000 per year, from family allowances that had been paid previously to all citizens, regardless of income.<sup>23</sup> Jospin also slashed the tax deduction for in-home child care (i.e., nannies) by 50 percent, arguing that only the wealthiest 0.25 percent of the French population would be affected. Both changes can be seen as part of a vice-into-virtue strategy predicated on the use of inherited defects and inequities of the French welfare system as the basis for progressively oriented reforms.

The transformation of France's system of family allowances offers a classic case of turning vice into virtue, a process that began well before Jospin. Historically, family allowances emerged from a matrix of right-wing ideological traditions: employer paternalism, nationalist natalism, and conservative Catholicism.<sup>24</sup> French employers created the first systems of family allowances in the 1920s. Behind a discourse of social Catholicism and patriotism, employers deployed family allowances to enhance labor control and restrain wages—granting a family wage only to those workers with families (while withholding it from childless workers) and conditioning the receipt of family allowances on docility and impeccable attendance at work.<sup>25</sup> Widespread abuses prompted political intervention in the 1930s, with legislation extending family allowances to all employees, regardless of work performance. Benefits became significantly more generous in the late 1930s and 1940s under the impetus of pronatalists eager to boost the population after the devastation of World War I and conservative Catholics hoping to keep women out of the workforce and at home with their (many) children. The 1938 legislation even included an *allocation de mère au foyer*, or mother's wage, paid to women who remained at home and equal to 10 percent of the prevailing local wage.<sup>26</sup>

At its peak in the late 1940s, family policy totaled almost 40 percent of French social spending. Today, the figure is around 15 percent, still high by international standards.<sup>27</sup> The family policy budget has proven quite resilient over the years. In 1960, family program expenditures represented 5.5 percent of household income; in the 1990s, close to 6 percent.<sup>28</sup> Even under the Socialist presidencies of François Mitterrand, family spending increased from 4.2 percent of gross domestic product (GDP) in 1981 to 4.5 percent in 1995.<sup>29</sup>

At first glance, persistent high levels of spending on family policy appear anachronistic—a sign of France’s failure to modernize, of the stranglehold of national-natalist and conservative Catholic forces. Upon closer inspection, however, a different tale emerges. While the resources available to the family allowance fund have remained roughly stable as a percentage of GDP, the composition of spending has shifted dramatically. Specifically, family policy has moved away from its founding principles to become, in effect, a partial substitute for the kinds of antipoverty, social safety net programs that Christian Democratic insurance-based systems tend to neglect.<sup>30</sup> The broad trend, since the early 1970s, has been toward the “socialization of family policy”:<sup>31</sup> “horizontal redistribution” between childless workers and families with children has given way to “vertical redistribution” between the wealthy and the poor.<sup>32</sup>

The transformation of family policy into social policy has been the result of a series of political initiatives dating to the early 1970s. The first measures were introduced by center-right leaders eager to distance themselves from the conservative mainstream: Gaullist Prime Minister Jacques Chaban-Delmas (1970–1972), who championed a progressive, socially responsive “new society,” and Valéry Giscard d’Estaing, who propounded an open, tolerant “advanced liberalism,” notably during the initial years of his presidency from 1974 to 1977. Together, Chaban-Delmas and Giscard established no fewer than seven benefit programs— orphan pensions, pensions for handicapped children and adults, housing allowances, subsidies for school costs, and so forth—all means tested to target the poor.

Chaban-Delmas and Giscard also took aim at some of the Catholic conservative values embedded within family policy. Eager to encourage paid employment among women (through a so-called active family policy), Chaban-Delmas introduced means-tested child care allowances for low-income working mothers. Giscard enacted a single-parent allowance in 1976, acknowledging a social development that was becoming increasingly widespread, and the following year, the government replaced the mother’s wage with a family supplement available to nonworking parents of either sex. Alongside these welfare reforms, Chaban-Delmas and Giscard legalized contraception (Neuwirth Law of 1971) and abortion (Veil Law of 1975), respectively.

In the 1980s, governments of the left eliminated remaining family policy provisions that discriminated in favor of particular gender roles or family types. At the same time, the Socialists accelerated the socialization of family policy, expanding means-tested benefits. Whereas in 1970, only 12 percent of family allowance funds were allocated on the basis of means testing, by 1996, the figure exceeded 60 percent.<sup>33</sup>

Perhaps the clearest sign that family policy had become social policy under another name occurred in 1988 when the center-left government of Michel Rocard created a guaranteed minimum income (*Revenu Minimum d’Insertion* or

RMI). Although the RMI is targeted at adults, not children, Rocard decided to finance and administer the program through the family allowance fund (in partnership with local authorities). The RMI provides a minimum income of roughly \$450 per month along with the promise of support services to help “insert” the recipient (the *I* in *RMI*) back into society and, hopefully, into a job.<sup>34</sup> The lion’s share of the 1 million beneficiaries are young people in their late twenties or thirties, living alone, who have been unable, in a context of surging unemployment, to hold a job long enough to qualify for contribution-based benefits.<sup>35</sup> In other words, the RMI offers a partial solution for those falling between the cracks of the Bismarckian insurance-based welfare system—the “excluded,” in the French parlance. Ironically, then, a policy instrument designed to promote large families has helped underwrite a program for isolated individuals bereft of family support. Family policy has been not only socialized, but in the case of the RMI, individualized.

Prime Minister Jospin’s 1997 reforms represented the next logical step in the transformation of family policy into antipoverty policy. Whereas reformers in the 1970s and 1980s established means-tested programs to assist the poor, Jospin introduced income testing into an existing program so as to exclude the rich. Thus, there was continuity in the movement from universal to targeted programs. At the same time, there was an element of change. The government was cutting, not expanding, benefits while trying to preserve the principle of progressivity by concentrating these cuts on the well-to-do.

Jospin’s reform was heavily criticized, however, and not just by the right. Pro-family and prochild organizations argued that childbearing should be encouraged whatever the parents’ economic status. Jospin’s Communist allies objected to benefit cuts of any kind but especially to the erosion of the so-called *aquis de la Libération*—the universal rights of citizenship established, with Communist support, in the immediate aftermath of the Second World War. Within the Socialist party, leading figures like Minister of Solidarity Martine Aubry worried that deuniversalization would undermine the political support base for family allowances, making the system vulnerable to future conservative attacks.

Confronted with objections on all sides, Jospin began looking for a way out. In early 1998, the government commissioned a series of expert reports to try to define the contours of an alternative “family policy of the left.” Jospin also opened negotiations with profamily organizations. Six months of negotiating and five expert reports later,<sup>36</sup> Jospin announced that the government would restore universal family allowances in the 1999 budget but that the additional expenditures would be financed by reducing a child tax credit enjoyed by high-income groups.<sup>37</sup> In other words, although the affluent would recover the family allowances that they had lost the year before, the gains would be negated through increased taxes. With this midcourse correction, Jospin was able to shed the left’s image of being antifamily—indeed, French family associations endorsed the new

arrangement—and to uphold the sacrosanct principles of universalism while still preserving the redistributive impact of his initial reform.

The second major initiative of the Jospin government, the modification of social security financing, has likewise been driven by the concern for progressivity. One of the hallmarks of the Christian Democratic system is an overreliance on wage-based contributions. Occupational programs were constructed originally along actuarial lines: wage-based contributions by employers and workers would fund the old-age, accident, family, and unemployment insurance programs from which employees would eventually benefit. Over the years, however, political authorities grafted social policy missions onto these insurance schemes. In most countries, for example, health coverage and minimum pensions have become available to all citizens regardless of prior contributions. Yet many of these programs continue to be funded under the occupational insurance system. In other words, even when Bismarckian employment-based programs evolved into universal (or Beveridgean) schemes, their mode of financing has tended to remain Bismarckian. Social insurance has been called upon to finance social assistance.

While the conflation of Bismarck and Beveridge characterizes all continental welfare regimes, France has long stood out as the country in which wage-based social security charges weigh most heavily.<sup>38</sup> At the beginning of the 1990s, 75 to 80 percent of all social spending was financed in this manner. In 1993, social security contributions totaled 44.6 percent of French government revenues, the highest percentage in Europe, with Germany running a distant second at 38.7 percent.<sup>39</sup> Adding to the regressivity of the French system, consumption taxes provided an additional 25 percent, making them the number two revenue generator.<sup>40</sup> Conversely, income taxes, which tend to be more progressive, constituted a mere 12 percent of government resources, less than one-half the European average.<sup>41</sup>

France's dependence on wage-based contributions is regressive for several reasons.<sup>42</sup> First, only wages are taxed, whereas earnings from capital or real estate, which accrue overwhelmingly to the wealthy, escape imposition. Second, social security contributions are deductible, and since tax rates are progressive, the size of the deduction increases with income. For example, those in the top income bracket, with a marginal tax rate of 56 percent, pay only 44 percent of their social security charges. Third, many social security programs do not tax earnings above a certain ceiling (\$2,300 per month in 1997). Not surprisingly, in the early 1990s, it was estimated that a minimum-wage worker contributed 13.6 percent of his or her salary to the social security system, whereas a manager earning \$60,000 per year paid only 7.5 percent.<sup>43</sup>

The French system of social financing has drawn further criticism for its employment effects. Social charges add roughly 50 percent to average labor costs. Of course, employers can claw back contributions in the form of lower wages (or less rapid wage growth) but only to the extent that wages are flexible downward. The problem arises at the low end of the wage spectrum, where statutory

minimum wages prevent such adjustment. Given that the French minimum wage is set at a relatively high level (in excess of \$1,000 per month), the additional burden of heavy social security contributions slows the creation of low-productivity entry-level jobs.

Rebalancing social security contributions has been a longstanding preoccupation of the French left. Beginning in the early 1980s, successive Socialist-led governments conducted a “silent revolution,”<sup>44</sup> eliminating the ceilings on taxable income for widows’ pensions (1982), health insurance (1984), and workplace accident insurance (1991). Today, only the general retirement scheme remains subject to contribution ceilings.

In the 1990s, Socialist attentions turned toward the fiscalization of social security, that is, toward financing the system through general taxation rather than wage-based contributions. In 1991, the center-left Rocard government established a 1 percent flat tax, the CSG, which is imposed on all earnings, including those from capital and real estate. Rocard’s idea was to make social security financing more just. Conservative successors Edouard Balladur (1993-1995) and Alain Juppé (1995-1997) increased the CSG to 3.4 percent as a straightforward revenue-raising device, without any countervailing reductions in social security charges. Worse, Juppé made his additional 1 percent increment tax deductible, transforming it into a highly regressive tax.

The Jospin government has pushed fiscalization far more aggressively than its predecessors. The 1998 budget increased the CSG from 3.4 percent to 7.5 percent (with no deductibility) while slashing employee health insurance contributions from 5.5 percent to 0.75 percent. As a result, Jospin was able to boost worker purchasing power without adding to public expenditures.<sup>45</sup> In the wake of this and earlier fiscal changes, the share of social security taxes has declined from 44.1 percent of government revenues in 1990 to under 37 percent today. During the same period, the share of the CSG and related taxes has quintupled to over 10 percent (as against 1.9 percent in 1990).<sup>46</sup>

The transformation of family policy into antipoverty policy and the fiscalization of certain social security charges have by no means put an end to France’s social problems. The CSG may be more progressive than social security contributions, but it is still a flat tax, and the deductible increment introduced by Juppé worsens the distributional consequences. The evolution of family policy likewise leaves important needs unaddressed. Means-tested benefits are often insufficient to lift large families out of poverty, and with the exception of the RMI, they do nothing for childless adults. Indeed, recurrent demonstrations, protest “strikes,” and occupations of vacant buildings by the unemployed and homeless provide a chilling reminder of the intractability of France’s poverty problem. For all these qualifications, however, the reforms of family policy and fiscal policy have at least attenuated three critical defects of the French welfare regime: (1) a system of family allowances rooted in conservative Catholic traditions that were increasingly at

odds with the values of French society, (2) a lack of antipoverty programs to assist those citizens not covered by employment-based insurance benefits, and (3) an overreliance on regressive wage-based contributions. These changes are significant even if further measures are warranted. Thus, in hard economic times, the vice-into-virtue approach has proven quite useful to progressive politicians, like Jospin, seeking to relieve poverty or help the average worker without adding to public expenditures. As we shall see in the next section on Italy, the vice-into-virtue approach has proven equally useful for politicians seeking to cut public expenditures without adding to social inequalities.

#### ITALY: CLEAN HANDS, CLEAN BOOKS

One of the characteristic defects of the Christian Democratic welfare system is the polarization of social benefits: a core of privileged insiders enjoys generous protections, often well beyond the level of its social security contributions, while the mass of citizens receives little or no coverage. A large state administration or extensive industrial holdings tends to aggravate this problem, since civil servants invariably receive special treatment. So, too, does the operation of patronage politics. In a number of southern European countries, politicians have wielded jobs in the public sector and generous pensions as a form of vote buying or as a reward for services to the party.<sup>47</sup> At the same time, corruption has facilitated tax evasion by businesses and liberal professions, leaving less affluent salaried employees to foot the bill for bloated public expenditures.

Italy has long stood as the paradigmatic case of the polarized "particularistic-clientelistic welfare state."<sup>48</sup> From the end of World War II until the 1980s, the hegemonic Christian Democratic party (DC) bolstered its power through the allocation of no-show jobs in the public sector and disability pensions to the healthy. Such practices were especially prominent in the south, where the DC gradually expanded its electoral support. Christian Democratic leaders also tolerated widespread tax evasion among small businesses and liberal professions, a critical political constituency.

During the 1980s, as Christian Democratic voting strength waned, Italy was governed by a five-party coalition (*pentapartito*), often headed by non-DC prime ministers. The dilution of DC hegemony did not lead to a dilution of corruption, however, but rather to its extension to other parties, notably to the Socialist party (PSI) of Bettino Craxi. Despite a public campaign of *risanamento*, or restoration to health of Italy's unbalanced public finances, *pentapartito* rule, particularly under Craxi, amplified existing dysfunctions.<sup>49</sup> Tax increases failed to keep pace with even more rapid increases in spending. Thus, by the early 1990s, the accumulated Italian public debt exceeded 100 percent of GDP, while annual budget deficits were running at 10 percent of GDP or more. Furthermore, the problem of polarization had grown to alarming proportions. On the contribution side, Italian workers funded the growth of social spending

through payroll taxes, while the self-employed and independent professions continued to evade their duties. On the benefit side, gaps between insiders and outsiders were equally pronounced.

The tale of polarization and corruption could be told with respect to any number of Italian welfare programs, including unemployment compensation and health care, but pensions offer perhaps the clearest illustration. The Italian pension system displayed three broad defects. First, benefit levels were highly uneven. In 1992, the basic contributory pension in manufacturing paid 89 percent of the average net earnings of manual workers in the sector, well above the European Union figure of 75 percent.<sup>50</sup> Conversely, the minimum social pension for those who had not accrued contributory rights was only 19 percent of average earnings, barely one-half the European Union level.<sup>51</sup> Second, there was little correlation between benefits and contributions. The self-employed and public sector workers received pensions far in excess of their payments into the system. So, too, did early retirees. Under the seniority pension system, private sector workers could retire after thirty-five years, regardless of age, and receive a pension equal to 70 percent of previous wages. Public employees enjoyed an even more favorable regime: so-called “baby pensioners” could retire after a mere twenty years on the job (fifteen for married women with children). Third and related to the above, Italian pension spending was out of control. Early retirement established expensive lifetime public commitments often to people in their forties or early fifties. In addition, an estimated one-tenth of the adult Italian population had been awarded disability pensions.<sup>52</sup> Not surprisingly, pension expenditures, at 15.3 percent of GDP in 1991, far exceeded the European Union average of 9.2 percent.<sup>53</sup>

Since 1992, the Italian pension system has experienced a succession of reforms and “reforms of the reform.” These changes have fallen within a broader campaign of fiscal and welfare consolidation that reduced the government budget deficit from 10.5 percent of GDP in 1992 to 2.7 percent in 1997. International and especially European Union imperatives have figured prominently in this movement. The Maastricht Treaty committed Italy to rigorous inflation, budget deficit, and public debt targets—“striking,” in the words of one Italian observer, “at the ‘open tap’ public spending which every government had used in order to boost electoral support.”<sup>54</sup> The tap tightened further in September 1992 when the Italian lira was expelled from the European exchange rate mechanism (ERM). Financial markets had delivered a clear and jolting message: the parity of the lira—and the possibility of eventually joining the EMU—could not be defended unless authorities addressed longstanding problems of inflation and budget deficits. It was at this point that economic and pension reform began in earnest. European obligations again bolstered reform in 1996, when Romano Prodi, the prime minister of the newly elected, center-left “Olive Branch” coalition, announced his intention of bringing Italy into the EMU with the first round of participants. In order to qualify for EMU, Italy would have to reduce its 1997 budget deficit to 3 percent of

GDP—this, at a time when the 1996 deficit was expected to total 6.6 percent of GDP.<sup>55</sup>

Italian reforms cannot be reduced to the pressures of international capital markets and Maastricht, however. For at least a decade, prior to 1992, Italian leaders had voiced their support for European integration and the ERM, while allowing budget deficits to spiral out of control. What changed in 1992 was not the discourse but the leaders. The *mani pulite* (clean hands) judicial investigation exploded onto the public scene that year, destabilizing the Italian political class. During a two-year transition period, government leadership passed into the hands of caretakers who conducted economic policy at arm's length from the collapsing *pentapartito* establishment. Then, in the 1994 elections, the Christian Democratic and Socialist parties were all but wiped off the electoral map.

By destroying the DC-PSI regime, *mani pulite* opened the door to a new generation of politicians. For the most part, these leaders have had little stake in the old clientelistic arrangements. Thus, a variety of dubious vested interests lost their political protectors. Equally critical to the character of fiscal and welfare reform, by discrediting the mainstream right, *mani pulite* made subsequent governments—with the exception of the neoliberal Berlusconi government, which ruled for seven months in 1994—far more dependent on the cooperation of left parties and trade unions.

Between 1992 and 1996, Italy experienced three so-called governments of the technicians.<sup>56</sup> The first was headed by a constitutional law and economics professor, Giuliano Amato (June 1992 to April 1993), the latter two by former central bankers, Carlo Ciampi (April 1993 to March 1994) and Lamberto Dini (December 1994 to June 1996).<sup>57</sup> These technocrats sought to put the country's fiscal house in order. At the same time, operating in a context of institutional and social crisis and often lacking an electoral mandate, Amato, Ciampi, and Dini looked to left parties and trade unions to legitimate their actions. The Dini government, in particular, was explicitly dependent upon the votes of the reformed Communist party, the Democratic Party of the Left (PDS). The resulting give-and-take between technocrats, unions, and left parties has tended to channel pension reform along vice-into-virtue lines. While all have been called upon to make sacrifices, the biggest savings have come from phasing out privileged early retirement arrangements (seniority pensions and baby pensions) and raising contribution levels paid by relatively affluent independent professionals. The center-left Prodi government, which governed from 1996 to 1998, explicitly embraced this kind of concertational, vice-into-virtue approach in its 1997 pension reform.

Both the process and outcome of the reforms under technocratic and center-left governments contrast sharply with the experience of the right-wing, neoliberal Berlusconi government in 1994.<sup>58</sup> Berlusconi attempted to ram through benefit cuts, notably the overnight elimination of seniority pensions, without any prior consultation with Italy's social partners. He demanded sacrifices of dependent

workers while leaving untouched the privileges of independent professionals and the self-employed. To add insult to injury, spending reductions were aimed less at curbing budget deficits than at making room for tax cuts. Although Italy's trade unions were not opposed in principle to a reform of the seniority pensions, they resented Berlusconi's impositional style and regressive redistributive agenda. Their concerns were shared by many ordinary citizens. On 14 October 1994, a union-organized general strike mobilized 3 million participants. One month later, the unions brought 1.5 million protesters into the streets of Rome, the biggest demonstration in the postwar period. Finally, on the eve of another planned general strike in early December, Berlusconi announced the withdrawal of his reform. A few weeks later, his government fell, having accomplished little in the way of either deficit reduction or pension reform.

In retrospect, the Berlusconi episode appears as a brief interruption in what has otherwise been a more or less steady evolution since 1992—from Amato, to Ciampi, to Dini, to Prodi. While the twists and turns of pension policy are too numerous to detail, the reforms display a common political, procedural, and substantive core. Politically, the reforms of the past half-dozen years have been made possible not only by the collapse of the center-right *pentapartito* but also by the shifting interests and calculations of left parties and trade unions. In the wake of *mani pulite*, the former Communist party, the PDS, sensed the opportunity to finally break its postwar exclusion from power. Seeking to establish its governing credentials and to reassure the business community in the run-up to parliamentary elections in 1994 and 1996, the PDS was willing to support fiscally responsible reforms provided that the costs were allocated equitably. As a party of government under Prodi and now Massimo D'Alema, the PDS has maintained its constructive stance. The Italian labor movement has likewise been open to reform, particularly the largest union, the CGIL, which has close ties to the PDS. CGIL's ambition has been to unify the country's system of collective bargaining—to align the treatment of civil servants with that of private employees and to shift the determination of public sector wages and benefits from the legislative arena to the collective bargaining arena.<sup>59</sup> This agenda has often dovetailed with the objectives of welfare reformers.

Procedurally, all of the pension reforms have been negotiated at length with the trade unions and often with left parties as well (even when the left was not in office). Concessions have been traded, and in some cases, the bargains have spilled into other realms, notably fiscal policy and industrial relations reform.<sup>60</sup> In a further procedural innovation, union negotiators have extended the consultation process to the rank and file, for example, submitting the 1995 Dini pension reform to a national ballot of all workers.<sup>61</sup>

Substantively, across the various pension reforms and reforms of the reform, technocratic and center-left governments have hewed to a consistent vice-into-virtue logic. Reforms have reduced deficits in the pension system, in line with the

concerns of budget-balancers and Europhiles, but primarily by making wealthy independent professionals pay their fare share and by eliminating privileges, in line with the concerns of the CGIL and PDS. Four such vice-into-virtue changes have furnished the bulk of cost savings and revenue increases.<sup>62</sup>

The first change has been a shift in the determination of pensions from an earnings-related formula (defined benefits) to a contribution-based formula (defined contributions). This shift, which is being phased in over an eighteen-year period, means that eventually state coffers will no longer be solicited to cover pension entitlements established without adequate funding. Equally important, by rendering the rules governing contributions and benefits transparent, the reform will make it far more difficult to hide privileged arrangements from public scrutiny.

The second important change has been the harmonization of pension rules across the public and private sectors. The numerous special pension provisions for categories of public employees—airline pilots, university professors, Bank of Italy employees, and so forth—have all been eliminated. Pension benefits are now determined by a common formula across the public and private sectors, with employees contributing 20 percent of their salaries and employers 12.7 percent. Within a few years, a common minimum retirement age will also apply to both sectors.

The third change has been the elimination of the most egregious forms of early retirement: the baby pensions and seniority pensions that permitted employees to retire after a mere twenty or thirty years on the job, regardless of age. Following a five- to seven-year transition period, retirement will be subject to both a minimum age (fifty-seven) and a minimum number of years of contributions (thirty-five). The new system is referred to as a “flexible retirement age” because employees have the option to continue working beyond the age of fifty-seven, with their pensions increasing by 3 percent per year up to the age of sixty-five. Thus, privileged groups will no longer be able retire on full pension while still in their forties, all will be required to work until age fifty-seven (longer if they had not yet accumulated thirty-five years of pension contributions), and those who choose to work beyond age fifty-seven will be rewarded financially (whereas under the previous system, in many instances, pensions would be reduced if employees continued working).

The fourth change has been a sharp increase in the contributions of the self-employed and independent professionals. As part of the unions’ acceptance of austerity, governments have acceded to various reforms to crack down on tax evasion and impose a minimum tax on the self-employed. In addition, this relatively affluent group is being made to shoulder a greater share of its pension costs, reversing the privileges lavished by the *pentapartito* in the late 1980s. Whereas government subsidies had totaled one-third to one-half of total pension contributions for the self-employed (as compared to 1 percent for dependent workers), the figure will soon drop below 5 percent.

Taken together, these four modifications have all but eliminated a pension deficit that once stood at nearly 6 percent of GDP. Furthermore, they have bolstered the Italian pension system in the long run as well as the short term. Prior to the reforms of the 1990s, the pension deficit was expected to rise steadily, peaking at almost 10 percent of GDP in the year 2025.<sup>63</sup> Under current arrangements, the deficit will still increase as a result of population aging and the excesses of past pension policy. Nonetheless, even in worst-case economic scenarios and assuming no additional corrective measures, the shortfall will top out at 2 to 3 percent of GDP.<sup>64</sup>

Italian pension reform remains a work in progress. Transition periods for phasing out seniority pensions and increasing contributions by the self-employed are still too long, a minimum retirement age of fifty-seven is still too low, and projected future imbalances mean that further changes are likely to be necessary. Moreover, some new inequities have been established, notably between generations, as retirees and workers with more than eighteen years of contributions have been exempted entirely from the less generous defined-contribution system.<sup>65</sup> Finally, reforms to date have addressed only one side of the polarization problem: while curbing the unwarranted benefits enjoyed by privileged groups (civil servants and the self-employed), they have done little to address the gaps in coverage or upgrade the benefits of Italy's most disadvantaged citizens.

For all these limitations, the reforms of the post-*mani pulite* period constitute an undeniable advance in terms of both efficiency and equity. If transition periods are too long, at least the transitions are taking place, and many of these periods were shortened by the Prodi government. If the retirement age of fifty-seven is too young, it is still higher than the current de facto retirement age for most Italians. If further savings are likely to be required, the same can be said of pension systems across Europe, and Italian imbalances have already been reduced considerably. If inequities persist, the worst excesses of the Italian pension system have been corrected. In short, by focusing on widely acknowledged vices, governments of the past half-dozen years have been able to craft virtuous pension reforms that reduce deficits while enhancing equity. Furthermore, the process has helped revive corporatist concertation and has facilitated reforms in other areas, notably labor markets. As a result, local observers have gone so far as to label Italian pension reform a concertational success story.

The reform of the pension system in Italy stands out . . . as a "success story," having established through concertation with the social partners a contribution-based system which makes transparent the conditions for financial sustainability and significantly reduces the large inequalities characterising the old system.<sup>66</sup>

#### THE NETHERLANDS: RECASTING THE BOUNDARIES BETWEEN INSIDERS AND OUTSIDERS

Although France and Italy have made important strides in improving public finances and reducing certain inequities, both continue to suffer exceedingly high

levels of unemployment (even if the figures have dropped slightly over the past year from 12 to 13 percent to 10 to 11 percent). As French and Italian leaders cast about for solutions to the unemployment problem, one country is increasingly invoked as a model—the Netherlands. In many ways, Holland represents what Italy might become should the concertational trends of the past few years deepen and extend into to new areas.<sup>67</sup> The Netherlands has achieved rapid job creation and falling unemployment while reinvigorating and adapting, rather than dismantling, collective bargaining and the social safety net. If conservative austerity has played a part in Holland's strong economic performance, so, too, have left parties, political and corporatist concertation, and the attenuation of historic Christian Democratic vices, notably the exclusion of women from the labor market.

The Dutch economy has experienced sweeping change over the past fifteen years.<sup>68</sup> In the 1970s and early 1980s, the Netherlands was widely regarded as an economic basket case, the paragon of welfare without work. The official unemployment rate was close to 15 percent, despite massive recourse to early retirement and disability pensions for redundant workers and despite the lowest female labor force participation rate in Western Europe. With so many citizens receiving public pensions and so few engaging in paid employment, government expenditures consumed well over 50 percent of GDP. In light of these dysfunctions, observers spoke of the “Dutch disease”—a country blessed with substantial natural resources (natural gas) that used the proceeds (equal to 6 percent of GDP in the early 1980s) not for productive investment but to underwrite an overvalued exchange rate and passive labor market expenditures that eroded the nation's productive base.<sup>69</sup>

Fifteen years later, the Netherlands presents an entirely different picture. Unemployment, at 3.8 percent, is the lowest in the European Union, Britain included.<sup>70</sup> This improvement has been achieved even as labor force participation rates have surged. Between 1983 and 1996, participation jumped from 52 percent of the adult population to 66 percent, the biggest increase in the Organization for Economic Cooperation and Development (OECD), placing the Dutch rate 7 percent above the European Union average.<sup>71</sup> Holland enjoys healthy public finances, low inflation, a substantial trade surplus, strong corporate profitability, and high rates of investment. Instead of the “Dutch disease,” foreign observers now flock to study the “Dutch miracle”—a country that has registered Anglo-American levels of growth and employment creation without the accompanying social trauma, inequality, and attacks on organized labor.<sup>72</sup>

Of course, there is much that is unmiraculous about the Dutch performance. Many of the gains have resulted from conventional austerity measures and wage restraint. In addition, owing to the prevalence of part-time work, the country's employment record measured in full-time job equivalents is less impressive than unemployment or activity rates would suggest.<sup>73</sup> Still, the Dutch economy is in an undeniably stronger position than it was in the early 1980s; it has created jobs at

rapid rates; and for all the statistical quibbling, the Netherlands has clearly reversed the downward spiral of welfare without work. Perhaps most important, Holland has dramatically improved its economic performance while largely avoiding the social conflict and sharp increases in inequality associated with neo-liberalism. To take just one indicator, between 1982 and 1995, income inequality increased by 4 to 5 percent in the Netherlands, roughly in line with the European average and well below the corresponding figures of Britain (22 to 23 percent) and the United States (35 percent).<sup>74</sup>

Unlike the French and Italian cases, conservative leadership has played an important role in Holland's striking turnaround. Indeed, a conservative alliance presided over the first phase of reform from 1982 to 1989. Following a brief and unsuccessful coalition between the Christian Democratic party (CDA) and Labor party (PvdA), elections held in 1982 ushered in a center-right government of the Christian Democrats (DCA) and Liberals (VVD), with Labor cast into the opposition. The Christian Democratic prime minister, Ruud Lubbers, a no-nonsense conservative, announced that the government was "there to govern" and openly flirted with neoliberal ideals. Facing a bleak economy and a hostile government, Dutch unions decided that negotiated concessions were the better part of valor. Two days after Lubbers's combative declarations, unions and employers signed the so-called Wassenaar accord, enshrining wage moderation and renewed corporate profitability as the principal strategy for job creation.

The Wassenaar accord revived a long-stalemated collective bargaining process. Whereas in the 1970s the government regularly substituted for stalemated social partners in regulating wages and working conditions, since 1982 unions and employers have settled matters on their own. From the union perspective, the renewal of corporatism has been a somewhat bittersweet experience. Between 1982 to 1985, real wages declined by 9 percent, although workers were partially compensated by a 5 percent reduction in the workweek.<sup>75</sup> If new rounds of cuts have proven unnecessary, wage moderation has persisted. The share of wages in net enterprise income, after falling from 89 percent in 1982 to 83.5 percent in 1985, has held steady ever since.<sup>76</sup>

Along with wage restraint, the second pillar of Lubbers's strategy was the reduction of public expenditures. In 1983, the government imposed a freeze on social security benefits; in other years, benefits and the minimum wage were adjusted to inflation, rather than wages, a less generous mode of calculation. Lubbers also tightened eligibility requirements, shortened benefit periods, and lowered the maximum replacement rate from 80 percent of previous wages to 70 percent. Finally, the government slowed the growth of public sector wages by severing the automatic link to wages in the private sector. Still, for all these adjustments, in the late 1980s, state spending remained above 50 percent of GDP. Lubbers's austerity measures were offset for the most part by the explosion of

passive labor market expenditures, as displaced workers were shunted systematically into early retirement and disability programs.

In 1989, one year before scheduled elections, Lubbers reorganized his governing coalition, replacing the Liberals with the Labor party. Labor's entry into the DCA-led government did not slow the pace of reform. On the contrary, Lubbers deliberately engineered Labor's participation in order to pursue a more ambitious, far-reaching, and controversial set of changes. Whereas welfare measures from 1982 to 1989 had been motivated primarily by cost considerations, the new reforms sought to alter the very logic of the Dutch social security system to gear welfare policy toward maximizing labor force participation. In particular, employers and unions were to be weaned away from dependence upon passive labor market measures that disguised unemployment at considerable public expense. Knowing that such changes would be highly controversial, Lubbers opened his government to the Labor party in the hope of undercutting social (and especially union) resistance. Thus, political reorganization was a prelude to welfare reorganization. Labor's participation came at a price, however. Henceforth, the harsh edges of Lubbers's austerity would be counterbalanced by the PvdA's concern for workers and the disadvantaged.

The spirit of the CDA-PvdA government, as well as its hard-edged internal political negotiations, is perhaps best captured by the creation of a new policy instrument, the so-called dependency ratio, or I/A ratio, which measures the ratio of inactive to active adults. During the 1980s, Lubbers had allowed the minimum wage and social benefits to lag behind wages and inflation. As a condition for its participation in the government, the Labor party insisted upon the restoration of full indexation. Lubbers acceded to the demand but imposed a condition of his own: indexation would take place only if the I/A ratio remained below a certain level. The target at present is a ratio of 82.8, meaning that in an adult population of 7 million, the number of inactive people (I) should be no more than 3,171,000, while the number of active people (A) should be no fewer than 3,829,000 ( $I/A = 3.171 \text{ million}/3.829 \text{ million} = .828$ ). The effect of this so-called conditional linking was to subject the indexation of social benefits to high levels of labor force participation. The I/A ratio makes no distinction between those who are unemployed and those who have withdrawn from the labor market. It can be reduced by lowering unemployment but also by resisting passive labor market measures, like early retirement and the disability scheme, or by encouraging entry into the labor market among the inactive population. In other words, beyond keeping the unemployment rate down, the I/A ratio creates strong incentives to push the employment/activity rate up.

The government also sought to promote labor participation by more direct means, notably by closing off easy exit routes through the sickness and disability programs. In the early 1990s, Holland counted almost 1 million disability pensioners, or 15 percent of the labor force. Annual disability expenditures totaled

nearly 5 percent of GDP, roughly three times the European average.<sup>77</sup> The figures on absenteeism told a similar tale, with sick pay averaging 3 percent of GDP, as compared to around 1 percent among Holland's neighbors.<sup>78</sup> Such abuses, which led Lubbers to quip that "the Netherlands is sick," created an opening for vice-into-virtue reforms: as in Italy, cost savings could be generated simply by curbing the worst excesses of systems that were widely acknowledged to be out of control. The government reduced the disability rolls to 850,000, primarily by subjecting those under the age of fifty to a medical reexamination.<sup>79</sup> It engendered a 20 percent drop in worker absenteeism by making employers responsible for the initial period of sick pay (two weeks for small firms, six for large) and by introducing a system of experience rating under which employer premiums vary with the incidence of absenteeism.<sup>80</sup> Similar measures are now being implemented within the disability scheme.

Labor's participation in the Lubbers cabinet was not enough to muffle opposition to social security reforms. In 1991, Dutch trade unions mobilized one million protesters against proposed changes to the disability system, the largest demonstration in the postwar period. The changes went through anyway. Three years later, Dutch voters voiced their discontent by stripping the Christian Democrats and Labor of one-third and one-quarter of their electorate, respectively. Ironically, the principal effect of this devastating electoral setback was to bolster the political position of the Labor party. Having fared less horrendously than the Christian Democrats, Labor became the largest party by default. The PvdA and VVD then formed a so-called purple coalition (blending the red of Labor with the blue of the Liberals), and a former trade union leader, Wim Kok, acceded to the post of prime minister. This Labor-led purple coalition has governed Holland since 1994. In May 1998, amidst a booming economy, Kok and his allies were triumphantly reelected.

As in 1989, Labor's increased political leverage has extended, rather than impeded, welfare reform. Social security policy has followed closely along the lines traced by Lubbers. Indeed, most of the changes to the Dutch disability and sickness programs described above occurred under Kok's stewardship. As a result of these changes and strong economic growth, public spending has dropped below 45 percent of GDP, as compared to more than 50 percent as recently as 1993.<sup>81</sup> At the same time, the government has launched new reforms, notably in the areas of income policy and labor market flexibility. Once again, a vice-into-virtue logic can be detected: both sets of reforms seek to alleviate existing inequalities in ways that do not harm (and that arguably enhance) efficiency and economic growth.

Kok's top priority, according to his oft-repeated mantra, has been to create "jobs, jobs, and even more jobs." For this reason, the government has remained unwavering in its commitment to wage moderation. That said, wage restraint is not exactly a core value of the left. The government's solution to this classic efficiency-equity dilemma has been to compensate low-income workers through

targeted tax breaks. Kok's strategy—made possible by Holland's healthy public finances and substantial trade surplus—has lent a redistributive Keynesian dimension to Dutch economic growth, particularly since the mid-1990s. As Visser and Hemerijck relate, the Netherlands is experiencing a "transition to a new type of exchange, between wage moderation and fiscal compensation, setting in motion a virtuous cycle of more jobs, less per capita taxes, hence more spending power while paying flat wages to those already in employment."<sup>82</sup> Thus, targeting tax cuts at low-income groups has not only addressed distributional concerns but also contributed to economic growth by increasing unions' tolerance for wage restraint and stimulating domestic demand.<sup>83</sup>

The purple coalition has been equally active with regard to labor market flexibility. Policy has sought to steer clear of two vices: (1) rigid insider-outsider cleavages that exclude women, the young, and the long-term unemployed (the vice of Eurosclerosis) and (2) an unregulated race to the bottom, eroding the position of full-time workers and spreading poverty in its wake (the vice of the "free-market jungle"). The virtuous solution has entailed upgrading the (hourly) wages and benefits of part-time and temporary workers to the levels enjoyed by their full-time counterparts. In this way, Dutch employers are now able to hire part-time and temporary workers in response to genuine needs for flexibility but not as a means of evading wage rates and benefits paid to full-time workers.

The equalization of working conditions has occurred through a combination of collective bargaining and legislation. Over 80 percent of collective bargaining agreements mandate pro rata wages and fringe benefits for part-time work, and the gap between part-time and full-time (hourly) wages has narrowed to only 5 percent.<sup>84</sup> In 1993, the government put an end to the provision exempting jobs of less than one-third the normal working week from the application of the legal minimum wage and related social security benefits. Most recently, the 1995-1996 flexibility and security agreements guaranteed pension and social security benefits to all part-time and temporary employees. With few exceptions, these changes have improved the conditions surrounding part-time and temporary employment, as opposed to undercutting the position of full-time employees.<sup>85</sup> In other words, harmonization has occurred primarily through a race to the top rather than to the bottom.

Alongside the contributions of innovative politicians, open-minded employers, and responsible trade unions, the Dutch economy has been bolstered by a less publicized actor—Dutch women. As described above, historically, conservative continental welfare regimes have displayed a pronounced familialist bias, with women expected to stay home and attend to their children rather than participating in the workforce. In no country has this family breadwinner model proven more tenacious than in the Netherlands. Whereas in France, female labor force participation rates increased rapidly in the 1960s and 1970s, in Holland, little changed. Whether for sociocultural reasons or because of the uninterrupted rule of

confessional parties from 1918 to 1994 (World War II excepted), Dutch mothers continued to devote themselves full-time to children and household chores. Indeed, the ability of mothers to refrain from paid activity was touted as evidence of the success of the Dutch economy and welfare system: male earnings and benefits were so good that their wives did not need to work.<sup>86</sup> Those mothers who wished to take jobs were seen as irresponsible and selfish, neglecting their children in order to pursue material or career interests. Not surprisingly, female labor force participation rates in the Netherlands were the lowest in the OECD—less than 30 percent in 1970 and still below 35 percent as recently as 1983.<sup>87</sup>

Once again, the vices of the past have laid the groundwork for the economic advances of the present. A rapid increase in female employment since the early 1980s has helped fuel the Dutch miracle. Today, close to 60 percent of Dutch women engage in paid employment, a figure well above the European Union average of around 50 percent.<sup>88</sup> Analysts point to two main factors behind the rapid job creation in the Netherlands: the proliferation of part-time work and wage moderation.<sup>89</sup> Both factors stem to a considerable extent from women's new role in the economy.

Much of the employment creation in the Netherlands has involved part-time and fixed-contract jobs. Between 1979 and 1996, the share of part-time employment in total employment rose from 16.6 percent to 37.4 percent, with the latter far and away the highest figure in the OECD.<sup>90</sup> Three-quarters of the jobs created since 1984 have been part-time, and three-quarters of all part-time jobs are held by women. As Visser and Hemerijck put it, "The rapid increase in part-time employment and the entry of women into the labor force are two sides of the same coin."<sup>91</sup> In other words, the vaunted "flexibility" of the Dutch labor market stems to a large extent from women's willingness to work part-time.

The expansion of female employment has also underpinned policies of wage moderation. The percentage of dual-income households has multiplied sixfold over the past twenty years.<sup>92</sup> With women contributing to family income, men have been under less pressure to try to earn a breadwinner wage. In the gender-neutral language of the OECD, "By providing many households with a second income, [part-time work] may have made wage moderation more acceptable to the primary wage earners in these households."<sup>93</sup> Relatedly, women's entry into the labor market has made it possible to combine the wage moderation needed by Dutch business with a stabilization of the share of value-added going to labor since the mid-1980s. Wage restraint has continued, but more and more people are working, partially offsetting the effects of this restraint. To put it in language that is anything but gender neutral: the lost income of male workers has been made palatable by the increased labor market participation of their wives, partners, girlfriends, and daughters.

If the historic vice of gender discrimination and familialism has proven a formidable asset in reinvigorating the Dutch economy, it is less clear that the

resulting transformation of the role of Dutch women should be described as virtuous. Female participation rates have risen dramatically, it is true, but the labor market remains strongly segmented along gender lines. By and large, men work full-time and women work part-time; men pursue careers, while women hold jobs. Such a gendered division of labor is a far cry from equality between the sexes. That said, the Dutch system is neither immutable nor without merits. Opportunities for full-time female employment are expanding rapidly, thanks to heavy government investments in both public and private child care.<sup>94</sup> Furthermore, part-time employment is unusually attractive in the Netherlands, owing to the alignment of (hourly) wages and benefits on the rates paid to full-time workers. Finally and perhaps most important, Dutch women voice considerable satisfaction with part-time work. According to a recent survey, only 7 percent of part-time female employees wish to work full-time; conversely, 35 percent of those working full-time would like to work part-time.<sup>95</sup> In other words, if the Dutch labor market perfectly mirrored the expressed preferences of the female population, the result would be more women working part-time, not fewer.<sup>96</sup>

The Dutch response to the welfare-without-work dilemma has operated along several dimensions and evolved over time. Certainly, it would be misleading to ignore the role of wage and spending cuts during the phase of conservative rule, from 1982 to 1989. But it would be equally misleading to ignore left-driven vice-into-virtue initiatives. The second phase of reform, triggered by Labor's entry into the cabinet in 1989, has been far more sensitive to equity considerations. Not coincidentally, it has centered on the elimination or attenuation of characteristic Christian Democratic vices that impede employment: excessive passive labor market expenditures, rigid insider-outsider cleavages, and the exclusion of women from the labor market. The combination of left politics and the resources generated by the attenuation of Christian Democratic vices has meant that policies to promote employment have either enhanced the position of the disadvantaged (the upgrading of wages and benefits paid to part-time and temporary workers), produced positive if arguably insufficient results (the multiplication of part-time female employment), improved public finances and employment without hurting the truly needy (the crackdown on abuses within the social security system), or when real sacrifices have been required (wage moderation), permitted strategies of compensation (targeted tax breaks for low-income groups). In short, the manipulation of inherited Christian Democratic vices has helped break insider-outsider cleavages and promote rapid job creation without compromising the social priorities of the Dutch left.

#### CONCLUSION—TOWARD A PROGRESSIVE POLITICS OF WELFARE REFORM

This essay has challenged the prevailing pessimistic depiction of the Christian Democratic welfare world. The experiences of France, Italy, and the Netherlands

suggest that progressive reformers enjoy considerable room to maneuver, that they are not locked into zero-sum trade-offs between the pursuit of efficiency and the pursuit of equity. The key to my argument is what I call turning vice into virtue, that is, targeting inequities within the welfare system that are simultaneously a source of inefficiency. The Christian Democratic universe is rich in inherited moral and distributional lacunae: regressive taxation, polarized benefits, excessive passive labor market expenditures, and gender-biased family policies. These lacunae, or vices, offer so many opportunities for crafting virtuous welfare reforms—reforms that enhance efficiency without compromising equity, that enhance equity without compromising efficiency, or that enhance efficiency and equity simultaneously.

In all three countries that I have examined, authorities have tapped Christian Democratic vices for resources to help balance budgets and reform the welfare state while preserving or even extending commitments to the poor and disadvantaged. In France, an antiquated family allowance system has been transformed into a badly needed antipoverty program at no additional cost to the collectivity. Likewise, fiscalization of worker health insurance contributions has boosted worker purchasing power at a time when Maastricht budget targets have limited the government's capacity to deliver new spending programs. In Italy, the corruption and inequity of the pension system has allowed authorities to extract considerable cost savings through the elimination of unwarranted, extravagant privileges (a process mirrored in the Dutch case). Finally, in Holland, rigid insider-outsider cleavages have been eroded, and full employment has been restored primarily by upgrading the wages and benefits of part-time and fixed-term outsiders as opposed to eroding the status of full-time insiders. Furthermore, the availability of relatively attractive part-time employment has drawn Dutch women into the labor force, attenuating their historic exclusion—more pronounced and more enduring than in any other European nation—while underwriting the wage moderation and labor market flexibility that have driven the Dutch miracle.

The recent experiences of France, Italy, and the Netherlands give grounds for rethinking not only the plight of the Christian Democratic welfare world but also the salience of partisan politics. In contemporary discussions of welfare reform, partisan politics figures as a determinant of the speed of reform more than the substance. The presumption is that there is little difference between welfare reform undertaken by the left and welfare reform conducted by the right other than perhaps the alacrity with which such reform is pursued. My analysis suggests, by contrast, that the substance of welfare reform can be profoundly influenced by partisanship.

Virtually all of the vice-into-virtue initiatives examined in this essay have been fashioned outside the conservative mainstream: by governments of the left (Prodi in Italy, Jospin in France), by the progressive wing of a divided right

(Chaban-Delmas, Giscard d'Estaing in France), and/or by concertational processes involving unions and the left (the Netherlands, especially since Labor's entry into the cabinet in 1989, and Italian technocratic governments from 1992 to 1996). Conversely, governments of the right have more or less ignored the vice-into-virtue approach. Prime Minister Jospin's conservative predecessors, Edouard Balladur and Alain Juppé, pursued welfare reform through indiscriminate cuts in benefits and regressive tax increases. The Italian welfare system grew more imbalanced and inequitable throughout the 1980s until the *mani pulite* scandal swept away the center-right *pentapartito* establishment. Since 1992, reform has operated along corporatist, concertational lines—except for the brief moment when the right held power under Berlusconi. In Holland, the Lubbers government followed a fairly conventional austerity strategy during the initial phase of conservative governance. Structural reforms of the social security system and labor markets began only when the Labor party entered the governing coalition—and amplified when the PvdA supplanted the Christian Democrats as the ruling party in 1994. Thus, if governments of all political stripes confront the challenge of welfare reform, the left and the right have approached this challenge in sharply divergent ways.

The claims advanced in this essay suggest that Germany's newly elected center-left government may confront significant opportunities, following sixteen years of conservative rule, for enhancing equity as well as efficiency. Each country is different, however, and an interesting question is whether German circumstances lend themselves to the kinds of vice-into-virtue measures seen in France, Italy, and the Netherlands. As noted earlier, the burdens of reunification place Germany in an especially difficult spot. Moreover, the junior partner in Social Democratic Chancellor Gerhard Schröder's cabinet is not the Christian Democrats or Liberals, as in Holland, nor unreconstructed Communists, as in France and Italy, but rather the Greens.<sup>97</sup> Thus, the coalition with the Greens pulls German policy in uncharted directions. That said, there is reason to believe that rather than precluding vice-into-virtue tactics, the Red-Green alliance may produce a different kind of vice-to-virtue tactics.

One of the most prominent initiatives of the Schröder government has been the attempt to stimulate employment by reducing social security charges from 42.3 percent of wages to 39.9 percent while compensating for the lost revenues through a so-called eco-tax on energy consumption (oil, natural gas, electricity, and gasoline). Although it is too early to pass judgment on the German experience, the eco-tax seems to represent a Green variant on the vice-into-virtue strategy: the vice of pollution and excessive energy consumption is being tapped for resources with which to achieve a virtuous reduction of social security charges. On the one hand, German society is made more environment friendly via the eco-tax; on the other hand, German labor markets are being made more employment friendly thanks to the reduction in social security charges. As in the case of the French CSG, a revenue-neutral tax reform offers a way of promoting the interests of the

left at no extra cost to the collectivity. More accurately, it offers a way of promoting the interests of the two German lefts, with the blue-collar, union-based left receiving lower social security charges (hence higher employment and/or wage levels) and the environmentalist, “postmaterialist” left obtaining measures to discourage energy consumption.

This essay has emphasized the similarities between the French, Italian, and Dutch cases—the intersection of progressive-left politics and Christian Democratic legacies that has produced vice-into-virtue reforms. As we have seen in the German case, however, in gauging the room to maneuver of contemporary policy makers, it is also worthwhile to consider some of the differences. The strategy of turning vice into virtue can be constructed in various ways and put to various uses. The mere adoption of a vice-into-virtue strategy says little about how the resulting gains are allocated. By and large, French leaders have emphasized redistribution in favor of disadvantaged groups, Italian authorities have channeled their efforts toward fiscal consolidation, and Dutch officials have focused on employment creation and labor market reform. The three countries have also differed in their policy-making styles. Whereas Prime Minister Jospin has imposed progressive reforms from above, his Italian and especially Dutch counterparts have woven progressive reforms into broader social pacts that have helped revitalize corporatist and concertational policy making. They have forged a different kind of politics as well as policy.

The vice-into-virtue label, then, is a somewhat open-ended concept, encompassing a range of progressive practices. In its narrowest formulation, vice into virtue denotes a set of techniques permitting hard-pressed progressive reformers to demonstrate that they can still provide at least a few redistributive crumbs to their constituents. But vice into virtue also points to a more ambitious agenda—to the reinvention of the European left and the quest for a new “third way” between socialism and neoliberalism. It offers a set of principles, a road map for progressives who wish to modernize the welfare state without dismantling the welfare state, to revive concertation as well as competitiveness, perhaps even to nurture the environment along with the economy—in short, to meet the challenge of fiscal and economic responsibility without being reduced to a pale imitation of the right. As such, it constitutes an integral part of the European left’s ongoing, tortured effort to define a new (post-Keynesian, post-golden age, postindustrial) political economy and a distinct political identity.

#### NOTES

1. Andrea Boltho, ed., *The European Economy: Growth and Crisis* (New York: Oxford University Press, 1982); Andrew Shonfield, *Modern Capitalism: The Changing Balance of Public and Private Power* (Oxford: Oxford University Press, 1965).

2. R. Michael Alvarez, Geoffrey Garrett, and Peter Lange, “Government Partisanship, Labor Organization, and Macroeconomic Performance,” *American Political Science*

*Review* 85, no. 2 (1991): 539-56; John Goldthorpe, ed., *Order and Conflict in Contemporary Capitalism* (Cambridge: Cambridge University Press, 1984).

3. Geoffrey Garrett, *Partisan Politics in the Global Economy* (New York: Cambridge University Press, 1998); Torben Iversen, "The Dynamics of Welfare State Expansion: Trade, Openness, Deindustrialization" (Paper presented to the conference on the New Politics of the Welfare State, Harvard Center for European Studies, Cambridge, MA, 4-7 December 1997); Dani Rodrik, "Why Do More Open Economies Have Larger Governments?" NBER Working Paper Series no. 5537, 1997.

4. Paul Pierson, "Post-industrial Pressures on the Mature Welfare States" (Paper presented to the conference on the New Politics of the Welfare State, Harvard Center for European Studies, Cambridge, MA, 4-7 December 1997); Gøsta Esping-Andersen, "After the Golden Age? Welfare State Dilemmas in a Global Economy," in Gøsta Esping-Andersen, ed., *Welfare States in Transition: National Adaptations in a Global Economy* (Thousand Oaks, CA: Sage, 1996), 1-31; Martin Rhodes, "'Subversive Liberalism': Market Integration, Globalization, and the European Welfare State," *Journal of European Public Policy* 2, no. 3 (1995): 384-406.

5. The Christian Democratic welfare regime goes under a number of labels, including *conservative Catholic*, *Catholic corporatist*, *conservative continental*, and *continental European*. For purposes of clarity and simplicity, this essay uses the term *Christian Democratic* only.

6. See notably Gøsta Esping-Andersen, "Welfare States without Work: The Impasse of Labour Shedding and Familialism in Continental European Social policy," in Esping-Andersen, *Welfare in Transition*, 66-87.

7. Gøsta Esping-Andersen, *The Three Worlds of Welfare Capitalism* (Princeton, NJ: Princeton University Press, 1990).

8. Other leading analyses of the Christian Democratic welfare world include Harold Wilensky, "Leftism, Catholicism, and Democratic Corporatism: The Role of Political Parties in Recent Welfare State Development," in Peter Flora and A. J. Heidenheimer, eds., *The Development of Welfare States in Europe and America* (New Brunswick, NJ: Transaction Books, 1981), 345-92; Evelyn Huber, Charles Ragin, and John Stephens, "Social Democracy, Christian Democracy, Constitutional Structure, and the Welfare State," *American Journal of Sociology* 99, no. 3 (1993): 711-49; and Kees van Kersbergen, *Social Capitalism: A Study of Christian Democracy and the Welfare State* (New York: Routledge, 1995).

9. For a discussion of the distinction between *Beveridgean* and *Bismarckian* welfare states, see Giuliano Bonoli, "Classifying Welfare States: A Two-Dimension Approach," *Journal of Social Policy* 26, no. 3 (1997): 351-72.

10. Esping-Andersen uses a variety of labels interchangeably (see n. 5). In an important recent essay, Esping-Andersen writes of the "continental European welfare state," rather than the Christian Democratic welfare state; Esping-Andersen, "Welfare without Work". To avoid confusion, this article employs the term *Christian Democratic* in all instances, even when Esping-Andersen himself uses a different phrase.

11. Esping-Andersen, *Three Worlds*; Esping-Andersen, "After the Golden Age"; Torben Iversen and Ann Wren, "Equality, Employment, and Fiscal Discipline: The Trilemma of the Service Economy," *World Politics* 50, no. 4 (1998): 507-46.

12. Evelyn Huber and John Stephens, "Internationalization and the Social Democratic Model: Crisis and Future Prospects," *Comparative Political Studies* 31, no. 3 (1998): 353-97; John Stephens, "The Scandinavian Welfare States: Achievements, Crisis, and Prospects," in Esping-Andersen, *Welfare in Transition*, 32-65.

13. Esping-Andersen, "Welfare without Work."

14. Assar Lindbeck and Dennis Snower, *The Insider-Outsider Theory of Unemployment* (Cambridge, MA: MIT Press, 1988); OECD, *The OECD Jobs Study: Facts, Analysis, Strategies* (Paris: OECD, 1994); Mancur Olson, *The Rise and Decline of Nations* (New Haven, CT: Yale University Press, 1982).

15. Esping-Andersen, "Welfare without Work," 79-80.

16. Wolfgang Streeck, "On the Institutional Conditions of Diversified Quality Production," in Egon Matzner and Wolfgang Streeck, eds., *Beyond Keynesianism* (Worcester: Edward Elgar, 1991), 21-61; David Soskice, "The Institutional Infrastructure for International Competitiveness: A Comparative Analysis of the UK and Germany," in Anthony Atkinson and Renato Brunetta, eds., *Economics for the New Europe* (New York: NYU Press, 1992), 45-66; Michel Albert, *Capitalism versus Capitalism* (New York: Four Wall Eight Windows, 1993).

17. Lucio Baccaro and Richard Locke, "Public Sector Reform and Union Participation: The Case of the Italian Pension Reform," working paper no. 3922-96-BPS, Sloan School of Management, Cambridge, MA, 1996; Marco Mira de Ercole and Flavia Terribile, "Pension Spending: Developments in 1996 and 1997," in L. Bardi and Martin Rhodes, eds., *Politica in Italia: I fatti dell'anno e le interpretazioni* (Bologna: Il Mulino/Instituto Cattanea, 1998).

18. Marino Regini and Ida Regalia, "Employers, Unions, and the State: The Resurgence of Concertation in Italy?" in Martin Bull and Martin Rhodes, eds., *Crisis and Transition in Italian Politics* (Portland, OR: Frank Cass, 1997), 210-30.

19. Martin Rhodes, "Globalisation, Labour Markets, and Welfare States: A Future of 'Competitive Corporatism?'" in Martin Rhodes and Yves Mény, eds., *The Future of the European Welfare State: A New Social Contract?* (London: Macmillan, 1998).

20. OECD, *Netherlands, 1997-1998* (Paris: OECD, 1998); Jelle Visser and Anton Hemerijck, *'A Dutch Miracle': Job Growth, Welfare Reform, and Corporatism in the Netherlands* (Amsterdam: Amsterdam University Press, 1997).

21. Richard Locke, "Eppure Si Tocca: The Abolition of the *Scala Mobile*," in Carole Mershon and Gianfranco Pasquino, eds., *Italian Politics: Ending the First Republic* (Boulder, CO: Westview, 1995), 185-96; Regini and Regalia, "Resurgence of Concertation"; Rhodes, "Competitive Corporatism."

22. *Le Monde*, 18 September 1997.

23. In this essay, I use the phrase *means testing* to denote eligibility criteria designed to target low-income or impoverished groups while excluding the middle classes and the well-to-do. I use the phrase *income testing* to denote eligibility criteria designed to exclude the affluent only, with the middle classes as well as low-income groups continuing to receive benefits. In practice, both kinds of programs determine eligibility primarily on the basis of income rather than assets.

24. Marie-Thérèse Joint-Lambert et al., *Politiques sociales* (Paris: Presses de la Fondation Nationale des Sciences Politiques, 1997).

25. Susan Pedersen, *Family, Dependence, and the Origins of the Welfare State: Britain and France, 1914-1915* (New York: Cambridge University Press, 1993).

26. Jacques Bichot, *Les politiques sociales en France au XXe siècle* (Paris: Armand Colin, 1997), 52.

27. Joint-Lambert et al., *Politiques sociales*, 560

28. Numa Murard, *La protection sociale* (Paris: La Découverte, 1996), 61.

29. Joint-Lambert et al., *Politiques sociales*, 560.

30. Bichot, *Politiques sociales*; Rémi Lenoir, "Family Policy in France Since 1938," in John Ambler, ed., *The French Welfare State: Surviving Social and Ideological Change* (New York: NYU Press, 1990), 144-86.

31. Jacques Commaille, "La politique française à l'égard de la famille," *Regards sur l'actualité* January 1998, 12-24.

32. Joint-Lambert et al., *Politiques sociales*, 550.

33. Commaille, "Politique de la famille," 21.

34. Although job placement is one of the objectives of the *Revenu Minimum d'Insertion*, the program has no employment search requirement. For many recipients—older, unskilled workers or persons suffering from psychological problems, alcoholism, and/or chemical dependency—job placement is a remote possibility, at best. That said, the idea of introducing some kind of workfare obligation has received considerable attention of late.

35. Joint-Lambert et al., *Politiques sociales*, 636-38.

36. Five reports on French family policy were delivered to the government and to the French parliament in May-June 1998: Irène Théry, *Couple, filiation et parent, aujourd'hui*; Dominique Gillot, *Pour une politique de la famille renouée*; Michèle André, *La vie quotidienne des familles*; Claude Thélot, *Bilan et perspectives de la politique familiale*; and Marisol Touraine, *Pour une politique familiale de la gauche*.

37. The French child tax credit system is both unusual and highly regressive; Joint-Lambert et al., *Politiques sociales*, 566-67; Gille Huteau and Eric Le Bont, *Sécurité sociale et politiques sociales* (Paris: Armand Colin, 1997), 345-49. In most countries, parents receive a fixed-sum tax credit for each dependent child. Under the French system (shared only by Luxembourg and Belgium among OECD nations), the size of the credit is variable and increases with household income. To determine a household's income tax bracket, gross income is divided by the number of family members, with adults counting as one person and children as one-half. Thus, the child tax credit tends to be much greater for high-income households, which are pushed into lower tax brackets, than for low-income households, which pay little or no income tax in the first place. As one French expert on this so-called family quotient system put it, "If one wished to generalize the principle of the family quotient to the entire [family allowance] system, then the amount of family allowances would have to increase with the income of the parents"; *Libération*, 2 October 1998, 4. The left did introduce a ceiling on the maximum allowable child tax credit in 1981, but the cap was raised in subsequent years, most sharply under conservative governments. In the 1999 budget, Jospin lowered the cap by one-third, from 16,380 francs to 11,000 francs annually. Even so, the cost of the family quotient is still equal to more than one-half the total expenditures of the family allowance fund. As a number of French tax and family policy specialists have pointed out, further cap reductions designed to eliminate the vice of regressive family quotients could bring in significant tax revenues with which to fund virtuous family programs targeted at the truly needy.

38. Bonoli, "Classifying Welfare States"; Giuliano Bonoli and Bruno Palier, "Reclaiming Welfare: The Politics of French Social Protection Reform," in Martin Rhodes, ed., *Southern European Welfare States: Between Crisis and Reform* (Portland, OR: Frank Cass, 1997), 240-59; Martin Hirsch, *Les enjeux de la protection sociale* (Paris: Monchrestien, 1994); Joint-Lambert et al., *Politiques sociales*.

39. Huteau and Le Bont, *Sécurité sociale*, 125.

40. "Le budget de l'Etat," *Cahiers français*, no. 261 (1993): 16.

41. *Ibid.*, 58.

42. *Ibid.*

43. *Ibid.*, 123.

44. *Ibid.*

45. Although the fiscalization of worker health insurance payments lightened the burden on wage earners, it did nothing to address the problem of employer contributions to the social security system. In other words, fiscal redistribution (to low-income groups) took

precedence over labor market considerations (reducing employment-dampening social security charges at the bottom of the pay scale).

46. French Ministry of the Economy, Finance, and Industry, *Répartition des prélèvements obligatoires en pourcentage*, Ministry Web site ([www.finances.gouv.fr](http://www.finances.gouv.fr)), consulted 22 December 1998.

47. Francis Castles and Maurizio Ferrera, "Home Ownership and the Welfare State: Is Southern Europe Different?" *South European Society and Politics* 1, no. 2 (1996): 163-85; Maurizio Ferrera, "The Uncertain Future of the Italian Welfare State," in Bull and Rhodes, *Crisis and Transition*, 231-49; Martin Rhodes, "Southern European Welfare States: Identity, Problems, and Prospects for Reform," in Rhodes, *Southern European Welfare*, 1-22.

48. Maurizio Ferrera, "The 'Southern Model' of Welfare in Social Europe," *Journal of European Social Policy* 6, no. 1 (1996): 17-37; Ferrera, "Uncertain Future."

49. Ferrera, "Uncertain Future."

50. Castles and Ferrera, "Home Ownership," 177.

51. *Ibid.*; Ercole and Terribile, "Pension Spending."

52. Ferrera, "Southern Model," 26.

53. Ferrera, "Uncertain Future," 233.

54. Mimmo Carrieri, "Industrial Relations and the Labour Movement," in Stephen Gundle and Simon Parker, eds., *The New Italian Republic: From the Fall of the Berlin Wall to Berlusconi* (London: Routledge, 1994), 301.

55. OECD, *Italy, 1996-1997* (Paris: OECD, 1997), 62.

56. Stephen Hellman, "Politics Almost as Usual: The Formation of the Amato Government," in Gianfranco Pasquino and Patrick McCarthy, eds., *The End of Postwar Politics in Italy: The Landmark 1992 Elections* (Boulder, CO: Westview, 1993), 141-59; Patrick McCarthy, *The Crisis of the Italian State: From the Origins of the Cold War to the Fall of Berlusconi* (New York: Saint Martin's, 1995); Gianfranco Pasquino and Salvatore Vassallo, "The Government of Carlo Azeglio Ciampi," in Mershon and Pasquino, *Ending First Republic*, 55-73.

57. The Amato government falls less clearly under the label of *technician* than do the governments of Ciampi and Dini. Amato was vice-chairman of Craxi's Socialist party. Furthermore, in March 1993, he attempted to whitewash the *mani pulite* affair through a general amnesty decree, a decree that was never implemented but that fatally discredited his government. That said, Amato himself has never been implicated in any corruption investigation. He is indeed a technocrat, a public policy academic, and when the *mani pulite* investigation began forcing the resignation of his cabinet members (seven in less than one year), he appointed a number of nonpartisan, honest academics or technocrats in their place. Amato was the first Italian leader to implement serious economic reforms, and he did so through careful negotiations with the unions. Thus, if close to Craxi in party politics, in matters of economic governance, Amato behaved much like Ciampi and Dini.

58. Baccaro and Locke, "Italian Pension Reform"; Regini and Regalia, "Resurgence of Concertation."

59. Carrieri, "Industrial Relations"; Tiziano Treu, "Procedures and Institutions of Income Policies in Italy," in Ronald Dore, Robert Boyer, and Zoe Mars, eds., *The Return to Incomes Policy* (London: Pinter, 1994), 161-74.

60. Locke, "*Eppure Si Tocca*"; Regini and Regalia, "Resurgence of Concertation"; Rhodes, "Competitive Corporatism."

61. Baccaro and Locke, "Italian Pension Reform."

62. *Ibid.*; Ercole and Terribile, "Pension Spending"; Ferrera, "Uncertain Future."

63. Baccaro and Locke, "Italian Pension Reform."

64. Ercole and Terribile, "Pension Spending."

65. The shift from a defined-benefit to a less generous defined-contribution system does not apply to existing retirees or to workers with eighteen or more years of contributions. The pensions of employees who have paid into the system for fewer than eighteen years are determined by a combination of the pre-1995 rules for the years already worked and the new rules for subsequent earnings. As for post-1995 hires, their pensions are determined entirely by the new formula. In intergenerational terms, the grandfathering of pension reform increases the amount that the young must pay to cover the unfinanced benefits of the old (and the not so old).

66. Ercole and Terribile, "Pension Spending."

67. Rhodes, "Competitive Corporatism."

68. My account of Dutch developments draws heavily from OECD, *Netherlands*, and especially Visser and Hemerijck, *Dutch Miracle*.

69. OECD, *Netherlands*, 134.

70. *Economist*, 19 December 1998, 148.

71. Visser and Hemerijck, *Dutch Miracle*, 24.

72. Catherine Bruno and Valérie Chauvin, "Les Pays-Bas: Une société à flexibilité limitée," *Revue de l'Observatoire Français des Conjonctures Economiques*, no. 64 (1998): 97-127; OECD, *Netherlands*; Visser and Hemerijck, *Dutch Miracle*.

73. OECD, *Netherlands*.

74. Visser and Hemerijck, *Dutch Miracle*, 41.

75. *Ibid.*, 101.

76. Bruno and Chauvin, "Pays-Bas"; Visser and Hemerijck, *Dutch Miracle*.

77. OECD, *Netherlands*, 83.

78. *Ibid.*, 90-91.

79. *Ibid.*, 85.

80. *Ibid.*, 92-94.

81. *Ibid.*

82. Visser and Hemerijck, *Dutch Miracle*, 111.

83. Since 1996, the government has also subsidized low-wage employment. From 1996 to 1998, companies hiring workers at less than 115 percent of the legal minimum wage received a subsidy equal to 5 percent of their labor costs. In 1998, the subsidy was doubled to 10 percent; OECD, *Netherlands*.

84. Visser and Hemerijck, *Dutch Miracle*, 43.

85. The flexibility and security agreements of 1995-1996 did involve some give and take; Rhodes, "Competitive Corporatism"; Visser and Hemerijck, *Dutch Miracle*. The agreements narrowed the gap in status between full-time and part-time workers by bolstering the rights and protections of the latter but also by reducing some of the privileges of the former. Part-time workers gained access to pension and social security benefits along with the right to permanent employment status at the end of two years. In exchange, the agreements relaxed restrictions on the dismissal of permanent employees (although cushioned by enhanced opportunities for legal appeals) and introduced a probationary period for new hires.

86. Jet Bussemaker, "Rationales of Care in Contemporary Welfare States: The Case of Childcare in the Netherlands," *Social Politics* 5, no. 1 (1998): 70-96

87. Visser and Hemerijck, *Dutch Miracle*, 24-26.

88. *Ibid.*, 33.

89. Bruno and Chauvin, "Pays-Bas"; OECD, *Netherlands*; Visser and Hemerijck, *Dutch Miracle*.

90. Even liberalized, post-Thatcher Britain relies much less on part-time jobs, which account for between 20 percent and 25 percent of total employment.

91. Visser and Hemerijck, *Dutch Miracle*, 33

92. OECD, *Netherlands*, 36.

93. Ibid.

94. Bussemaker, "Rationales of Care."

95. Survey cited in OECD, *Netherlands*, 36.

96. That said, the expressed preference of Dutch women for part-time work reflects, at least to some extent, the underdevelopment of subsidized child care facilities that would make full-time work more attractive.

97. Green parties are present in both the French and Italian governing coalitions, but these parties are quite small and have a very limited impact on social and economic policy.