The Territorial Politics of Welfare

**Nicola McEwen and Luis Moreno
(eds.)**

Contents

Chapter 1

Luis Moreno and Nicola McEwen: *Exploring the Territorial Politics of Welfare*

Chapter 2

Nicola McEwen and Richard Parry: *Devolution and the Preservation of the British Welfare State*

Chapter 3

Jörg Mathias: *Welfare Management in the German Federal System: the Emergence of Welfare Regions?*

Chapter 4

Alistair Cole: *Territorial Politics and Welfare Development in France*

Chapter 5

Raquel Gallego, Ricard Gomà and Joan Subirats: *Spain, From State Welfare to Regional Welfare?*

Chapter 6

Valeria Fargion: *From the Southern to the Northern Question. Territorial and Social Politics in Italy*

Chapter 7

Pierre Baudewyns and Régis Dandoy: *The Preservation of Social Security as a National Function in the Belgian Federal State*

Chapter 8

Kaisa Läähteenmäki-Smith: *Changing Political Contexts in the Nordic Welfare States. The central-local relationship in the 1990s and beyond*

Chapter 9

Daniel Béland and André Lecours: *Nationalism and Social Policy in Canada and Quebec*

Chapter 10

Steffen Mau: *European Social Policies and National Welfare Constituencies: Issues of Legitimacy and Public Support*

Chapter 11

Maurizio Ferrera: *European Integration and Social Citizenship. Changing Boundaries, New Structuring?*

PREFACE

Writing in 1979, Robert Pinker expressed dismay at the lack of analysis within the social sciences literature of the ‘...positive links between social policy and the recovery of a sense of national purpose’ (1979: 29). It is only now, over two decades later, that literature is beginning to emerge to explore the ways in which the welfare state informs, and is informed by, territorial identity and the politics of regionalism. This collection aspires to be a worthy contribution to this debate, situating the expansion and ongoing development of the welfare state within the framework of territorial politics.

The collection began life at the ECPR Joint Sessions 2003 in Edinburgh in a workshop, directed by the editors, entitled *The Welfare State and Territorial Politics: an under-explored relationship*. The workshop was initiated in recognition of a gap in both the territorial politics and social policy literature.

Existing work on the politics of sub-state regionalism and nationalism has tended to focus upon examinations of culture and identity, political economy and institutional change. Spatial cleavages and the quest for political decentralisation have often been examined as responses to sub-state claims for autonomy, recognition and democratic accountability. The significance of social policy and social welfare has hitherto been rather neglected.

Likewise, welfare state scholars have tended to neglect the territorial dimension in welfare development. Much of the literature on the welfare state implicitly examines welfare development within the framework of the nation-state, assuming an all-embracing state national identity rooted in both cultural and civic axes. The nation-state, in other words, is taken for granted. However, many advanced welfare states are territorially heterogeneous, with citizens often holding multiple territorial identities, and these identities have been given political significance in recent years with establishment and reinforcement of sub-state political institutions. The restructuring of the welfare state in recent years has thus coincided with a reconfiguration of the core-periphery relationship, yet explicit analytical linkage between these two processes has been largely missing.

The relationship between the welfare state and territorial politics is explored theoretically and examined empirically in the chapters in this volume. Three themes emerge.

Firstly, consideration is given to the extent to which welfare development has played a part in the politics of nation-building. Scholars of state formation have regarded the welfare state as ‘crystallising’ the nation-state in the latter phase of modernity in the twentieth century. Indeed, within heterogeneous or multinational states, the welfare state may have played an important nation-building function by institutionalising shared solidarity and shared risks. In providing for the basic needs of ‘the people’, through the provision of income security, health care, housing, and education, the welfare state may also have strengthened the ties that bind citizens to the state, reinforcing identification with, belonging to and consent for the state as a national community. The weakening of the welfare state since the mid-1970s - as a result of political, financial and demographic

pressures - has curtailed the state's capacity to generate social solidarity across internal territorial boundaries and has in some cases led to a decline of the centralising 'command-and-control' planning model. Such a loss of internal power and core hegemony may have contributed to the destabilising existing territorial settlements, fuelling demands for political autonomy among national and regional minorities.

The emergence of sub-state nationalism in many advanced western democracies has been reflected in the establishment or strengthening of regional legislatures. In 2002, about half of the EU-15 regions, in almost half of the member states, were 'partner regions', or regions with legislative powers. The process of political decentralisation in recent years has usually entailed the decentralisation of some areas of social policy. We consider the extent to which decentralisation has given rise to the establishment of distinctive sub-state welfare regimes, and the impact this decentralisation process has had for inter-regional solidarity. On the one hand, stateless nations, like small nation-states, often share a strong sense of national identity that may sustain a higher degree of internal solidarity and cohesion, and recreate 'lost' social citizenship rights at the sub-state level. On the other hand, sub-state governments are subject to similar welfare pressures as their state counterparts, and critics of decentralisation have argued that the need to maintain competitiveness in today's market economy is more likely to provoke a 'race to the bottom' in welfare provision.

Finally, consideration is given to the supranational dimension of welfare and its consequence for territorial politics and national solidarity. In Europe, the reassertion of territorial identities and the corresponding process of political decentralisation have taken place within the context of Europeanisation. As a multi-level political framework, the European Union shapes the context in which national, regional and local policies are formulated, and we consider the manner in which this new context informs welfare development across the Union. In particular, European law and the jurisprudence of the European Court of Justice (ECJ) is generating a degree of harmony between welfare rights and provision across the Union, to secure labour mobility objectives. In addition, the EU is slowly carving out a role for itself in social policy, evident in measures such as the Social Chapter of the Treaty on European Union, and the Working Time Directive limiting the maximum weekly hours EU citizens may be expected to work. Such initiatives are reflections of new social rights granted in recognition of EU citizenship. In this respect, we consider the extent to which the Europeanisation of welfare policy can contribute to generating cross-national solidarity in Europe, and to further building the European Union as a 'community of trust' to which EU citizens feel they belong.

These themes are explored theoretically in the opening chapter. The case studies which follow conduct empirical examinations of the territorial politics of welfare, focusing in particular on the first two themes. The third theme is taken up in the final two chapters. In selecting the case studies, we have placed particular emphasis upon states which encompass within their boundaries local, regional or national communities making political claims on the basis of shared identities. One non-EU case, Canada, has been included in the volume for two reasons. Firstly, the welfare state in Canada shares many

of the features of European systems of welfare, which distinguish it from the North American model. Secondly, whereas the relationship between the welfare state and territorial politics has been neglected among scholars of European politics and social policy, this cannot be said of the Canadian scholarly community. Issues of national unity are rarely far from the political agenda in Canada, and the Canadian welfare state emerged with the explicit aim of generating inter-regional solidarity across the Canadian provinces. As Béland and Lecours discuss in their chapter, the Canadian welfare state was at times promoted and hampered by the federal state structure, and social policy development continues to generate tension in federal-provincial inter-governmental relations, particularly vis-à-vis Québec (see also Banting, 1987; McEwen, 2001).

Most of the contributors to this book were involved in the original ECPR workshop, and we are enormously grateful to them for their contributions to this collection, as well as for their patience and good will in the editing process. We would like to also take the opportunity to thank those participants at the workshop who do not appear in this volume, but whose contributions helped make the workshop a success, and undoubtedly informed the development of the chapters which do appear here.

We are grateful to the ECPR for facilitating the workshop and allowing us to bring together such a stimulating group of scholars. The workshop was supported by the ECPR Standing Group on Regionalism. We are indebted to the group, and especially, to its co-convenor, Michael Keating, for his unstinting support and helpful guidance along the way. We are also very grateful to the ESRC Programme on Devolution and Constitutional Change, and to its Director, Charlie Jeffery, for sponsoring some of the activities at the workshop, and for the opportunity to learn from new research conducted by some of this programme's participants.

We are strongly of the view that the territorial politics of welfare is an area worthy of much deeper exploration than it has been given within the existing literature. With this volume, we aim to make a contribution to this endeavour. We would like to thank Routledge, and in particular, Grace McInnes, Heidi Bagtazo and the series editor, Thomas Poguntke, for the confidence they have shown in our project, and for their friendly advice and support in putting together this volume. The chapters in this volume are primarily written from the perspective of scholars of territorial politics. Others have examined this inter-relationship from the welfare perspective. We would acknowledge one such contribution, *Federalism and the Welfare State* (Obinger, Leibfried and Castles, 2005) and express our gratitude to its authors for a preview of sections of their edited volume.

Finally, Nicola McEwen's contribution to this project was supported by an ESRC Post-doctoral fellowship (T026 271402). Luis Moreno also thanks the Spanish Secretary of State for Education and Universities (PR2002-0200) for financial support.

REFERENCES

Banting, K. (1987) *The Welfare State and Canadian Federalism* (2nd edition), Montreal, McGill-Queen's University.

McEwen, N. (2001) 'The nation-building role of state welfare in the United Kingdom and Canada', in Keating, M. and Salmon, T. (eds.), *The Dynamics of Decentralization: Canadian Federalism and British Devolution*, Montréal and Kingston, McGill-Queens University Press.

Obinger, H., Leibfried, S. and Castles, F. (eds.) (2005), *Federalism and the Welfare State. New World and European experiences*, Cambridge, Cambridge University Press (forthcoming).

Pinker, R. (1979) *The idea of welfare*, London, Heinemann.

NOTES ON CONTRIBUTORS

Daniel Béland is an Assistant Professor of Sociology at the University of Calgary (Alberta, Canada). A political sociologist working on social policy from an historical and comparative perspective, he has published one book and more than 15 peer-reviewed articles in journals such as *Journal of Social Policy* (2004), *Canadian Journal of Sociology* (2004), *Policy and Politics* (2002), *Journal of Public Policy* (2001), *Political Quarterly* (2000), and *West European Politics* (2000). His most recent projects include a comparative analysis of pension reform in advanced industrial countries and, in collaboration with André Lecours, research on the relationship between national identity and social policy in Belgium, Canada and the United Kingdom.

Alistair Cole is Professorial Research Fellow in European Politics at Cardiff University. His research interests lie in the sphere of contemporary and comparative European politics and policy, with special (but not exclusive) reference to France and Franco-British comparisons. Publications include (with Michèle Breuillard) *La Gouvernance locale du changement éducatif en Angleterre et en France*, Paris, l'Harmattan, 2003; (with Peter John) *Local Governance in England and France*, London, Routledge, 2001; and *French Politics and Society*, Hemel Hempstead, Prentice Hall, 1998. He recently completed an ESRC research project on *Devolution and Decentralisation in Wales and Brittany*.

Régis Dandoy is research assistant at the Centre de Politique Comparée (CPC) of the University of Louvain in Belgium. He is currently involved in projects on political agenda setting in Belgium and regional democracy in the EU. His publications mainly deal with Belgian political life and events, and regionalism in the EU.

Pierre Baudewyns is research assistant at the Point d'Appui Interuniversitaire sur l'Opinion Publique et la Politique (PIOP) of the University of Louvain in Belgium. He has published articles on elections and public opinion in Belgium and is working on survey methodology and public opinion among Belgian regions.

Valeria Fargion is Associate Professor at the University of Florence. Her main lines of research refer to the evolution of the Italian welfare state in comparative perspective and the centre-periphery relationship in the delivery of social services. She has authored *Geografia della cittadinanza sociale in Italia* (Il Mulino, 1997) and 'Timing and the Development of Social Care Services in Europe', *Western European Politics*, 2: 59-88, (2000).

Maurizio Ferrera is Professor of Social Policy at the University of Milan. He also directs the Centre for Comparative Political Research 'Poleis' at the Bocconi University, and the Research Unit on European Governance (URGE) at the Collegio Carlo Alberto of Moncalieri, Turin. Recent publications include: *Welfare State Reform in Southern Europe* (Routledge, 2005) and *Welfare States and the Challenge of Unemployment* (with J. Clasen and M. Rhodes, Routledge 2005); *Rescued by Europe? Social and Labour Market*

Policies in Italy from Maastricht to Berlusconi (Amsterdam University Press, 2004, with E.Gualmini).

Raquel Gallego is currently 'Ramón y Cajal' Post-doctoral Researcher at the Department of Political Science and Public Law, Universitat Autònoma de Barcelona, where she had previously been a lecturer. Her research interests focus on public policy, public administration and management, and devolution and welfare policy. Her recent publications in English are in journals such as *Public Administration*, *Public Management Review*, and *International Public Management Journal*. She is co-editor of *Veinte años de autonomías en España: Leyes, políticas públicas, instituciones y opinión pública* (2002), and of *Estado de bienestar y comunidades autónomas: La descentralización de las políticas sociales en España* (2003).

Ricard Gomà is Associate Professor at the Autonomous University of Barcelona, where he is also member of the Institute of Government and Public Policies. His research has concentrated mainly in local government and public policies. Recent publications include, *Gobiernos locales y redes participativas* (Ariel, 2002), and *Estado de Bienestar y Comunidades Autónomas* (with R. Gallego and J. Subirats, Tecnos-UPF, 2003).

Kaisa Lähteenmäki-Smith works as a Senior Research Fellow at Nordregio (Nordic Centre for Spatial Development) in Stockholm. She holds a PhD in political science from the Department of Political Science, University of Turku. Her areas of specialization include European regionalisation and regionalism, Finnish and Nordic regional policies, as well as International Relations and globalisation theories.

André Lecours is assistant professor at Concordia University. His primary research interests are nationalism (with an area specialization on Western Europe), and institutionalist theory. His articles on nationalism, regionalism, identity politics, paradiplomacy, new institutionalism as well as Spanish and Belgian politics have appeared in numerous journals, including *National Identities* (2001), *International Negotiation* (2002), *Canadian Review of Studies in Nationalism* (2002), *Regional & Federal Studies* (2004), and (with Daniel Béland) *Comparative Political Studies* (forthcoming, 2005).

Jörg Mathias is a lecturer in European Politics in the School of Languages and Social Sciences at Aston University, Birmingham. His main research interests include comparative regional studies, regional economic and social development policy, and federalism. Recent publications include 'Regional Interests in Europe', and various articles on regional policy in less developed regions of Germany, and UK devolution. He is also the Academic Secretary of the ECPR Standing Group on Regionalism.

Steffen Mau is Junior Professor at the Graduate School of Social Sciences (GSSS) at the University of Bremen. He is the author of *The Moral Economy of Welfare States. Britain and Germany Compared* (2003, Routledge) and has published in the area of comparative

welfare research. Currently he is working on issues of Europeanization, regional inequalities and transnationalization.

Nicola McEwen is Lecturer in Politics at the University of Edinburgh, and Associate Director of the University's Institute of Governance. Her research interests are in comparative territorial politics and UK devolution, and she has published numerous articles and book chapters in this field. Her book, *'Nationalism and the State: Welfare and Identity in Scotland and Québec'* will be published in 2005 (Regionalism and Federalism Book Series, Presses interuniversitaires européennes/Peter Lang). She co-convenes the PSA specialist group on British and Comparative Territorial Politics.

Luis Moreno is Senior Research Fellow with the Spanish National Research Council (CSIC) in Madrid. His main research interests are welfare state development and the territorial dimension of power. Recent publications include: 'Multiple identities and global meso-communities' (Lachapelle, G. & Paquin, S., eds., *Mastering Globalization*, London: Routledge, 2004); 'Spain's transition to New Risks: a farewell to 'superwomen' (Taylor-Gooby, P., ed., *New Risks, New Welfare. The Transformation of the European Welfare State*, OUP, 2004); 'Europeanisation, Mesogovernments and Safety Nets' (*European Journal of Political Research*, 42-2, 2003), and *The Federalization of Spain* (London: Frank Cass, 2001).

Richard Parry is Reader in Social Policy at the University of Edinburgh. His research interests are in public policy, public administration and public sector resource allocation, especially in Scotland and the UK. He has recently undertaken ESRC-funded projects on the role of the Treasury; the transition to the new devolved administrations in Scotland, Wales and Northern Ireland; and the effect of devolution on the Home Civil Service. Publications include: 'Delivery Structures and Policy Development in Post-Devolution Scotland', *Social Policy And Society* vol. 1, no. 4 (2002); and (with Nicholas Deakin), *The Treasury and Social Policy*, London, Macmillan (2000).

Joan Subirats is Professor of Political Science and Director of the Institute of Government and Public Policy at the Autonomous University of Barcelona. His research fields include policy analysis, democratic innovation, public participation and local and regional government. Professor Subirats has been a visiting scholar at the University of California at Berkeley, at the University of Rome, and Prince of Asturias distinguished Visiting Professor at Georgetown University (2002-2003.)

Chapter 1

Exploring the Territorial Politics of welfare

Luis Moreno and Nicola McEwen

INTRODUCTION

The territorial dimension of politics has attracted growing academic interest in recent years. Yet, many of its epistemological assumptions and methodological tools are still subject to no little mystification. Theories and analyses related to concepts such as decentralization, ethnicity, federalism, multiculturalism or nationalism have frequently been limited to the discussion of the efficiency or inefficiency of public institutions in the provision of policies and services. Such partial treatment has minimized the comprehensive study of: (a) the development of modern states (state formation, nation-building, mass democratization); (b) the intergovernmental relations within the boundaries of the polity; (c) the crisis in the legitimacy of the political institutions of the nation-state; and (d) the impact of globalization in 'post-industrial' societies.

On the functional dimension of social life, discussions of welfare development have repeatedly focused on the provision of policies of well-being for less-favoured citizens, as well as with the means to achieve higher economic growth or to bring about income redistribution. An overriding attention in the analyses of contemporary welfare states has usually been geared towards the 'autonomous' action of state intervention in providing security to its citizens. The fact that state action in the development of welfare made concordant with modernity many functions which had been previously developed by families, churches, guilds and local communities has often been ignored.

Both territoriality and welfare have too often lived separated lives. We feel that there is a need to explore more fully the links between studies and literature dealing with both fields of analysis. Generally speaking, territorial politics literature has tended to neglect the social dimension, while research on welfare has taken the nation-state for granted. This introductory chapter explores the relationship between welfare development and territorial politics in a theoretical sense, with subsequent chapters examining this relationship in specific empirical contexts.

We consider, first, the role of the welfare state in generating and sustaining a sense of nationhood and national identity, particularly in countries which contain national minorities within their boundaries. We then consider the influence of state structure on welfare development. Welfare states have faced considerable strain in recent years, from internal social and political challenges, as well as the external impact of globalization.

These pressures have pushed many states towards a retrenchment or, at least, a restructuring of their welfare systems. Consideration is given here to the territorial consequences such reforms may have. In the European Union, the autonomy and sovereignty of nation-states faces a challenge from the process of European integration. The impact of Europeanization in the welfare sphere is considered towards the end of the chapter, with an examination of the prospects for the development of a multi-tiered welfare state incorporating regional, nation-state and supranational layers of government.

STATE FORMATION AND WELFARE REGIMES

Inheritor of the ancient Greek concept of *politeia* (polity), the state in Europe emerged gradually, to varying degrees and in response to various dynamics, from around the twelfth century until the end of the eighteenth century. More concretely, the period 1485-1789 saw the building of most modern European nation-states. According to Stein Rokkan, the second phase of nation-building, the subsequent processes of mass politics and the construction of the welfare state completed the main four-phase process of political development in contemporary Europe (Flora *et al.*, 1999).

With the consolidation of the modern nation-state in nineteenth century Europe, the extension of electoral franchises, together with the economic and institutional advances of the Industrial Revolution, favoured the construction of social systems which were to find institutional expression in twentieth century welfare states. The lack of an historical perspective has in many cases allowed the confusion between the normative assessment of what a welfare state should be and the gradual development of European systems of social protection (Flora and Heidenheimer, 1981; Baldwin, 1990; Ferrera, 1998).

Indeed, the delivery of comprehensive systems of social welfare necessitated greater regulation, standardization and redistribution by central public institutions. This helped to blur the boundary between the state and society, and consolidated the state's political and economic expansion (Rokkan and Urwin, 1983). Thus, the welfare state served to 'crystallize' the nation-state, freezing cleavage structures, both functionally and territorially, in the development of the European state. Such a process reinforced the complex web of cultural systems, historical legacies, political arenas and institutional frameworks.

The development of the state as a national state, or 'nation-state', gave rise to the idea that the territorial boundaries of the polity also represent the boundaries of a nation or a people. The concept of 'nation' is implicit in many of the characteristics of the state, including its territorial boundedness and the status of citizenship conferred on its members. The emotional force of nationhood, and the solidarity and mutual belonging it engenders, also serve political purposes. The idea that the state represents a people sharing a common identity and a set of civic values enhances its legitimacy, fosters citizens' participation in the democratic process, and underpins much of the discourse used to justify public policy-making and governmental action. Just as appeals to a sense

of nationhood may be made to provide moral justification for military action, a shared national identity may be drawn upon to justify state intervention in domestic spheres. For example, increases (or decreases) in redistributive taxation, or legislation concerning social or moral issues, may be justified in the name of the national community and the values it is deemed to espouse.

This is a continuous process. On the one hand, the scope of the state may be expanded and strengthened by justifying governmental action in the name of the nation. On the other hand, the strengthened apparatus of the state serves to reinforce both the *national* nature of the political community and the conception of nationhood it is believed to symbolize. Moreover, if the modern state is to be sustained as a national state and generate the consent underpinning its legitimate rule, political actors must engage in a continual process of nation-building. Thus, the process of nation-building is not merely a phenomenon associated with the period of state formation. It is also evident, albeit often in a banal form (Billig, 1995), in well-established states seeking to maintain their legitimacy and territorial integrity in the face of internal or external challenges.

While reports of the death of the nation-state (Ohmae, 1995) have been greatly exaggerated, it is facing a challenge to its predominance and scope from three distinctive sources. It is challenged from above by the forces of globalization and continental integration. It is challenged from below by the reassertion of territorial minorities demanding increased autonomy and threatening state secession. Finally, it is challenged internally by the advance of the market and individualized social relations, and by a declining confidence in and engagement with the formal political process (Keating, 2001: 23-4).

The development of state welfare enhanced the capacity of the state to intervene in and shape the lives of its citizens and strengthened the networks of apparatuses and institutions through which conceptions of the nation could be constructed and communicated. The particular configuration of welfare state that developed in a particular state context was a historically contingent outcome of struggles between conflicting political objectives and goals (Titmuss, 1974: 49). Such outcomes reflected and subsequently shaped the set of civic values around which national identities coalesced.

The welfare state can be understood as 'a state in which organized power is deliberately used (through politics and administration) in an effort to modify the play of market forces' (Briggs, 2000: 18). Accordingly, such a course of action is achieved in three distinctive ways: (i) the welfare state guarantees to its citizens a 'minimum income' irrespective of the market value of their work or property; (ii) it minimizes insecurity by supporting individuals and families in the face of certain social contingencies such as ill health, unemployment and old age; and (iii) it provides 'an agreed range of services' to which all citizens are equally entitled, without distinction of status or class. Based upon the ideas of Karl Polanyi, Gøsta Esping-Andersen identified decommodification as a central feature of the welfare state. In contrast to the pre-welfare age, when workers survived in accordance with their ability to sell their labour as a commodity on the

marketplace, a decommodified welfare system ensures a degree of protection in the face of ill health, old age or unemployment (Esping-Andersen, 1990: 21-3).

As well as being a system of decommodification providing protection from market forces, the welfare state has also restructured social relations and shaped the structure of society. The manner in which it does so will depend upon the system of stratification a particular welfare state promotes and upholds. For example, the openness and accessibility of the education system will shape opportunities for social mobilization. The extent to which social services provide access to childcare or contraception may influence the participation and position of women in the employment structure. The system of stratification developed and upheld by the welfare state will depend upon the ideological influences which shape it.

Following the pioneering work of Richard Titmuss (1958), Esping-Andersen (1990; 1999) developed a model to categorize the nature of welfare regime types. The 'regime approach' posits the idea that welfare states are characterized by a particular constellation of economic, political and social arrangements. In linking together a wide range of elements that are considered to influence welfare outcomes, the 'regime approach' has proved to be very persuasive and influential in the comparative study of welfare states. However, on establishing patterns of fixed interaction, a certain assumption of continuity tends to prevail over that of change. As a consequence, it is implicitly assumed that a particular welfare state will tend to sustain interests and arrangements identified within the three main regime types. These are succinctly described as follows:

(i) *The corporatist Continental* welfare regime is organized on the basis of occupational categories and is designed much less to reduce inequality than to maintain status. It is characterized by a concerted action between employers and trade unions, and is financed by contributions made by them. Welfare policies by state institutions uphold this arrangement, which is organized through social insurance. There is a sharp distinction between labour market 'insiders' and 'outsiders'. The universality of coverage is therefore dependent on the achievement and maintenance of full employment.

(ii) *The liberal Anglo-Saxon* regime is focused on poverty alleviation. It is financed by taxes and incorporates residual means-tested services and flat-rate benefits. It has pursued a radical shift toward market principles, involving deregulation of the labour market, wage flexibility and containment in social expenditure. A low level of decommodification of individuals implies a large measure of dependence by citizens on the market to ensure their primary income and social protection.

(iii) *The social-democratic Nordic* regime is premised on the combination of solidaristic ideas with growth and full employment, and the minimization of family dependence. It is financed by taxes, characterized by the principle of universality, and favours public provision of free services over cash transfers. The main aim of this type of welfare state is to ensure the equality and homogeneity of social groups within an all-embracing middle class.

These three types of welfare regime associate a specific institutional configuration with a 'founding' doctrine: social insurance schemes with the protection of specific occupational categories; residual benefits with the primacy of the market and the need to combat poverty; and universal benefits with the quest for equality. They are designed to have differing impacts with respect to the quality of social rights, social services and the structure of the labour market.

To the well-known three-fold categorization of welfare regimes, a fourth 'familialistic' southern European or Mediterranean category can be identified (Ferrera, 1996; Moreno, 2000). In broad terms, similar socio-demographic trends, economic constraints and patterns of public policy can be observed in all four south European countries (Castles, 1998; Morlino, 1998; Guillén and Álvarez, 2001). Table 1.1 reproduces some characteristics of the four European welfare regimes.

[TABLE 1.1 AROUND HERE]

NATION-BUILDING AND THE WELFARE STATE

The existing literature recognizes the role of welfare states in generating social solidarity across class groups. In the 1880s, Germany was the first country to ever introduce compulsory social insurance, the most compelling characteristic of modern welfare systems.¹ In Sweden, the concept of *folkhem* describes the welfare state as 'the home for all people'. Throughout its subsequent development, the welfare state has socialized generations of Europeans in the values of equality and solidarity.

Indeed, social solidarity was often considered to be an explicit aim of state welfare. Marshall's celebrated discussion of social citizenship rights situated welfare state development within the context of the evolution of citizenship.² For Marshall, the recognition of social rights, including the right to a minimum standard of economic and social welfare and security, differed from other citizenship rights. By generating 'an invasion of contract by status, the subordination of market price to social justice, [and] the replacement of the free market by the declaration of rights', social citizenship rights were considered to be explicitly aimed at modifying the class structure and achieving social equality (Marshall, 1992: 40).

In aspiring towards a degree of social solidarity across class groups, the welfare state has a legitimising function. It contributes to reinforcing the political legitimacy of the state in the eyes of its citizens (Pierson, 1994: 3). However, an inclusive welfare state nurtures social solidarity not only across class boundaries but across territorial boundaries as well, helping to maintain cohesion between distinctive regional, national and/or ethnic groups. Class identities and alliances forged across the state territory may thus generate feelings of solidarity and cohesion that minimize the significance of sub-state territorial identities. From the perspective of territorial politics, political legitimacy and territorial integrity

often go hand in hand. Where a lack of political legitimacy finds expression in demands for territorial autonomy, and ultimately, political independence, the integrity and unity of the state may be challenged.

Analyses of welfare state development have often been based upon the assumption of an all-embracing state national identity rooted in both cultural and civic axes. However, such an ideal type of national identity is now openly questioned and rather problematic. While being corroded by the forces of globalization, national identities are also subject to internal fragmentation and overlapping elements of a multiple and diverse nature (Epstein, 1978; Melucci, 1989; Castells, 1997).

Particularly in culturally heterogeneous societies, individuals are often tied to several cultural reference groups. This interaction results in a multiplicity of socio-political identities, dynamic and often shared, which is not always expressed explicitly. In pluri-national states, which incorporate more than one national community within their boundaries, citizens within one part of the state territory may share a common identity which distinguishes them from their co-citizens. The degree of internal consent and dissent in such plural polities has in the concept of 'dual identity' a useful methodological tool for socio-political interpretations.³

There is nothing inherently incompatible about dual national identities. Citizens may feel simultaneously Basque and Spanish, Welsh and British, or Flemish and Belgian, without any sense of contradiction. Sub-state identities are often culturally or historically-rooted, and may survive alongside a sense of identification with and belonging to the nation-state. The markers of such identities are not set in stone. They are malleable and the intensity of their manifestation greatly depends upon contingent circumstances (Barth, 1969, Hobsbawm and Ranger, 1983; Brass, 1991). For political actors at the state and the sub-state level, there is political capital in seeking to shape these identities. Where a people no longer identify with the political institutions governing them, the legitimacy of that system of government will be called into question. Political actors are thus engaged in shaping state and sub-state national identities to strengthen identification with and belonging to the communities in whose name their claims are made.

Welfare development has arguably played an important role in reinforcing national identities, particularly at the state level (McEwen, 2001). Ramesh Mishra insisted that 'the idea of maintaining and consolidating the national community - economically, politically and socially - was the ideological underpinning *par excellence* of the welfare state' (Mishra, 1999: 12). The nation-building potential of the welfare state is, in part, embodied in the symbolic significance of its institutions. Welfare institutions represent a common heritage, a symbol of shared risks and mutual commitment, and a common project for the future. In pluri-national states, this symbolism can help to underpin a sense of shared solidarity and collective identity throughout the state, which can sit alongside and be compatible with sub-state cultural or historical national identities.

Welfare development simultaneously enhanced the significance of national institutions as the source and guarantor of social protection. By extending the scope of the state into the everyday lives of its citizens, the development of systems of welfare enhanced the state's visibility in the eyes of its citizens and increased the relevance of political debate and political decision-making. Where such activity took place principally at the state level, it reinforced the centrality of state-wide political parties and leaders operating within national institutional frameworks, and ensured that control of those national institutions became an objective of political struggle. Within pluri-national states, this could diminish the significance of those parties and movements seeking to make claims on behalf of territorial or cultural minorities, confining such issues to the margins of political debate.

The provision of social services can also enhance the legitimacy of the political institutions overseeing their development. As discussed above, welfare systems helped to enhance the legitimacy of the state in the eyes of its citizens by guaranteeing them a degree of protection from the vicissitudes of the market. Social programmes may also enhance social and economic opportunities, particularly for the working and middle classes. The provision or promise of health care, income security, housing, and education can contribute to reinforcing the ties that bind citizens to the state. Where a state guarantees social protection and security, its citizens may be less likely to shift their loyalty to sources within or beyond its boundaries (McEwen, 2005).

As well as generating or reinforcing a sense of community and identity which could supersede - or sit alongside - sub-state national identities, the development of state-wide systems of welfare may also have accentuated among national minorities the uncertainty and insecurity of greater political autonomy or secession from the state. The promise of social and economic security from within the existing state structure heightens the risk for a national minority that increased territorial autonomy or secession may engender a loss of the social protection that state welfare services deliver.

Some liberal theorists of nationalism have assumed that a successful welfare state requires a strong national identity at its base. David Miller argued that a shared national identity, because it embodies feelings of solidarity and mutual obligation among members of a national community, represents an essential pre-requisite to the functioning of redistributive welfare systems. Without the shared obligations implied by a common collective identity, membership of a political community would be based upon rational self-interest and a relationship of strict reciprocity. Under such circumstances, citizens would expect to receive benefits in proportion to the contributions they make, thus precluding a redistribution of resources on the basis of need. Miller combats the idea of recognizing minority identities without linking them to an overarching national identification (Miller, 1995: 71-3; Miller, 2000: 105-6). Similarly, Margaret Canovan argued that the sense of communal solidarity inherent in national identity explains why goods and possessions should be regarded as shared and defines the boundaries within which they should be redistributed (Canovan, 1996: 27-35).

Although the welfare state was founded upon a sense of solidarity and common belonging, it also served to reinforce these. As Michael Keating noted, the causal

relationship between territorial identities and the welfare state cuts both ways: 'Not only does a sense of common identity help sustain the values of mutual help, but the welfare state itself helps foster national identity and unity' (Keating, 2001: 40).

In the context of a pluri-national state, this nation-building function of the welfare state has served as an instrument of territorial management, a means by which sub-state territorial identities could be contained within the existing state structure, minimising their potential threat to the state's territorial integrity. The welfare state has been by no means the only tool of territorial management. States draw upon a range of measures to accommodate national minorities within the existing power structure (Keating, 1988; Rudolph and Thompson, 1989). Nevertheless, systems of state welfare can play a significant role in shaping national identity and maintaining national unity.

WELFARE DEVELOPMENT AND STATE STRUCTURE

In many cases, the development of systems of state welfare imposed standardization and homogenization within countries that have a considerable degree of internal asymmetry and cultural plurality. This territorial and cultural heterogeneity provides fertile ground for an examination of the nation-building potential of the welfare state. However, it also poses limitations on such potential, particularly where internal sub-state territorial boundaries coincide with cultural boundaries. Accordingly, within-state variations should be carefully scrutinized on analysing the constitutional arrangements for governance and welfare provision.

For the purpose of analytical clarification, it is useful to discuss the concept of 'stateness' in the welfare sphere (Flora, 1986/87). In broad terms, it has been generally assumed that the processes of growing *étatisation*, bureaucratization and judicialization of welfare provision would result in the centralization, not only of political institutions, but also of policy-making and public regulation.

In the first place, it should be noted that stateness feeds on the very concept of the state, which is by no means an unambiguous concept. Traditionally, the state has been regarded by democratic liberalism as a 'neutral' network of political institutions within spatial boundaries. Accordingly, the extent of state intervention in the citizens' community should be restricted and social conflicts would be resolved by the *laissez-faire* of market forces. Utilitarian liberalism, in line with the concept of community-nation put forward by Jeremy Bentham (1843), proposed a growing degree of stateness to provide a minimum of social assistance. A corporatist variant of liberal thought has sought to emphasize the role of intermediate corporatist structures in order to achieve social cohesion of the body politic, and to integrate them into the general organization of the state. For Marxism and social democracy, the state is 'operational' rather than 'neutral'. It can be seized upon to correct market failures and, eventually, to transform the capitalist mode of production into a socialist one on either a radical (the former) or a gradual (the

latter) basis. State intervention is translated into a wholehearted commitment to economic planning monitored primarily by central institutions.

Secondly, stateness may be conceived of as a reflection of the degree of penetration of public institutions into the sphere of welfare, displacing non-state institutions such as the church and other intermediary associations of civil society. Such a penetration has frequently been conceptualized as a mere process of centralization. However, the adoption of legitimate constitutions or legal frameworks for the output of public goods has allowed the development of different systems of welfare provision, not always top-down or vertically planned (Toft, 1996). Federations and federal-like systems provide good examples of both shared and self-rule based upon wide constitutional agreements among layers of government and constituent territorial units (Elazar, 1991; Watts, 1994; Linz, 1997; Obinger *et al.*, 2005).

Thirdly, the category of stateness also makes reference to the degree of autonomy of state officials in decision-making and in the implementation of public policies and regulations. Note, however, that such penetration applies to all layers of government - central, regional and local - not only as regards direct intervention but also statutory frameworks. In line with the traditional Jacobin tenets, there has been a tendency to make synonymous both central government and state institutions (administrative, legal and political). Even considering the executive dimension of state institutions, it cannot be said that state officials and bureaucrats exercise their instrumental rationality strictly according to the instructions and orders of central *loci* of policy-making. The public choices of decision-makers, and in particular the so-called 'street-level' bureaucrats, have often given priority to maximising tenure of office and budgetary resources in all governmental tiers of state provision. Such a reality has objectively put limits on central and hierarchical policy-making even in unitary states.

As already discussed, the historical analysis of both state formation and nation-building is central to understanding the nature of the welfare system in any given context. The changing patterns and diverse outcomes of the interplay between state and civil society should be examined not only from the viewpoint of economic structuring, but also from the perspective of ideas, interests, institutions and actors within modern state arenas. Social solidarity among the political units is inextricably linked to the nature of the cultural and territorial conflicts in the processes of industrialization, urbanization and social communication within contemporary mass society (Tocqueville, 1954; Deutsch, 1966; Giner, 1976).

State Welfare and Decentralization

Spatial cleavages and the quest for decentralization have often been examined as responses to sub-state claims for subsidiarity and democratic accountability. However, the political salience of sub-state regions and regional policy-making in the social policy realm has drawn attention to the growing intersection between these fields of research. Not so long ago, ideas, interests and institutions related to welfare and spatial

developments were frequently regarded as contradictory or even incompatible with each other. Regional actors have now gained relevance not only concerning culture and identity politics. They are increasingly regarded as optimal welfare providers as a result of the interaction of the processes of bottom-up globalization and the top-down devolution of powers (Moreno, 2003).

In historical terms, the quest for decentralization has sought to accommodate a response to the *stimuli* of the diversity within the modern nation-state. In the majority of cases, the modern state comprises territorial communities and groups with differences of language, history or traditions (Connor, 1994).⁴ As a result of within-state variations, often reflected in the party system, channels of elite representation or interest group articulation, decentralization has become a major embedding factor in contemporary political life.

A broad definition of decentralization involves the establishment of institutions in areas which are the result of the division of the territory of the state. It can be subdivided into two general types: (i) political decentralization, and (ii) administrative de-concentration. The former entails the exercise of autonomous decision-making powers by sub-state governments, elected by and democratically accountable to the citizens under their jurisdiction. The latter refers to the implementation of decisions at a sub-state level by non-departmental governmental⁵ bodies appointed by the central government. However, further precision is required on a case-by-case basis as decentralization may imply the transferring of responsibilities for both policy-making and delivery; while in other cases, policy parameters may continue to be set centrally, with decentralization limited to service delivery.

In some cases, as in France, decentralization is a top-down initiative aimed at increasing governmental efficiency and offloading the day-to-day responsibility for administering welfare from the central to the local level. In other cases, political decentralization was conceded in response to an expressed desire for self-government on the part of sub-state nations or regions. In such cases, the old constitutional order had become untenable, threatening the legitimacy of the state. Political autonomy is thus a means of generating renewed legitimacy and quelling challenges to the state's territorial integrity. Political decentralization may also have a functional goal from the sub-state perspective. Arguments for greater involvement in welfare development on the part of local and regional layers of government concern the maximization of available information for policy-makers, and a better 'tailoring' of social programmes according to local needs and citizens' expectations. Critics draw attention, however, to the fact that an excessive autonomy of the richer regions would be to the detriment of the poorer ones. Inequalities in welfare provision would increase, unless social rights and entitlements are legally guaranteed and can be claimed before the courts.

Where welfare systems developed within an already decentralized structure, this often conditioned the pace and scope of welfare development, and limited the extent to which state welfare could effectively contribute to nation-building. On the other hand, decentralized state structures sometimes facilitated welfare development, with sub-state units acting as a locus of policy experimentation and a vehicle for change at the national

level. For example, the post-war development of the Canadian welfare system was hampered by provincial opposition from the governments of Quebec and Ontario, but it was also pioneered by innovative social policies in the province of Saskatchewan (see Béland and Lecours in this volume).

Political decentralization introduced within established welfare democracies may also shape the nature of the welfare state. Sub-state autonomy over welfare legislation can lead to policy divergence, and the development of distinctive and diverse welfare regimes within the boundaries of a single state. Some degree of policy divergence is an inevitable consequence of political decentralization, particularly where this has emerged in response to self-government demands. However, in the context of welfare, policy divergence has the potential to undermine inter-regional solidarity where it implies that citizens in different regions of the same state do not enjoy access to similar services, or recognition of the same social rights and entitlements. Although control over social insurance has tended to rest with central government, sub-state political autonomy has involved the decentralization of substantial areas of the welfare state, particularly within the arena of personal social services. Conversely, the decentralization of the welfare state can stimulate policy innovation, with a ‘demonstration effect’ that minimizes the detrimental consequences for state-national solidarity. For example, when the Basque government launched a minimum income programme, (*Plan de Lucha contra la Pobreza*), it sparked the other Spanish *Comunidades Autónomas* into establishing similar programmes, in a form of ‘competitive state-building’ (Guillén, 1996; Arriba and Moreno, 2004).

State Structure and Welfare Provision

The extent to which the welfare state can perform a successful nation-building function is thus dependent upon the structure of the state in which it has evolved. Table 1.2 sets out a typology of five national and constitutional structures in which welfare provision has taken shape. Examples of the various types included in the table are provided by the case studies included in this book. Such examples do not exhaust the possible state forms but they represent the main developments in territorial accommodation in modern times:

[TABLE 1.2 AROUND HERE]

- (i) *Uni-national state, unitary structure*: Uni-national states have no significant territorial cleavages and no minorities challenging the state's claim to represent a national community. Consequently, they face little or no internal challenges to their territorial legitimacy. Where such states have a unitary structure, they are likely to be highly centralized, with a central authority that enjoys considerable political and economic dominance. All institutions will fall under its control and public policies

will be standardized and uniformly administered throughout the state. Majority state nationalism of the type inaugurated in France after the 1789 Revolution has had wide-range influence in the modern process of nation-building all over the world. French Jacobins succeeded in making equivalent the concepts of reason and homogeneity. This form of nationalism aimed at integrating an ethnically heterogeneous society, as was nineteenth century France. As a result of Jacobinism, the French nation-state came to be composed exclusively of individuals and not of ethnoterritorial communities (such as Alsatian, Breton, Catalan, Corsican, Gaul, Occitanian or Basque).⁶

- (ii) *Uni-national state, decentralized/federal structure*: A distinction between organic - or integrative - federal states and mechanical - or devolutionary - federal states can be drawn. In the first type, federalism emerges from an aggregation from below as a result of the association of distinctive territories. In the second, federalism is promoted from above by constitutional means with the aim of devolving power. Uni-national states which lack significant sub-state national cleavages are more likely to conform to the second type. The dominance of the centre, and the lack of a territorial challenge to the state's political legitimacy from a national minority, minimizes the degree to which federal structures will engender intergovernmental tension or constrain political change. The German federation is a prime example of what has been characterized as 'cooperative federalism'.⁷ This federal organization provides the regions (*Länder*) with a strong role in deciding upon and in implementing federal legislation. As well, the *Länder* can exercise their power through the Federal Council (*Bundesrat*), an upper chamber or senate composed of representatives of the Land governments, and which have considerable influence - potentially the power of veto - on a wide range of legislation, particularly in welfare matters.
- (iii) *Pluri-national states, unitary structure*: Pluri-national states include more than one national community within their boundaries. In some cases, as in Belgium (1831) or Italy (1870), the initial process of state formation and nation-building adopted a highly unitary and centralized form. Subsequent territorial accommodation and the quest for home rule by the constituent nations and regions within the unitary structure paved the way for decentralization and/or federalization. After a long historical process of gradual reforms, the Belgian unitary state transformed itself into a federal state in 1993.⁸ Belgium is now one of the European countries with the most comprehensive fiscal autonomy for their federated units. In the case of Italy, a unitary state was the original form adopted after the *Risorgimento* under the Savoy dynasty.⁹ During the initial phase of Italy's state formation, the new national identity was strong and placed itself above the many sub-state identities which had survived for centuries. The Fascist regime (1922-1943) enforced national homogeneity, but in 1948, the democratic constitution recognized the regions as political bodies with administrative and legislative powers. In 2004, the Senate first voted for a constitutional reform to transform itself into a 'Federal Chamber' and to devolve to the regions full legislative powers concerning education, health and local police.

- (iv) *Pluri-national states, union structure*: Union states are largely centralized politically. However, some sub-state or minority nations may have retained elements of pre-union identity and institutional autonomy (Rokkan and Urwin, 1982: 11; Moreno, 1986). These boundaries are not necessarily discrete and often overlap. For example, the boundaries of the Scottish nation lie within the British nation, while the Catalan nation is embedded within the Spanish nation. The pluri-national character of such states may or may not be recognized. In some cases, national minorities may be granted enhanced representation in central political or legal institutions, or given symbolic recognition in political discourse. In union states, state-wide institutions, parties and policy networks often represent forces of integration which can contain territorial distinctiveness and ensure that its expression is channelled in apolitical ways. The United Kingdom represented a good example. Politically centralized for much of its history, its pluri-national character has long been recognized in the institutions of civil society and public administration, including the Scottish and Welsh Offices, the church and (in Scotland) the legal system (Brown, *et al.*, 1998). Beyond elite institutions, distinctive national identities have also found popular expression, with the distinctive nations competing separately in football, rugby and other sports (Brand, 1978).
- (v) *Pluri-national states, decentralized/federal structure*: The pluri-national character of a state may be more politically significant in states which have a highly decentralized or federal structure. Politically decentralized and federal states are characterized by a set of institutional arrangements that divide power between the centre and some or all regions. In decentralized systems, power has usually been devolved from the centre to the regional level. Federal states, by contrast, are characterized by a more explicit division of sovereignty between different levels of the state, with each unit recognized as sovereign within its areas of jurisdiction. Where territorial units coincide with sub-state national, linguistic or cultural boundaries, their political significance is likely to be reinforced. Anthony Smith insisted that in multi-ethnic federations, where provincial and 'ethnic' boundaries coincide, 'the politics of nationalism is rarely far removed from the arena of federal politics, feeding into a set of grievances which in one form or another have the potential to mobilize individuals behind calls for the territorial redistribution of power, including independence' (Smith, 1995: 10). However, the boundaries of the respective national communities may not match the boundaries of the sub-state units, creating additional tensions. For example, the prevalent view of Canada promoted in Quebec has been of two nations: Quebec and 'English Canada'. By contrast, the other nine provinces neither represent a political unit, nor do they conceive of themselves as representing a distinctive national community.

In unitary and, to a lesser extent, union states, the centralization of political institutions enhanced the capacity of the centre to command control over the development of social services, and gain recognition as the source and guarantor of social and economic security. In highly decentralized or federal states, by contrast, the development of state welfare has often been shared between the centre and the provincial level, thus

constraining the 'command-and-control' efforts by the central state to develop uniform state-wide social services and national institutions.

The nation-building function of the welfare state has been particularly hampered where the pluri-national character of the state is reflected in multi-level government. Firstly, with control over the development of their welfare regimes, sub-state governments may be in a position to preside over the development of distinctive welfare institutions which can act as symbols embodying the sub-state community's solidarity and shared sense of belonging together. Secondly, sub-state governments may come to be regarded as the providers and guarantors of the social well-being of the people they represent, and as such, become the focus of the people's loyalty and the focal point for their policy demands. Thirdly, they may be perceived as the new centre of political decision-making for those lobbying and competing over the distribution of resources, thus heightening the significance of sub-state political parties and institutions.

There is no inherent conflict between state and sub-state governments over the process of welfare development. Indeed, as Luis Moreno insisted, welfare state expansion should not only be understood in the context of a centralized state structure. Examining the Spanish case, he noted the growth of 'institutional stateness', defined as state penetration of the welfare sphere, within the context of a decentralized political structure in which the Spanish Autonomous Communities have taken a lead role in welfare development (Moreno, 2001: 110-12). However, there is a greater potential for conflict in politically decentralized or federal states where the constitutionally defined units of government are reflections of distinctive national units, and where this political and national structure is reflected in the decentralization or 'bifurcation' of the political party system, as in parts of Canada and Spain. Keith Banting, one of the few observers to explore the territorial implications of welfare development, noted the potential of the welfare state in territorially heterogeneous countries to act as an instrument of nation-building at the state and the sub-state level, depending upon the locus of social policy control. Where power rests with the central government, social policy can be utilised to mediate regional conflicts and reinforce national integration, strengthening the authority and legitimacy of the state in the face of challenges from territorial minorities. Conversely, where social programmes are developed and managed at the sub-state level, they can strengthen regional cultures and enhance the significance of regional governments in the everyday lives of their citizens (Banting, 1995: 270-1). This may help to explain why control over social policy is frequently an issue of intergovernmental tensions between state and sub-state governments in pluri-national, decentralized states.

WELFARE RESTRUCTURING AND TERRITORIAL POLITICS

During the *trentes glorieuses*, or 'Golden Age', of welfare capitalism (1945-75), West European systems of social protection were based upon the assumption of full employment and on the complementary role developed by the family and, in particular, of

women's unpaid work within households (Lewis, 1997, 2001). A combination of social policies, Keynesianism, Taylorism and female segregation facilitated a sustained economic growth and the generalization of a type of 'affluent worker'. The effects of the oil crises in 1973-74 and 1978-79 revealed the increasing openness and interdependence of advanced capitalist economies, and altered a scenario of prosperity and abundant stable male employment. Nevertheless, the 'Golden Age' evolved into a 'Silver Age' of the welfare state, revealing limitations but also a high degree of resilience in resisting pressures of a diverse nature (Taylor-Gooby, 2002).

During the 1980s and 1990s, a neo-liberal ideological offensive challenged the tenets and legitimacy upon which welfare states had previously developed. Its discourse elaborated on the effects of economic globalization and industrial transformations on national labour markets. In parallel, deep structural modifications had taken place as a consequence of the ageing of the population and the increasing participation of women in the formal labour market. In sum, fiscal crises and the erosion of the ideological consensus which gave way to the 'mid-century compromise'¹⁰ had conditioned the recasting of welfare states in Europe (Ferrera and Rhodes, 2000).

Although references to the 'Golden Age' of welfare are often overstated, there is a widespread belief that the welfare state in many advanced industrial democracies has come under pressure in the last two decades. The state's capacity and will to maintain comprehensive systems of welfare has faced challenges on a number of fronts, leading to varying degrees of welfare retrenchment. The politics of welfare retrenchment have translated in most cases into a common approach for the containment of public expenditure, although a variety of pressures have ensured that social spending as a share of GDP has maintained high levels during the last decades in most advanced welfare states. Many states have sought to trim welfare entitlements and introduce selectivity and targeting in welfare provision. Some responsibility for social welfare has been transferred to the individual, the family and to civil society, as the role of the state in direct welfare service delivery has diminished. Accordingly, 'throughout Europe, the dominant theme in contemporary social policy is the retreat of the welfare state' (Bonoli *et al.*, 2000: 1).

The Retrenchment of the Welfare State

Four sources of the pressures that have fostered welfare retrenchment can be identified: demographic pressures; changing attitudes towards taxation; neoliberalism; and globalization.

Firstly, demographic indicators, particularly high unemployment, low fertility and an ageing population, suggest long-term pressures upon the maintenance of welfare regimes, as proportionately fewer workers are left to carry the burden of financing an increasingly costly welfare system. Coupled with declining economic growth and the restricted scope for revenue-raising, this has given rise to a prevailing view among governments across the political spectrum that the welfare state has to be significantly reformed if it is to

remain viable (Bonoli, *et al.*, 2000; Kuhnle, 2000; Esping-Andersen, *et al.*, 2002; Pierson, 2001; Taylor-Gooby, 2004).

Secondly, there is now a belief among governments that their citizens are no longer willing to pay more taxes or higher contributions to finance welfare expenditure. The logic of such fears tends toward expenditure restraint. There is little evidence in surveys of opinion of a shift away from support for an interventionist welfare state. In particular, support remains high for increased social spending on health care and programmes, including pensions, which contribute towards care for the elderly. However, this often coincides with support for tax cuts for lower and middle income earners, creating considerable dilemmas for policy-makers left trying to 'square the welfare circle' (George and Taylor-Gooby, 1996).

Thirdly, the emergence of neoliberalism posed a direct challenge to the Keynesian welfare state. From the perspective of the New Right, the Keynesian welfare state became unsustainable as it lacked the capacity to carry out the responsibilities it had acquired and the expectations it had raised. Whereas social democrats maintained that social rights enabled the working class to acquire full and equal citizenship status, neo-liberals argued that the welfare state had made the poor dependent upon the state without enhancing their opportunities. In place of benefits or 'state hand-outs', which were deemed to have engendered a 'dependency culture', neoliberals advocated free enterprise, individual responsibility and self-reliance (King, 1987; Hoover and Plant, 1989).

Neoliberalism has enjoyed much greater influence in Anglo-Saxon countries than in Scandinavia or continental Europe, and even within the Anglo-Saxon world, the degree to which the welfare state has actually been 'rolled back' is contested. As Paul Pierson observed, the politics of welfare retrenchment is distinct from the politics of expansion, not least because the large-scale social programmes set up in the period of expansion are now central features of the political landscape, with organizational interests and popular support that render retrenchment policies politically costly (Pierson, 1994: 8-31). Nevertheless, the cumulative effect of retrenchment measures can be significant, and even cuts at the margins can have a profound impact upon sections of the population, often the most vulnerable.

Fourthly, the globalization and internationalization of trade have decisively affected the economy world-wide, bringing about a deep restructuring of contemporary capitalism (Hirst and Thompson, 1999; Held and McGrew, 2000). Financial globalization has all but terminated the closed national economies upon which the Keynesian welfare state depended. A hegemonic ideology supporting the necessity and inevitability of the free movement of capital and goods helped to create the institutional conditions which then contributed to making the free movement of capital and goods a reality. Frances Piven (1995) suggested that this was a self-fulfilling prophecy. The inter-related objectives of full employment, progressive taxation and high levels of public expenditure characteristic of the period of post-war welfare expansion have been largely abandoned as policy goals (Mishra, 1999), while the free movement of capital has restricted the degree to which the state can implement 'market-correcting' policies (Rhodes and Mény, 1998).

National governments of the advanced welfare democracies still maintain their nominal sovereignty empowering them to negotiate new economic frameworks. At the same time they can also bargain with multinational corporations. However, their economic manoeuvrability to put forward innovative policies outside global demands has become limited in recent decades (Camilleri and Falk, 1992; Schmidt, 1995). Failure of programmes for indicative planning implemented by the first Mitterrand Government in the early 1980s illustrated the 'persuasiveness' of the external constraints posed on national sovereignty in the most *étatiste* country in Europe.

The scale of the challenge posed by globalization, and the direction in which it is affecting welfare states, is open to debate. For some authors, globalization not only constrains welfare state expansion but it will inevitably induce further retrenchment as states seek to reduce public expenditure and promote market flexibility (Ohmae, 1995; Cerny, 1990; Scharpf, 2000). For others, globalization may be 'beneficial' for the welfare state and encourage further welfare development. As citizens are becoming increasingly exposed to new risks, the need and demands for additional welfare provision will increase (Katzenstein 1985; Garret 1998; Leibfried and Rieger, 1998; Taylor-Gooby, 2004).¹¹

The configuration of the welfare state in a particular national context serves to 'filter' common socio-economic challenges and determine the direction that welfare reform will take. Although all welfare states are facing similar pressures as a result of globalization, how they respond to these pressures depends upon the pre-existing institutional nature of their welfare regimes (Esping-Andersen, 1996; Ferrera, 1998; Rhodes, 1998). The impact of globalization on the welfare state will also be mediated by politics. Indeed, some have argued that the globalization discourse is often used as a tool for those seeking to modify pacts of solidarity at the national level (Deacon, 2001; Palier and Sykes 2001; Taylor-Gooby, 2001).

Thus, the pressures upon the welfare state are many, varied and often contradictory. Welfare states and related social programmes remain popular but sections of voters seem hesitant to further contribute their taxes to pay for them. Welfare states thus often show greater resistance to change as their 'path dependency' trajectories cannot easily be re-routed even by transnational pressures (Pierson, 1998). Nevertheless, the restructuring and retrenchment of welfare can have an impact upon territorial politics, and upon the capacity of the state to effectively contain territorial identities.

The Territorial Consequences of Retrenchment

Where the welfare state helped to maintain national unity and inter-regional solidarity, we might expect that its retrenchment would undermine that solidarity and threaten the political and territorial legitimacy of the state. This is especially problematic when the legitimacy of the state is questioned by citizens within a particular region or nation who share a collective identity that distinguishes them from the rest of their co-citizens, as it increases the potential for a territorial rather than a class response to welfare

restructuring. Welfare regime change may thus have consequences for the territorial integrity of the state, serving to politicize sub-state territorial identity in the demand for greater self-government, while undermining the capacity of the state to respond to such challenges.

Where welfare state institutions helped to reinforce national symbols, the weakening of these institutions may have a corresponding effect on the symbolic significance of the nation. Retrenchment pressures, as a result of the stresses and demands identified above, also diminish the scope for decommodification and protection from market forces. The consequences for territorial politics may be particularly significant in pluri-national and decentralized states. If the state can no longer convincingly act as the guarantor of social and political rights to national minorities who already share a strong sense of identity, then part of the rationale for their continued attachment to the larger unit - the assurance of social and economic security - may be diluted.

A weakened central state, in the face of globalization pressures, also diminishes the importance of representation within, and access to, central state institutions. Where access to and control over the centre and its resources becomes less critical, state-wide political parties and movements may have greater difficulty containing sub-state national identities and corresponding territorial demands. This leaves space for the emergence of minority nationalist parties, and increases the likelihood that they may have an electoral impact. When nationalist parties voicing territorial demands enjoy electoral success, state-wide political parties are usually persuaded to turn their attention to finding new ways to accommodate national minorities through policy concessions or promises of autonomy.

From the perspective of a national minority, where the state can no longer guarantee protection from market forces, or resources to meet social and economic needs, the national state as a focus of identity and loyalty may be weakened. Increased political autonomy, especially political secession, is inevitably something of a leap in the dark. The uncertainty surrounding such constitutional change is often highlighted, perhaps exaggerated, by its opponents to heighten anxieties that social programmes and security offered by the existing state may no longer be affordable (among other fears, such as capital flight, for instance). However, where the existing state retreats from welfare provision, the risks that political autonomy would result in the sub-state community carrying heavy losses in terms of health care, pensions, and other benefits becomes less significant. Under these circumstances, territorial minorities may come to the conclusion that they have little to lose from greater political autonomy or, ultimately, independence from the state. Indeed, some sub-state communities have sought to re-create citizenship by claiming reinforced membership ties of social inclusion which the traditional sovereign state can no longer uphold in a centralized manner. Political actors at the sub-state level have claimed that social solidarity may enjoy a high degree of legitimacy in smaller territories, where a strong sense of common identity and a mutual sense of belonging is shared, and where an 'umbrella' of non-discriminatory constitutional provisions of an egalitarian nature is guaranteed (Moreno, 1999).

Inasmuch as globalization limits the autonomy of the national state, it has also limited its capacity to accommodate territorial minorities within existing political and institutional structures. Increasingly, sub-state governments and local authorities do not require the rationalising intervention of central bureaucracies and elites, and can activate policies of industrial relocation or attraction of foreign capitals without the role of intermediaries at the state's centre. By means of local incentives, urban re-development plans, or favouring corporatist agreements with trade unions and industrialists, regional governments and metropolitan authorities can have direct negotiations with the transnational corporations involved (Rhodes, 1996; Moreno, 2003).

However, sub-state governments do not exist in isolation from the new international order. They are subject to the same socio-demographic pressures and necessity of a greater inter-connectedness with institutions and actors beyond their boundaries (Jones, 1995). This may constrain their capacity to generate social solidarity and reinforce territorial loyalties through the distribution of social transfers and services. Critics of the de-structuring of the old order have suggested that globalization, decentralization and the increasing role of sub-state governments may bring about two major drawbacks to welfare development:

(a) Sub-state governments may be more sensitive to pressures from the business community for increased flexibility, lower taxation and lower public spending. Individually, sub-state communities appear more vulnerable to the threat of disinvestments in an era where capital is increasingly mobile, and 'when even a single corporate relocation can devastate an entire community' (Piven, 1995: 114).

(b) Sub-state governments may be tempted in an increasingly competitive international arena to offer 'too' generous conditions for capital investments or industrial relocations. By engaging themselves in a 'race to the bottom', social rights may be restricted, making welfare retrenchment inevitable. Viewed from this angle, decentralization would render social citizenship rights somewhat precarious.

According to functional theories, the nation-state governments should take on redistribution while sub-state administrations should be in charge of developmental functions. However, no consistent empirical findings lend support for a 'positive sum' arrangement with the allocation of the function of redistribution to the national level and those concerning the operationalization of welfare policies to the regional level.¹² Politicians in either national or regional governments make choices so as to maximize their own benefits. This fact greatly explains why members of both layers of government are reluctant to tax their constituents in order to allow less-favoured citizens to prosper, something which makes redistribution difficult (Petersen, 1995).

Both politicians and decision-makers at state and sub-state levels may become 'credit-claimers' or 'blame-avoiders', depending upon their situational logic and political strategies. Furthermore, what is economically efficient may not be politically possible or sustainable.¹³ Thus, political impacts on national and regional bureaucracies in the

implementation process must be taken into account. Likewise, national and regional politicians seek credit for their activities and they do so regardless of economic and rational arguments.

As already stated, the form of decentralization is an important area for analysis in assessing social policy outcomes. Some findings point to the fact that countries in which responsibility for spending is decentralized, but responsibility for revenue-raising is centralized, tend to spend more than other countries, other things being equal. By contrast, in countries where both revenue-raising and welfare spending are decentralized, expenditure levels appear lower (Rodden, 2003).

Concerns over the 'race to the bottom' or, conversely, of sub-state communities (*länder*, provinces, *regioni*, etc.) becoming welfare 'magnets', have generally been overstated. While politicians may choose to believe that generous benefits will attract welfare beneficiaries from other sub-state territories, there is little evidence to support such claims. Even in a federal country such as the USA - where there is a much greater geographical mobility than in Europe - there is little empirical evidence to suggest that 'voting with their feet' actually takes place (Weissert and Weissert, 2002; Berry *et al.*, 2003). Given the importance of this logic on the normative defence of redistribution as a state-level function, perhaps this long-standing view should be revisited.

The debate on whether decentralization constrains redistribution is an unfinished one. There is a large cross-national literature which uses multi-variate analysis to understand the factors that influence levels of social spending (Hicks and Swank, 1992; Huber and Stephens, 2001). This literature has a long-standing trajectory (Cameron, 1978), and has regularly concluded that federalism and/or decentralization constrains the expansion of the welfare state. Further arguments point to the contention that it can have more powerful negative effects than any other institutional variable; greater than factors such as the level of corporatism in decision-making, the nature of the electoral system or a presidential system of government (Swank, 2002).

In addition to the structure of the state, redistribution may also be affected by the state's ethnic composition. It has been argued that the degree of redistribution is more limited in countries which are ethnically heterogeneous or that have high levels of immigration. Some have suggested that public policies designed to recognize and accommodate internal diversity are detrimental to the robustness of the welfare state, with numerous consequences. They may have: a crowding-out effect, diverting energy, money and time from redistribution to recognition; a corroding effect, eroding trust and solidarity amongst citizens; or a misdiagnosis effect, with 'culturalist' solutions shifting attention from the 'real problem' of class inequalities (for an analysis of this debate, see Banting and Kymlicka, 2003). In responding to such charges, Keith Banting and Will Kymlicka argued that the linkage between welfare retrenchment and policies of accommodation and recognition is not empirically sustained. In fact, they could find no consistent relationship between the adoption of multiculturalism policies and the erosion of the welfare state. Indeed, countries that have implemented far-reaching policies of accommodation and

recognition, such as Canada and Australia, tend to demonstrate a greater positive correlation between social spending and redistribution (*ibid.*)

The possible exacerbation of inter-regional inequalities, as illustrated above in the discussion of the 'welfare tourism' argument, needs a more detailed qualification not only from the economic, social and political perspectives, but also from a cultural viewpoint. In the case of the European 'old continent', social bonds, kin and networks of friends have a considerable influence in people's attachment to their territorial contexts. As a deterrence to 'welfare tourism', cultural factors include not only linguistic barriers and differences in customs and habits, but also a more accessible path towards social insertion. In fact, territorial identities at regional and local level can provide better means of insertion for the poor and excluded. In parallel, there is also little evidence to suggest that globalizing trends have blurred local markers of identity and belonging. If anything, collective attachments to supranational levels of civic membership and institutional development have gone hand in hand with a strengthening of local culture and territorial identities at the regional level, noticeably in Europe. As a result, citizens in advanced industrial democracies seem to reconcile supranational, state and local identities, which both majority (state) and minority (stateless) nationalisms often tend to polarize in a conflicting manner. Thus, the emphasis upon territorial identities and local milieus for political action ought not to be placed merely on distinctiveness, but also on those relationships of interaction, congruence, and growing intergovernmental co-operation (Moreno, 2002).

EUROPEANIZATION AND WELFARE

The unfolding of structures of governance at a supranational European level is taking place by means of formalizing interactions between the members of the European Union. These governmental interactions affect actors and policy networks traditionally confined to operating in nation-state arenas. As a multi-level political framework, the European Union is a compound of policy processes, and Europeanization implies that national, regional and local policies are to be shaped by considerations beyond the mere centrality of the member states.

Supra-national processes such as Europeanization seek to accommodate long-standing national traditions with a common political will expressed by countries sharing a somewhat similar historical development and embracing values of democracy and human rights of an egalitarian nature. Europeanization is developing within a framework of system-values that translates into a gradual process of internal restructuring and institutional boundary-building. It is hardly surprising, therefore, that many processes of political decentralization within contemporary European pluri-national states have gained momentum in parallel with the development of Europeanization. However, the concept of Europeanization is ambiguous and subject to various degrees of understanding and interpretation.¹⁷ A constitution of a United States of Europe cannot be regarded as the compelling end-result of the process of Europeanization. The neo-functionalist school of thought has generally adopted the view that universal progress requires a kind of

integration, which is made equal to cultural assimilation and single identity formation, along the lines of the American 'melting-pot' experience. Often this approach is coupled with the view that 'command-and-control' policy provision is quintessential for securing organized solidarity and the maintenance of redistributive welfare. Alternatively, pluralists envisage that European rules can only be achieved and successfully accommodated by taking into account both history and cultural diversity within the mosaic of peoples in the old continent. In both approaches, the principles of democratic accountability and territorial subsidiarity are crucial, although not always shared to the same degree and scope.

The difficulties faced by EU national governments in approving the European Constitution in 2004 seem to corroborate the intergovernmentalist theory that the EU is little more than a forum for bargaining between the member states, and that national governments are the paramount political actors in the process of Europeanization. However, such a state-centric view must be subject to several qualifications: (i) short-term interests put forward by the national governments often have long-term unintended and unanticipated institutional consequences; (ii) the density of EU policy-making and the partial autonomy of EU institutions allow for decisions to expand beyond the member states' control; and (iii) institutional inertia, sunk costs and the rising costs of 'non-Europe' greatly reduce the overriding capacity of national governments to reverse the process of Europeanization (Pierson, 1996).

At the sub-state level, European territories seem to follow a pattern of recreating those political communities which flourished in the age prior to the new world discoveries (for example, Italian city-states, Hanseatic League, principalities). However, and in contrast with the *Renaissance* period, there is now a common institutional tie inherent in the process of European integration. Although in a rather loose and gradual manner, a majority of the EU peoples have internalized European institutions as a common political frame of reference. The European Court of Justice, the Schengen Agreement and the establishment of Economic and Monetary Union can be regarded as milestones in the process of establishing - in Rokkanian terms - a European 'community of trust' (Moreno, 2003).

Subsidiarity, Cosmopolitan Localism and Partner Regions

The principle of subsidiarity enshrined in the Treaty on European Union of 1992 (Maastricht Treaty) implies that decisions be taken supra-nationally only if local, regional or national levels cannot perform better. In other words, the preferred locus of decision-making is as decentralized and close to the citizen as possible. Political elites within EU member states, reluctant to further the process of European institutionalization, interpreted the subsidiarity principle as a safeguard for the preservation of traditional national sovereignty and, consequently, the powers to intervene centrally. They have been keen to place the bottom-line of subsidiarity at the level of the nation-state, not further below (van Hecke, 2003).

Social insurance and fiscal policies which have great repercussions for social policy have largely remained as national, centrally-run functions. From a European and global perspective, however, the decentralization of economic development policies has gone hand in hand with the decentralization of political institutions and the regionalization of welfare development. Sub-state layers of government have found in the principle of European subsidiarity a renewed impulse for the running of public affairs, and new opportunities for policy experimentation. There is certainly a case for sub-state units to become 'laboratories of democracy'. John Donahue has claimed that the payoff from innovation exceeds the advantages of uniformity and has underlined policy diffusion as a criterion: the greater the need for innovation (for example, a 'new' problem or solution), the greater is the rationale for that function to be provided by the sub-national (sub-state) government (Donahue, 1997).

Many signs seem to point towards the rise of a European type of *cosmopolitan localism* (Moreno, 2004), which should be regarded in quite a distinct fashion from that prescribed in North America for local communities (Etzioni, 1993). In the case of the United States, many of the communitarian experiences may be regarded as reactions to specific social cleavages and pressing social fractures (the criminalization of social life), as instrumental means of socialization in response to urban constriction (suburban isolationism), or as alternative lifestyles to dominant values (possessive individualism). In this respect, North-American communitarianism can primarily be seen as socially defensive.¹⁴

Such European cosmopolitan localism mainly concerns medium-sized 'meso-communities' - within or outwith the framework of a state - and is based on 'project identities' characterized in many instances by pro-active attitudes.¹⁵ In the old continent, it can be detected in small nation-states (Denmark, Ireland, Luxembourg), stateless minority nations (Basque Country, Wallonia, Wales), but also in regions (Brussels, Languedoc, Lombardy) and big conurbations (Berlin, London, Madrid). These meso-communities are spatially situated in a somewhat equidistant position between the nation-state, transnational regional bodies (APEC, EU, MERCOSUR, NAFTA), and other international frameworks (GATT, IMF, OECD, WB, WTO). Territorial identities associated with these communities have provided new political underpinnings for citizens and groups. Arguably, some 'small' nation-states, which are already integrated in transnational contexts of governance, especially the EU, and which have 'lost' significant powers as former 'small' sovereign unitary states, might also be included in the meso-level category by virtue of their population size and their societal homogeneity (for example, Finland, Ireland, or Luxembourg).¹⁶

Europeanization has also encouraged intergovernmental co-operation on the assumption that national states will be less 'sovereign' than they have been up until now. Beyond this analytical framework, however, the role of sub-state territories is largely neglected in institutional terms. Illustrative of this lack of political impulse is the case of the 'partner regions', or 'regions with legislative powers', and the workings of the European Convention on the Future of Europe.

In 2002, about half of the EU-15 regions were 'partner regions', or regions with legislative powers (in almost half of the member states). With the forthcoming enlargement of the EU, a considerable number of small nations will gain status as full member states in contrast with large sub-state regions and nations without 'sovereign' powers.¹⁸ This will create a situation in which entities with a few thousand inhabitants are entitled to be independently represented in EU institutions, as well as having their language recognized as an official language. By contrast, historic regions with several million inhabitants, which make a major contribution to the economic dynamism of the Union and to the funding of its budget, would still be unrecognized by the European treaties (European Parliament, 2002). Along the same lines, the Committee of the Regions made a specific reference to those regions with legislative powers which were regarded as not being genuinely accountable to their own citizens.¹⁹

Decentralization and Multi-Tier Governance

As a result of within-state variations, often reflected in different party systems, channels of elite representation and interest articulation, decentralization has become a major embedding factor in contemporary political life in Europe. Not all processes of decentralization are born equal, but in some countries (for example, Belgium, Italy or Spain) they are affecting the very 'core' of traditional social policies. In those countries, health care, for instance, has been decentralized in various degrees and manners allowing the establishment of regional systems of health provision (see chapters included in this book). These three countries have systems of social insurance funded nationally on a contributory basis. All three countries have constitutional provisions for the universalization of health care, and social insurance legislation has remained a competence of the central state, although policy implementation is largely regionalized. While in Belgium, Flemish nationalists have called for the decentralization and regionalization of the national social security system, in Italy and Spain, regional policy implementation has so far allowed for a great deal of autonomy in the direction of management (with cost-sharing measures in the case of the former). As in other policy areas, financial arrangements for the funding of decentralized health policies are of the utmost importance and need to be closely assessed on determining the scope of decentralization.

In the era of globalization, on the other hand, the management of sub-state welfare regimes emerging as a consequence of decentralization may necessitate an intensification of intergovernmental relations, inhibiting not only sub-state autonomy but also restraining national and supranational vertical 'interference'. Such intergovernmental relations need not be confined to the national state. Within the European Union, there is increasing co-operation between sub-state regions across states. EU institutions, particularly the Parliament, have encouraged multilateral co-operation on the assumption that nation-states will be less 'sovereign' than they have been up until now. The European Commission has also promoted regional development, and EU structural funds have opened up new development opportunities and additional resources to sub-state regions and nations within decentralized political systems.

The European Union is itself developing a role in social policy, evident in initiatives such as the Social Chapter of the Treaty on European Union and the Working Time Directive limiting the maximum weekly hours EU citizens may be expected to work. The development of social policy within and beyond the state compels state and sub-state governments alike to manage welfare systems within a multi-tiered polity. Streamlining open methods of coordination,²⁰ as has so far been the case of the national action plans on employment and social inclusion, can be the bases for working out tripartite contracts. These governmental agreements, objective-based and drawn up by the Commission, member states and regions, are but one of the intergovernmental policy collaborations in which all partners concerned could participate in the three phases of the decision-making process: planning of measures, decision-making and programme monitoring.

At the supranational level, EU institutions can develop initiatives and take actions as a result of 'spillovers' from the process of macro-economic reforms framed by the Maastricht Treaty and the Stability Pact. Member states increasingly need to adjust their political 'sovereignty' in welfare matters to the requirements of the single market. Furthermore, social cohesion has become a common goal to be accomplished and preserved within and among all member states.²¹

Such measures of constitutional design are of prime importance in the restructuring of welfare arrangements. Frameworks of solidarity as those provided by the national systems of social insurance, or those affected by European directives, will continue to play a crucial role. However, sensitive areas of citizens' concern where a more efficient policy provision is plausible by means of a more effective development of community-orientated services are increasingly important. Of particular relevance are those concerned with the weaving of 'safety nets' to combat poverty and social exclusion. Such areas of social intervention appear suitable to be run by elected sub-state layers of government, which can be accountable for the implementation of means-tested programmes, and for purposes of optimising economies of scale (Moreno, 2003).

Social Rights and Law Enforcement

Among the various factors affecting an observable trend towards 'unity' in social policy provision developed by the European member states, we must account for macro-structural constraints such as external social dumping, industrial relocation and financial globalization. But European institutional inputs are also important, particularly those related to European law and to the jurisprudence of European Court of Justice.

Early European treaties provided the EC legislator with the competence to harmonize provisions of national systems of social security in order to secure the freedom of movement of workers. Accordingly, the impact of European law on social security matters is growing in importance and has potentially far-reaching consequences. In recent times, social policy matters have been brought to the forefront of EU interests. The Social Charter on the right of workers, as well as the agreement on social policy within the

Maastricht Treaty and its inclusion in the Amsterdam Treaty as a separate chapter on social policy, have meant significant steps in the direction of developing a 'Social Europe'.

A decisive institutional input shaping the future of social security in the European Union is constituted by jurisprudence of the European Court of Justice. The European Court of Justice has used its authority to impose requirements upon member states, for example, to ensure their social policies are compatible with labour mobility objectives and to secure entitlements to health care and social security for EU citizens throughout the Union.

Arguably, and as a consequence of regulations sustained by European Court rulings since the 1980s, European welfare states have transformed from sovereign to 'semi-sovereign' systems (Leibfried and Pierson, 1995).

Two rulings by the European Court concerning core competences of the national welfare state can illustrate the extent to which judicial inputs are 'Europeanizing' social policy-making. In the 1993 Poucet-Pistre case,²² the Court ruled that citizens cannot abandon their compulsory national insurance systems on the basis of Europe's freedom of service. The ruling upheld the compulsory nature of national systems of public insurance and the principle of redistributive solidarity among the diverse income groups and age groups integrated within them. According to this ruling, the principles of obligatory social insurance and public monopoly do conform to the four freedoms enshrined in the European Treaty.

The decision of 1998 on the Kohll and Decker²³ cases constituted a turning point in the juridical concept of the relation between EU law and national health insurance laws. The Court ruled that, in the absence of harmonization at the EU level, each member state could determine the conditions concerning the right and duty to be insured with a social security scheme, as well as for the establishment of the conditions for entitlement to benefits. Nevertheless, and this was the crucial aspect of the Court's decision, member states should comply with European law when exercising their powers to organize their social security systems, and should reimburse the costs involved. In this sense, the Kohll and Dekker rulings constitute important judicial decisions for the neutralization of territoriality conditions in EU health care systems (Kötter, 1999; Pennings, 2001).

Until now, decisions and rulings by the Court have enjoyed an uncontested degree of legitimacy *vis-à-vis* national interests defended by the governments of the member states. At the root of such an attitude lies the acceptance not only that political life in Europe depends upon the rule of law, but also that rights and values are eventually to be corroborated by Court decisions.

The European Social Model

Despite the diversity of its institutional forms and manifestations, the European social model can be identified as one based upon collective solidarity and as the result of patterns of social conflict and co-operation in contemporary times. During the twentieth

century, the rise of the welfare state - a European 'invention' - meant states could meet the basic needs of 'the people', through the provision of income security, health care, housing and education. There is a widespread belief that the 'European social model' provides collective unity and identity to most EU countries, in contrast to other systems, especially the United States model, where individualization is a distinctive tenet for welfare provision (a belief, incidentally, which is also attached to the Canadian welfare system). The articulation of 'floors' or 'nets' of legal rights and material resources for citizens to participate actively in society can be seen as a common primary concern of European member states. Accordingly, the fight against poverty and social exclusion plays a central role in the European social model.

As viewed from below, the 'European social model' appears much more diverse as a kaleidoscope of sediments and peculiarities, although sharing a common perspective on social risks' coverage and the promotion of social citizenship (Flora, 1993). Indeed, the systems of social protection within the European Union are far from being identical and uniform (Scharpf, 2002). Any future scenario for unified EU involvement in the area of policies regarding social protection must take into account the present situation of welfare peculiarities (Kuhnle, 2000; Pierson, 2001; Taylor-Gooby, 2001).

As viewed from above, there has been in recent years a widening in the forms of welfare provision and, indeed, an expansion of supplementary forms of market insurance. Relevant actors, such as insurance companies, provident funds or mutual societies, are bound to become relevant actors alongside trade unions or business and professional associations (Ferrera, 2003; see also Ferrera's chapter in this volume).

The accommodation of cleavage structures, often forged over centuries, appears to be a pre-requisite to any political attempt to dismantle internal boundaries in a supra-national Europe. The development of a European supra-national welfare system is, therefore, unlikely in the near future. In promoting welfare development, national and local cultures will continue to play a crucial role in peoples' expectations, perceptions and values. This area of social policy-making is highly shaped by local cultures and lifestyles, and is less likely to be dealt with in a homogenous and centralized manner from a supra-national entity. However, in the second half of the 1990s, there were renewed attempts to optimize the building of a Social Europe, resting on a virtuous combination of sub-state, nation-state and supranational programmes and regulations.

CONCLUDING REMARKS

The relationship between social policy and territorial politics has generally been under-theorized and under-examined. There is a large literature on regionalism, mainly focused on political economy questions, the decentralization of government, and the question of 'governance'. The problem of territorial equity and cohesion has been mentioned frequently in discussions of the 'new regionalism' (Keating, 1998), but there has been little focus on the regionalization of the welfare state.

When analysing functional and territorial changes we often acknowledge ambivalences and even apparent contradictions. With regard to the process of Europeanization, for instance, the study of the link between changes in the institutional profile of European welfare states and changes in the cleavage and centre-periphery structures is a very promising front for future empirical research and theory in comparative social policy. If new economic policies have allowed for monetary centralization and a growing harmonization of single-market policies, a generalization of the quest for policy decentralization also points at a political redistribution of powers in multi-tiered Europe (Ferrera, 2003; Moreno and Palier, 2004).

The welfare/territory comparative field of research has a great potential and will no doubt increase academic interest not only within the discipline of political science, but from other disciplinary quarters of the social sciences. Political actors and institutions, economic variables, sociological categories and historical trends are but a few of the areas to be analysed. The existence of a diversity of interpretations does not entail that the different theories and approaches are incompatible: social phenomena are not 'coherent' or 'uniform'. Rather, they are diverse and generally develop within mutually interdependent and interacting structures.

In this introductory chapter, we have conceptually explored the relationship between territorial politics and welfare development. We have tried to refrain ourselves from 'packing' too many concepts and ideas, and are aware of the limitations of our analyses and discussions. It would have been unrealistic to attempt to cover the many conceptual categories involved in the examination of this welfare and territory inter-relationship. The main distinctions we have sought to address have dealt with state formation, the welfare state and nationhood, and the influence of state structure on welfare development in the light of the internal quest for decentralization and the external constraints of globalization. Welfare retrenchment as a containment of public spending and marketization of social needs, and its territorial implications, has also focused our attention, together with the impact of Europeanization and the prospects of a multi-tiered provision of European welfare, which would incorporate regional, nation-state and supranational layers of government. An emphasis in comparative analyses is the reflection of a concern for making sense of the various territorial developments and institutional routes taken by the state as an arena for welfare solidarity. We have explored this mainly in theoretical terms. The empirical studies in the chapters which follow provide further insight into the territorial politics of welfare.*

Table 1.1: Some characteristics of the European Welfare Regimes

	<i>Anglo-Saxon</i>	<i>Continental</i>	<i>Nordic</i>	<i>Mediterranean</i>
Benefits	Flat rate (low intensity)	Cash (high intensity)	Flat rate (high intensity)	Cash (low intensity)
Financing	Taxes	Payroll contributions	Taxes	Mixed
Gender	Female polarization	Part-time feminization	Occupational specific	Ambivalent familialism
Goals	Individual choice	Income maintenance	Network public services	Resource optimization
Ideology	Citizenship	Neo-corporatism	Egalitarianism	Social justice
Labour Market	De-regulation	Insiders/outsiders	High public employment	Big informal economy
Poverty	Dependency culture	Insertion culture	Statist culture	Assistance culture
Services	Residual public	Social partners	Comprehensive public	Family support

Source: Adapted from Moreno (2003: 276)

Table 1.2: A Typology of National and State structures

	<i>Union state</i>	<i>Unitary state</i>	<i>Decentralized/ Federal state</i>
<i>Uni-national state</i>		Denmark Finland France Norway Sweden	Germany (post-1949)
<i>Pluri-national state</i>	Spain (dated 1485) UK (dated 1707)	Belgium (1831) Italy (1870)	Canada Belgium (post-1994) Italy (post-1948) Spain (post-1978) UK (post-1999)

NOTES

1. Note that in Wilhelmine Germany, social insurance institutions were established prior to political rights (Flora and Alber, 1981).
2. According to T. H. Marshall (1950), the three stages in the evolution of modern citizenship run in parallel with the various periods of the constitutional recognition of rights; (a) civil, during the eighteenth century related to the demise of the estate society of the *Ancien Regime* after the English, American and French Revolutions; (b) political, during the nineteenth century with the institutionalization of both democratic liberalism and electoral representation; and (c) social, during the twentieth century with the consolidation of egalitarianism in the welfare industrial democracies.
3. The example of Spain is illustrative. In all seventeen Spanish *Comunidades Autónomas* (sub-state regions and nationalities), there is a high proportion of citizens who claim some form of dual self-identification. The question addressed to them in successive polls has been as follows: 'In general, would you say that you feel...(1) 'Only Andalusian, Basque, Catalan, etc.'; (2) 'More Andalusian, Basque, Catalan, etc. than Spanish'; (3) 'As much Andalusian, Basque, Catalan as Spanish'; (4) 'More Spanish than Andalusian, Basque, Catalan, etc.'; or (5) 'Only Spanish'. In the period October 1990-June 1995 a degree of duality was expressed by around 70 per cent of the total Spanish population (that is, categories 2, 3 and 4) (Moreno, 2001: 110-126). In the case of Scotland/United Kingdom, surveys using a similar scale were first carried out in the mid-1980s (Moreno, 1986: 439-441).
4. When Walker Connor analysed the composition of the 132 states which made up the United Nations in 1971, he concluded that only 12 of these were nation-states in which the political unit coincided with the national community. By 1984, he could describe only seven states as nation-states in the strict sense of the term (Connor, 1994). These included Denmark, Iceland, Japan, Luxembourg, the Netherlands and Portugal.
5. Or non-governmental as in the case of the *quango* - quasi-autonomous non-governmental-organization- a body established and appointed by the government. It can also refer to 'private-sector' bodies carrying out functions on the government's behalf. In either case, they are not directly accountable to users of the services they provide, but to the institutions that appoint their members, allowing a great deal of 'behind-the-scenes' negotiations and arrangements.
6. However, Eugen Weber (1976) pointed out that in 1870 the great majority of inhabitants in French rural areas and small municipalities did not regard themselves as members of the French nation. This perception of 'non-belonging' lasted until the first world war. Military conscription and warfare among European states was a major factor for the consolidation of the processes of nation-building in the old continent (Tilly, 1975).
7. Cooperative federalism puts forward the idea that intergovernmental relations should be based on collaboration. Such practices - labelled at times as tortuous or 'joint-trap decision' mechanisms - aim at maximizing administrative interdependence and are better suited to countries with political cultures grounded on values of pact, negotiation and tolerance (Duchacek, 1970). In the case of Germany, and its *Bundestreue*, or federal mutual trust, cooperative practices are in line with a high degree of internal ethno-territorial homogeneity (Manow, 2005).
8. After the 1993 state reform, article 1 of the Belgian Constitution proclaimed that, 'Belgium is a federal state, composed of communities and regions'. These two types of member states (communities and regions) partly overlap territorially, a fact from which much of the complexity of the Belgian federal state derives.
9. At that time, it reigned over Piedmont and Sardinia. Piedmontese political leaders, such as Cavour, were decisive in bringing together into one unitary state other territories and reigns of the Italian peninsula (that is, the RC state, the reign of the Two Sicilies, and other areas under the direct or indirect control of the Austrian Empire).
10. By which there was a compromise between a primary framework of property ownership and social rights in advanced industrial countries representative of welfare capitalism. This mutual concession made feasible the institutionalization of conflicts latent between capitalist inequalities and equalities derived from mass citizenship and allowed for the solidarity principle upon which the post-war welfare state was constructed (Rhodes and Mény, 1998; Crouch, 1999).
11. This approach is criticized on the ground that the only areas of ongoing welfare expansion (services for working mothers, older people) are the least related to globalization. An exception to this general trend may be active labour market policies (Bonoli, 2002).

12. In the United States, after examining federal expenditures over 30 years, Peterson (1995) concluded that legislative federalism helps to understand why some elements of functional federalism, such as redistribution, have been so difficult to achieve.

13. On analyzing the effect of two federal grant programmes in the United States, Chubb (1985) found the exact opposite of what economists predicted because the political factors affected the oversight and ultimately the overall spending.

14. Other functional identities linked to various dimensions of social life, such as cultural forms, gender, religion and individual sociobiological conditions can also be interpreted as new forms of 'resistance' (Kilminster, 1997).

15. According to Manuel Castells (1997) 'project identities' do not seem to originate from the old identities of the civil societies in the industrial age, but from the development of current 'resistance identities' against the informational avalanche. This argument is rather circular as regards its territorial dimension. In the case of the United States, sub-state spatial identities are not commensurable with the type of collective identities deeply rooted in the *volksgeist* of the diverse European peoples.

16. The 'no' result in the Danish referendum to ratify the Maastricht Treaty in June 1992, as well as the 'yes' ratification of the same treaty with opt-outs in a similar referendum held on May 1993, can be regarded as expressions of the unease of this 'small and homogeneous' European state in the face of the loss of traditional sovereign powers. The negative outcome of the referendum on the Nice Treaty held in Ireland in June 2001 may also be interpreted, among other considerations, as a refusal to endorse fiscal harmonization within the EU and a fear about future majority voting by EU decision-making institutions. However, the subsequent referendum of October 2002 produced a clear pro-EU result.

17. By combining these two dimensions, namely the object of Europeanization, and its understanding as a process and as an outcome, four distinct meanings of the term can be identified as follows; (i) Europeanization as competence shift from the national level on decision-making to the European one; (ii) Europeanization as policy convergence across member states in a particular policy area, (iii) Europeanization as an adaptive response of national institutions to the impact and imperatives of European intervention; and (iv) Europeanization as institutional convergence in the governance systems of member countries (Colino, 1997).

18. Cyprus, Estonia, Latvia, Lithuania, Malta and Slovenia have populations of 750,000; 1,370,000, 1,375,000; 2,375,000, 391,000 and 2,000,000 inhabitants, respectively. Such populations make a sharp contrast with some 'partner regions' as North Rhine Westphalia (17 million), Lombardy (9 million) or Andalusia (7.5 million).

19. It made reference to the regions in Finland (the Åland Islands), Belgium (3 regions, 3 communities), Germany (16 *Länder*), Austria (9 *Länder*), Spain (17 *Comunidades Autónomas*), Portugal (2 autonomous regions), Italy (20 *regioni* and 2 autonomous provinces), and the United Kingdom (3 parliaments, or regional assemblies) (Committee of the Regions, 2002).

20. Or OMC, an acronym coined at the time of the Portuguese Presidency in 2000, which seeks to establish common guidelines, joint evaluation, peer reviews and recommendations involving member states' stakeholders and relevant policy actors. Even in the absence of 'hard' EU regulations and sanctions, the Open Method of Coordination aims at providing an incentive for compliance on the side of state and sub-state governments (Ferrera *et al.*, 2002).

21. The reference to social cohesion has been included in the Single European Act (as the article number 130a already indicates), and there is a chapter on social policy (art. 117- 122) which calls upon member states to cooperate for the improvement of working and living conditions (art. 117).

22. These two French citizens appealed to the European Court after having been denied their expressed option of paying their social contributions to a private scheme instead of the compulsory social insurance. The ruling established that such a national requirement did not infringe the provisions of the Treaty regarding either the provisions of the freedom of services and on the abuse of dominant position.

23. Mr. Kohll, a Luxembourg citizen, had requested the authorization for dental treatment of his daughter in Germany (Trier). Mr. Decker, also a Luxembourg citizen, had solicited the reimbursement of spectacles with corrective lenses he had purchased in Belgium. In both cases, national social security administrations rejected both claims. Kohll and Decker appealed subsequently to the European Court of Justice.

* The authors are grateful to Keith Banting for comments on an earlier version of this chapter. Luis Moreno also thanks the Spanish Secretary of State for Education and Universities (PR2002-0200) for financial support.

REFERENCES

- Cameron, D. (1978), 'The expansion of political economy: a comparative analysis', *American Political Science Review*, vol. 72: 1243-61.
- Camilleri, J. and Falk, J. (1992) *End of Sovereignty? The Politics of a Shrinking and Fragmenting World*, Aldershot, Edward Elgar.
- Canovan, M. (1996) *Nationhood and Political Theory*, Cheltenham, Edward Elgar.
- Castells, M. (1997) *The Information Age: Economy, Society and Culture. Volume II: The Power of Identity*, Cambridge, MA., Blackwell.
- Castles, F. (1998) *Comparative Public Policy: Patterns of Post-war Transformation*, Cheltenham, Edward Elgar.
- Cerny, P. (1990) *The Changing Architecture of Politics. Structure, Agency and the Future of the State*, London, Sage.
- Chubb, J. (1985) 'The political economy of federalism', *American Political Science Review* vol. 79: 994-1015.
- Colino, C. (1997) *The Manifold 'Europeanization' of the Audiovisual Sector: Expanding European Initiatives and German Domestic Responses*, Occasional Paper No. 33, Madrid, CEACS, Instituto Juan March.
- Committee of the Regions (2002) 'Contribution of the Committee of the Regions to the European Convention', CdR 127/2002.
- Connor, W. (1994) *Ethnonationalism. The Quest for Understanding*, Princeton, N.J., Princeton University Press.
- Crouch, C. (1999), *Social Change in Western Europe*, Oxford, Oxford University Press.
- Deutsch, K. (1966) *Nationalism and Social Communication*, Cambridge, MA, MIT Press.
- Donahue, J. (1997) *Disunited States*, New York, Basic Books.
- Duchacek, I. (1970) *Comparative Federalism: The Territorial Dimension of Politics*, New York, Holt, Rinehart & Winston.
- Elazar, D. (1991) 'Introduction', in Elazar, D. (ed.), *Federal Systems of the World: A Handbook of Federal, Confederal and Autonomy Arrangements*, Harlow, Longman, pp. ix-xxiii.
- Epstein, A. (1978) *Ethos and Identity. Three Studies in Ethnicity*, London, Tavistock Press.
- Esping-Andersen, G. (1990) *The Three Worlds of Welfare Capitalism*, Cambridge, Polity Press.
- Esping-Andersen, G. (1996) *Welfare States in Transition. Social Security in the New Global Economy*. London, Sage.
- Esping-Andersen, G. (1999) *Social Foundations of Post-industrial Economies*, Oxford, Oxford University Press.
- Esping-Andersen G., with Gallie D., Hemerijck A. and Myles J. (2002) *Why We Need a New Welfare State*, Oxford, Oxford University Press.
- Etzioni, A. (1993) *The Spirit of Community. Rights, Responsibilities, and the Communitarian Agenda*, New York, Crown.
- European Parliament (2002) 'Draft Report on the division of powers between the European Union and the Member States', 2001/2024(INI).
- Ferrera, M. (1996) 'The "Southern Model" of Welfare in Social Europe', *Journal of European Social Policy* vol. 6, no. 1: 17-37.

- Ferrera, M. (1998) 'The four 'Social Europes': between universalism and selectivity', in Rhodes, M and Mény, Y. (eds.), *The Future of European Welfare: a new social contract?*, Basingstoke, Macmillan, pp. 81-96.
- Ferrera, M. (2003) 'European integration and national social citizenship: changing boundaries, new structuring?', *Comparative Political Studies*, vol. 36, no. 6: 611-652.
- Ferrera, M., Matsaganis, M. and Sacchi, S. (2002) 'Open co-ordination against poverty: the new EU "social inclusion process"', *Journal of European Social Policy*, vol. 12, no. 3: 227-239.
- Ferrera, M. and Rhodes, M. (eds.)(2000) *Recasting European Welfare States*, London, Frank Cass.
- Flora, P. (1986/87), 'Introduction', in Flora, P. (ed.), *Growth to Limits. The European Welfare States Since World War II* (3 Vols.), Berlin/New York, De Gruyter, pp.XI-XXXVI.
- Flora, P. (1993) 'The national welfare states and European integration', in Moreno, L. (ed.), *Social Exchange and Welfare Development*, Madrid, CSIC, pp.11-22.
- Flora, P. and Alber, J. (1981) 'Modernization, democratization and the development of welfare states in western Europe', in Flora, P. and Heidenheimer, A.J. (eds.), *The Development of Welfare States in Europe and America*, New Brunswick, N.J., Transaction Books, pp.37-80.
- Flora, P. and Heidenheimer, A. (1981) 'The historical core and changing boundaries of welfare states', in Flora, P. and Heidenheimer, A. J. (eds.), *The Development of Welfare States in Europe and America*, New Brunswick, N.J., Transaction Books, pp.17-34.
- Flora, P; Kuhnle, S. and Urwin, D. (eds.) (1999) *State Formation, Nation-Building and Mass Politics in Europe. The Theory of Stein Rokkan*. (Oxford, Oxford University Press).
- Garrett, G. (1998) *Partisan Politics in the Global Economy*, Cambridge, Cambridge University Press.
- George, V. and Taylor-Gooby, P. (eds.) (1996), *European Welfare Policy. Squaring the Welfare Circle*, Houndmills, Macmillan.
- Giner, S. (1976) *Mass Society*, London, Martin Robertson.
- Guillén, A.M. (1996) 'Citizenship and social policy in democratic Spain: the reformulation of the Francoist welfare state', *South European Society and Politics*, vol. 1, no. 2: 253-71.
- Guillén, A.M. and Álvarez, S. (2001) 'Globalization and the southern welfare states', in Skyes, R.; Palier, B. and Prior, P. (eds.), *Globalization and European Welfare States. Challenges and Change*. Basingstoke, Palgrave, pp.103-126.
- Held, D. and McGrew, A. (2000), *The Global Transformations Reader: an introduction to the globalization debate*, Cambridge, Polity Press.
- Hicks, A. and Swank, D. (1992), 'Political institutions and Welfare Spending in Industrialized Countries, 1960-82', *American Political Science Review*, vol. 86, no. 3: 658-74.
- Hirst, P. and Thompson, G. (1999) *Globalization in Question*, (2nd ed.) Cambridge, Polity Press.
- Hobsbawm, E. and Ranger, T. (eds.) (1983) *The Invention of Tradition*, Cambridge, Cambridge University Press.
- Hoover, K. and Plant R. (1989), *Conservative Capitalism in Britain and the United States, a critical appraisal*, London, Routledge.

- Huber, E. and Stephens, J. (2001), *Development and Crisis of the Welfare State: Parties and Policies in Global Markets*, Chicago, University of Chicago Press.
- Jones, R. (1995) *Globalization and Interdependence in the International Political Economy*, London, Pinter Publishers.
- Katzenstein, P. (1985) *Small States in World Markets: Industrial Policy in Europe*, Ithaca, N.Y., Cornell University Press.
- Keating, M. (1988) *State and Regional Nationalism*, Hemel Hempstead: Harvester Wheatsheaf.
- Keating, M. (1998) *The New Regionalism in Western Europe. Territorial Restructuring and Political Change*, Cheltenham, Edward Elgar.
- Keating, M. (2001), *Nations Against the State, The New Politics of Nationalism in Quebec, Catalonia and Scotland*, New York, Macmillan Press.
- Kilminster, R. (1997) 'Globalization as an emergent concept', in Scott, A. (ed.), *The Limits of Globalization*, London, Routledge, pp.257-83.
- King, D., (1987) *The New Right, Politics, Markets and Citizenship*, London, MacMillan.
- Kötter, U. (1999) 'Health Care Systems between National Regulation and European Market', European Forum (Conference paper WS/41), Florence, European University Institute.
- Kuhnle, S. (ed.) (2000) *The Survival of the European Welfare State*, London, Routledge.
- Lewis, J. (1997) 'Gender and welfare regimes: further thoughts', *Social Politics*, vol. 4, no. 2: 160-77.
- Lewis, J. (2001) 'The decline of the male breadwinner model: the implications for work and care', *Social Politics*, vol. 8, no.2: 152-70.
- Leibfried, S. and Pierson, P. (1995) 'Semi-sovereign welfare states: social policy in a multitiered Europe', in Leibfried, S and Pierson, P. (eds.), *European Social Policy, between fragmentation and integration*, Washington, DC, The Brookings Institution, pp. 43-77.
- Leibfried, S. and Rieger, E. (1998) 'Welfare state limits to globalization', *Politics & Society*, vol. 26, no. 4: 363-90.
- Linz, J. (1997) 'Democracy, Multinationalism and Federalism', Working Paper 1997/103, Madrid, CEACS-Instituto Juan March.
- McEwen, N. (2001) 'The nation-building role of state welfare in the United Kingdom and Canada', in Keating, M. and Salmon, T. (eds.), *The Dynamics of Decentralization: Canadian Federalism and British Devolution*, Montréal and Kingston, McGill-Queens University Press.
- McEwen, N. (2005) *Nationalism and the State: welfare and identity in Scotland and Quebec*. Presses interuniversitaires européennes/Peter Lang, Regionalism and Federalism Book Series (forthcoming).
- Manow, P. (2005) 'Cooperative federalism and the overgrazing of the fiscal commons', in Obinger, H.; Leibfried, S. and Castles, F. (eds.) *Federalism and the welfare state. New world and European experiences*, Cambridge, Cambridge University Press (forthcoming).
- Marshall, T. (and Bottomore, T.) (1992) *Citizenship and social class*, London, Pluto Press.
- Melucci, A. (1989), *Nomads of the Present*, London, Hutchinson Radius.
- Miller, D. (1995) *On Nationality*, Oxford, Clarendon Press.

- Miller, D. (2000) *Citizenship and National Identity*, Cambridge, Polity Press.
- Mishra, R. (1999) *Globalization and the Welfare State*, Cheltenham, Edward Elgar.
- Moreno, L. (1986), *Decentralization in Britain and Spain: The cases of Scotland and Catalonia*, Ph.D. thesis, University of Edinburgh, National Library of Scotland.
- Moreno, L. (1999) 'Local and global: mesogovernments and territorial identities', *Nationalism and Ethnic Politics*, vol. 5, nos. 3-4: 61-75.
- Moreno, L. (2000) 'The Spanish development of southern European welfare', in Kuhle, S (ed.), *Survival of the European Welfare State*, London, Routledge, pp.146-65.
- Moreno, L. (2001) *The Federalization of Spain*, London, Frank Cass.
- Moreno, L. (2002) 'Multiple identities and global meso-communities. Working paper UPC 02-25 (Madrid: UPC-CSIC). <http://www.iesam.csic.es/doctrab.htm>
- Moreno, L. (2003) 'Europeanization, mesogovernments and safety nets', *European Journal of Political Research*, vol. 42, no. 2: 185-199.
- Moreno, L. (2004), 'Multiple identities and global meso-communities', in Lachapelle, G. and Paquin, S. (eds.), *Mastering Globalization*, London, Routledge (forthcoming).
- Moreno, L. and Palier, B. (2004) 'The Europeanization of welfare. Paradigms shifts and social policy reforms'. Paper presented at the WRAMSOC Conference, Berlin, 23-25 April, 2004.
- Morlino, L. (1998) *Democracy between Consolidation and Crisis: Parties, Groups and Citizens in Southern Europe*, Oxford, Oxford University Press.
- Obinger, H., Leibfried, S. and Castles, F. (eds.) (2005), *Federalism and the Welfare State. New World and European experiences*, Cambridge, Cambridge University Press (forthcoming).
- Ohmae, K. (1995) *The End of the Nation State: The Rise of Regional Economies*, New York, The Free Press.
- Palier, B. and Sykes, R. (2001) 'Challenges and change: Issues and perspectives in the analysis of globalization and the European welfare states', in Sykes, R.; Palier, B. and Prior, P. (eds.), *Globalization and European Welfare States. Challenges and Change*, Basingstoke: Palgrave.
- Pennings, F. (2001) *Introduction to European Social Security Law*, The Hague, Kluwer Law International.
- Peterson, P. (1995) *The Price of Federalism*, Washington, D.C., Brookings Institution.
- Pierson, P. (1994) *Dismantling the welfare state? Reagan, Thatcher and the politics of retrenchment*, Cambridge, Cambridge University Press.
- Pierson, P. (1996) 'The path to European integration', *Comparative Political Studies*, vol. 29, no. 2: 123-163.
- Pierson, P. (1998) 'Irresistible forces, immovable objects: post-industrial welfare states confront permanent austerity' *Journal of European Public Policy*, vol. 5, no. 4: 539-60.
- Pierson, P. (ed.) (2001) *The New Politics of the Welfare State*, Oxford, Oxford University Press.
- Piven, F. (1995) 'Is it global economics or neo-laissez-faire?', *New Left Review*, no. 213: 107-114.
- Rhodes, M. (1996) 'Globalization, the state and the restructuring of regional economies', in Gummet, P. (ed.), *Globalization and Public Policy*, Cheltenham, Edward Elgar, pp.161-80.

- Rhodes, M. (1998) 'Globalization, labour markets and welfare states: a future of "competitive corporatism"?', in Rhodes, M. and Mény, Y. (eds.), *The Future of European Welfare: a new social contract?*, Houndmills, Macmillan, pp.178-200.
- Rhodes, M. and Mény, Y. (eds.), (1998) *The Future of European Welfare: a new social contract?*, Basingstoke, Macmillan.
- Rodden, J. (2003), 'Reviving Leviathan: fiscal federalism and the growth of government', *International Organization*, vol. 57, no. 4: 695-729.
- Rokkan, S. and Urwin, D. (1982) *The Politics of Territorial Identity: Studies in European Regionalism*, London, Sage Publications.
- Rokkan, S. and Urwin, D. (1983) *Economy, Territory, Identity. Politics of West European Peripheries*, London, Sage.
- Rudolph, Jr., J. and Thompson, R. (eds.) (1989) *Ethnoterritorial Politics, Policy and the Western World*, Boulder, CO., Lynne Rienner.
- Scharpf, F. (2000) 'Economic changes, vulnerabilities, and institutional capabilities', in Scharpf, F. and Schmidt, V. (eds.), *Welfare and work in the open economy. From vulnerability to competitiveness*, Oxford, Oxford University Press.
- Scharpf, F. (2002) 'The European social model: coping with the challenges of diversity', *Journal of Common Market Studies*, vol. 40, no.1: 649-69.
- Schmidt, V. (1995) 'The new world order, incorporated. The rise of business and the decline of the nation-state', *Daedalus*, vol. 124, no. 2: 75-106.
- Smith, A. (1995) *Nations and Nationalism in a Global Era*, Cambridge, Polity Press.
- Swank, D. (2002), *Global Capital, Political Institutions and Political Change in Developed Welfare States*, Cambridge, Cambridge University Press.
- Taylor-Gooby, P. (ed.) (2001) *Welfare States under Pressure*, London, Sage.
- Taylor-Gooby, P. (2002) 'The silver age of the welfare state: perspectives on resilience', *Journal of Social Policy*, vol. 31, no. 4: 597-621.
- Taylor-Gooby, P. (2004) 'New risks and social change', in Taylor-Gooby, P. (ed.), *New Risks, New Welfare: The Transformation of the European Welfare*. Oxford, Oxford University Press (forthcoming).
- Titmuss, R. (1958) *Essays on the Welfare State*, London, Allen & Unwin.
- Titmuss, R. (1974) *Social Policy: an introduction* (edited by Abel-Smith, D. and Titmuss, K.), London, Allen & Unwin.
- Tilly, C. (ed.) (1975), *The Formation of National States in Europe*, Princeton, N.J., Princeton University Press.
- Tocqueville, A. de (1954) *Democracy in America* (original ms.: 1832-40), New York, Vintage.
- Toft, C. (1996) 'Constitutional choice, multi-level government and social security systems in Great Britain, Germany, and Denmark', *Policy and Politics*, vol. 24, no. 3: 247-261.
- Van Hecke, S. (2003) 'The principle of subsidiarity: ten years of application in the European Union', *Regional and Federal Studies*, vol. 13, no. 1: 55-80.
- Watts, R. (1994) 'Contemporary views on federalism', in de Villiers, B. (ed.), *Evaluating Federal Systems*, Cape Town, Juta, pp.1-29.
- Weber, E. (1976) *Peasants into Frenchmen: The Modernization of Rural France, 1870-1914*, Stanford, CA., Stanford University Press.

Weissert, C. and Weissert, W. (2002) *Governing Health: The Politics of Health Policy*, Baltimore, Johns Hopkins University Press.

Chapter 2

Devolution and the Preservation of the United Kingdom Welfare State

Nicola McEwen and Richard Parry

INTRODUCTION

The United Kingdom developed mainly as a union-state rather than as a nation-state (Rokkan and Urwin, 1982: 3-4; Mitchell, 2003: 85-101). Its unitary nature was embodied in the institutions of the Westminster parliament and the doctrine of parliamentary sovereignty. Within this centralized political structure, however, the smaller constituent units were afforded varying degrees of institutional and cultural autonomy. Northern Ireland had devolved government until the imposition of direct rule in 1972. Scotland retained its distinctive church, legal, education and local government systems. From its inception in 1885, the Scottish Office, headed by the Scottish secretary – a minister of the UK government - initiated a process of administrative devolution which strengthened this institutional distinctiveness. Other systems of devolved administration were set up later in Wales. Notwithstanding these degrees of autonomy, the UK emerged as one of the most centralized states in Europe. It was at its centralising peak when the structures that defined its modern welfare state were set in place after the second world war.

The establishment of the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly in 1999 has given rise to a more decentralized state structure, but the pragmatic and asymmetrical approach to territorial government in the different nations of the UK has survived into the devolution era. The UK government's devolution policy has been responsive and opportunistic. It is not grounded in any theory of federalism or of adaptation of the political system. The political and administrative design differs across the three territories, reflecting a strategy of devolution on demand according to the circumstances of each nation or region (Table 2.1). Across the three territories, the devolution arrangements permit executive autonomy over a range of social policies, including health, education and personal social services, including the power to distribute resources and vary spending. The Scottish Parliament and Northern Ireland Assembly also enjoy considerable legislative autonomy, opening up the opportunity for policy divergence within the UK welfare state. The National Assembly for Wales can make secondary legislation, BUT responsibility for primary legislation affecting Wales remains with the Westminster Parliament, usually in response to requests from the Assembly

Government. The independent Richard Commission, established in 2002 by the Welsh Assembly government to review the powers and operation of the National Assembly for Wales, included among its recommendations the extension of primary legislative powers (Richard Commission, 2004). It remains to be seen whether these recommendations will lead to further constitutional change.

TABLE 2.1 ABOUT HERE

Scotland, Wales and Northern Ireland have historically had the reputation of being more 'welfarist' than England – in terms of popular attachment to social services, the needs of their respective populations, administrative norms and levels of social expenditure. Wales since the 1940s and Scotland since the 1960s have also had strong social democratic majorities and their elected representatives have tended towards defending and promoting welfare services and expenditure. Even in the early years of the Conservative government (in power from 1979-97), policy reforms often proceeded at a slower pace in the devolved nations, as in the case of the 'contracting out' of services within local authorities and the NHS, and the legislation permitting schools to opt-out of local authority control.¹ This was in part a result of pressure from elite professional groups, as well as a reflection of the administrative resources the territorial departments of state could exercise over policy implementation (Paterson, 1994). By and large, however, public policy development throughout territories of the UK was broadly in alignment in these years, and especially in Scotland, opposition to the policies of the centre fuelled demands for legislative devolution (Jones and Keating, 1988: 15-17; McEwen, 2002).

The 1999 devolution settlement reinforced this welfarist spirit. It has not just been a matter of different policies (though these have occurred) but of a style of politics geared to the distribution of resources to individuals and localities rather than the maintenance of economic stability. The favourable supply of resources to the devolved administrations under a block grant from the centre has facilitated the political management of their first term of office. It has also reinforced their ability – at administrative and political levels – to resist the Treasury mentality of means-testing, rigour towards public employees, and market-based 'reform' dominant at the UK level of government.

These devolutionary variables are balanced by political, fiscal and bureaucratic constraints that preserve a largely integrated UK welfare state in the post-devolution era. The ruling Labour Party has an instinctive sense of uniform organization and policy that is reinforced by the many influential UK ministers and MPs from Scotland and Wales. The fiscal framework of devolution is set by the UK Treasury; revenues are not raised locally but are transferred from the centre under a formula controlled by them. The Scottish and Welsh administrations do not have their own civil or public service working to them. Their officials are members of the Home Civil Service, and the civil service is a reserved function under the devolution settlements. There has always been a separate Northern Ireland Civil Service, but it has preserved its sociological similarity with the UK civil service. While committed to the success of the devolution policies, civil

servants have a stronger awareness of the UK centre than do other elite groups in the devolved nations. They have tended to seek a non-partisan guardianship role of perceived standards of public administration, and of existing networks of governance in social policy. Even though devolution has been implemented, the speed at which the UK political system has moved away from a London-centric unionist mentality has been slower.

WELFARE DEVELOPMENT AND THE UK STATE

The development of the United Kingdom state was never accompanied by an aggressive nation-building strategy. As nationalist doctrine took hold across much of Europe in the latter half of the nineteenth century, the UK's imperial power was at its height. Instead of a strong state national identity, the British Empire became the focus of loyalty. A sense of British national identity did develop, but it was more the result of living together in a state, and the shared experiences of war and sacrifice, than the result of any state-endorsed drive to forge a shared sense of British nationhood.

The focus on the Empire facilitated the recognition of the state's multi-national character. As the Empire provided an identity for members of the United Kingdom's constituent nations, there was little need to over-ride sub-state national identities. As well as promoting the development of dual national identities, this also introduced an element of contingency to the sense of Britishness. Particularly among Scots, identification with and loyalty to the United Kingdom state has been underwritten by the economic advantages and opportunities for advancement it provided. Whereas industrialization and the fruits of Empire fulfilled this role in the nineteenth and early the twentieth century, the welfare state, and the social and economic benefits it provided, arguably served this purpose in later years. Established in an era which coincided with the decline of the British Empire, Williams argued that the post-war welfare state came to represent a powerful symbol of British nationhood, replacing the unifying appeal that the Empire had formerly provided (Williams, 1989: 162).

The UK welfare state did not follow other European patterns. Pre-1914 initiatives (a flat-rate old-age pension [1908] and a contributory insurance system against unemployment and sickness [1912]) did not broaden out in coverage and generosity. Dependence on the Poor Law and a left-wing political responses to its inadequacy were particularly strong in Scotland and Wales. During the second world war, explicit associations were made between the solidarity and national consciousness engendered by the war, and the task of constructing a post-war welfare state. Keynesian economics gave a new legitimacy for state intervention to stabilize employment and demand. William Beveridge's report on *Social Insurance and Allied Services* (1942) proposed a structure of flat-rate, contributory insurance that would provide a universal safety-net while not jeopardising private saving. The first majority Labour government (1945-51) under Clement Attlee implemented the

Beveridge model with, in European terms, an unusual degree of universalism and administrative rationality. Nearly all hospitals were taken into public ownership as part of a free, universal health service; the rules for social assistance were to be determined nationally rather than locally; and house-building, public and private, was planned in a central programme.

The post-war welfare state established a new set of institutions which could serve a symbolic purpose in underlining the boundaries and identity of the United Kingdom as a nation, as well as a state. The Labour government had emerged from 'the people's war' with the pledge to build a 'people's peace' (Morgan, 1990), and many of the institutions of the welfare state implicitly reinforced their *national* character. The ministry of social insurance called for in the Beveridge Report was established as the Ministry of *National* Insurance. The much-maligned Unemployment Assistance Board was reinvented, with an improved image and more sensitive means test, as the *National* Assistance Board. The jewel in the crown of the welfare state was the *National* Health Service. Such labelling and implicit referencing can represent, in Billig's phrase, 'unmindful reminders' of nationhood, which subtly present and represent the nation and 'the people' in everyday political and public discourse (Billig, 1995). As Aughey observed, 'the Labour nation was to be sustained by the social democratic state' (Aughey, 2001: 90).

Yet, there is little evidence that the nation-building intentions of the architects of the welfare state were concerned with accommodating territorial and national minorities within their boundaries. Rather, the nation-building rhetoric was more explicitly tied to incorporating different social classes. Nevertheless, the welfare state had nation-building implications beyond class. It enhanced the institutional significance of central government, which assumed a greater significance in the day-to-day lives of citizens throughout the state, and promoted the idea of a national community sharing burdens, risks and security. Moreover, the collective provisions of the welfare state contributed to raising living standards, particularly among the working class, and provided tangible, material resources which arguably strengthened allegiance to the political community that provided them as of right (McEwen, 2005). Bennie *et al.* suggested that material benefits delivered by the welfare state offered working-class Scots 'more than the Empire ever had' (Bennie, *et al.*, 1997: 5-6). Although systematic data were not collected until the 1960s, it was assumed that the vulnerability of Scotland and Wales's urban and rural economy to economic depression made them net gainers from the fiscal mechanisms within the United Kingdom. That was certainly the case in Northern Ireland, whose government reproduced the post-war welfare state, way beyond anything offered in the Irish Republic, on the back of subventions from London.

The development of the post-war welfare state also sidelined debates over self-government and autonomy in Scotland and Wales. This reflected a shift in the Labour Party's territorial strategy. Although born with a commitment to 'home rule' for Scotland and Wales, Labour's focus shifted towards commanding control of the resources of a centralized UK state. The dominant figure of the Labour Party in Wales, Aneurin Bevan, was the architect of the National Health Service and was passionately opposed to 'any form of devolution that might look like a surrender to nationalism' (Morgan, 1981: 376-

7). When the party in Scotland formally abandoned its commitment to home rule in 1958, it was on the grounds that 'the Labour Party in Scotland today realises that Scotland's problems can best be solved by socialist planning on a United Kingdom scale' (Labour Party [Scottish Council], 1958: 1). Despite a flurry of home rule activity in Scotland in the immediate post-war period, the devolution issue lost relevance in Scotland and Wales during the subsequent two decades. This is testament to the degree to which the Scots and Welsh gave their consent to the United Kingdom state, and reflected their general agreement on a system of government that had brought them benefits such as free health care, rising wages and full employment (Finlay, 1997: 144).

The territorial politics of welfare assumed a rather distinctive form in Northern Ireland. Since the establishment of devolved government in 1921, the governance of the province was largely left to the Stormont regime in Belfast, with little interference from the UK government. The effect was continuous protestant and Unionist majority government for the next 50 years, the exclusion and marginalization of the minority catholic population from public affairs (especially through local government gerrymandering), and the lack of an effective public check on anti-catholic discrimination, especially in housing and employment. As the post-war UK government embarked upon its programme of welfare expansion, the government of Northern Ireland largely followed suit, in spite of Unionist unease at 'creeping socialism' and initial fears of the threat to provincial autonomy that such state expansion may generate (Connolly, 1990: 45-9). The post-war welfare state brought material benefits to catholics as well as protestants, and supported the emergence of an educated, articulate catholic middle class. This had consequences for territorial politics and demands, temporarily shifting the focus away from the demand for Irish reunification towards reforming the existing state. As Connolly noted, 'the Welfare State, particularly educational provisions, meant that a growing Catholic middle class could see material benefits from the Union, even if they still felt that discrimination existed' (Connolly, 1990: 48). The failure of the regime to effectively respond to reformist demands, and the eruption of sectarian violence between the two communities, ultimately led to the downfall of devolution and the imposition of direct rule (Tonge, 1998).

THE TERRITORIAL CONSEQUENCES OF RETRENCHMENT

To remain successful, a strategy emphasising the advantages of access to central resources over autonomy was contingent upon the capacity of the state to deliver (Keating, 1989: 98). As the UK's economic decline became increasingly apparent in the 1960s, the state's capacity to continue delivering for Scotland and Wales was seriously questioned, and the system of territorial accommodation began to unravel. Dismay over economic decline, and the failure of government efforts to address it, provided fertile ground for the electoral breakthrough of Plaid Cymru and the Scottish National Party in the late 1960s. The success of the SNP, in particular, prompted the Labour Government in 1974 to renew its commitment to Scottish and Welsh devolution, leading to a decade dominated by devolution debates and, ultimately, to the failed devolution referendums of

1979.ⁱⁱ When the devolution issue arose again in the 1980s, it was against a rather different political backdrop.

The Conservative governments of Margaret Thatcher and John Major (1979-1997) were hostile to the political expression of the multinational nature of the UK in any form of legislative devolution. Their efforts were focused upon pushing forward a radical neo-liberal agenda which sought to reduce social expenditure, reduce redistributive taxation, increase individual 'self reliance' and promote free market flexibility. Some deference was given to cultural nationalism (such as official rights for the Welsh language) and the process of administrative devolution continued, but these were defensive responses to the strength of the pro-devolution parties. Amid an assertive British nationalism within Thatcherite discourse, a central place was given to the 'myth of British greatness' (Mitchell, 1990: 128-9), but this promoted a conception of Britishness that had little resonance in Scotland and Wales, where it so often seemed an extension of 'Englishness'.

In contrast to the politics of welfare expansion, the politics of retrenchment faced considerable institutional and political barriers as a result of the popularity of welfare programmes and the interest group pressures such programmes entrenched (Pierson, 1994). Consequently, the rhetoric of welfare retrenchment during the Thatcher years was rather more radical than its policy outcomes (Marsh and Rhodes, 1992: 170-87). Radical restructuring of the health and welfare system was constrained by unemployment and population ageing. Indeed, social expenditure, particularly in health and social security, increased in real terms. In social security, the government's strategy was to contain spending increases rather than reduce overall expenditure. The scope of programmes was curtailed, for example, by breaking the link with earnings, freezing the levels of certain benefits, withdrawing benefits from students and unemployed school leavers under 18, and tightening eligibility criteria surrounding benefit entitlement (Kavanagh, 1990: 214-17). Expenditure in the areas proposed for devolution in 1978 was cut relative to other services (including social security) and in Scotland there was an electoral turn to the Labour Party among middle-class professionals. The welfare state tradition that had been shared with England now seemed to be in retreat.

Continued support for state intervention and welfare was thus strongly associated with opposition to the Conservative Party. A perception emerged that the Conservatives had become an English party which cared little for the UK's national minorities. As such, national identity, social democracy and the demand for constitutional change represented mutually reinforcing factors that informed the discourse of those promoting national self-government. In Scotland, in particular, where the movement for self-government was strongest, the establishment of a Scottish Parliament replaced access to the centre as the primary goal of those demanding policies to address Scotland's socio-economic problems. A Scottish Parliament was elevated as a pre-requisite for the pursuit of 'Scottish' social and economic goals (McEwen, 2002). Indeed, survey evidence gathered in the aftermath of the devolution referendum indicated that a powerful motivating factor influencing support for a devolved Parliament was the expectation that it would bring

about improvements in the NHS, education, welfare services and the economy (Surridge and McCrone, 1999).

The paradox of devolution is that it could only be secured in political circumstances – the election of a majority Labour government at Westminster – that meant it was no longer immediately needed to protect the welfare state in Scotland and Wales from a Conservative government put in office by English votes. But with Labour largely respecting Conservative spending plans from 1997 to 1999, much expectation was built up around the policy potential of the new administrations. Scottish devolution won strong consent in the referendum of September 1997, with 74% voting in favour of a Scottish Parliament and 63% in favour of tax-varying powers. Welsh devolution passed with a bare 50% in favour, a reflection of the ambivalence towards it by many Welsh voters, but still a major advance on the 20% supporting Welsh devolution in 1979. Meanwhile Northern Ireland devolution went ahead on a separate policy track around the ‘peace process’. The ‘Belfast Agreement’ between the political parties (also known as the ‘Good Friday Agreement’) was endorsed by a referendum in 1998 and elections soon followed, although there was over a year of argument before power was transferred. At time of writing, the Northern Ireland Assembly has (since October 2002) once again been suspended, as a result of ongoing disputes concerning the application of the Agreement to security matters.

DEVOLUTION AND THE TERRITORIAL POLITICS OF WELFARE

The Labour government elected in 1997 broadly accepted the social and economic reforms of its predecessors. For New Labour, Keynesian-style state intervention belonged to a bygone era; social and economic change had rendered the ‘old’ welfare state unsustainable. The government was convinced of the virtues of new public management and a market- and consumerist-driven notion of public sector delivery. UK governments of both parties have generally sought to maintain a welfare state with a low burden of cost and regulation on employers, and avoiding expensive earnings-related or cost-sharing mechanisms. Their policies have been universal and equal (the National Health Service, state retirement pensions, child benefit), or means-tested and withdrawn as income rises at a rate greater than the top income tax rate (social assistance, most support to the unemployed and disabled, support for students).

TABLE 2.2 ABOUT HERE

Table 2.2 sets out the relationship between devolution expenditure and welfare state expenditure under the Blair government. The government restricted itself to Conservative

spending limits in its first two years, but expenditure in health and education has risen markedly since 1999. These expenditure increases have been accompanied by market-driven managerial reforms to improve efficiency, productivity and performance. A prominent theme of the Blair government has been welfare reform initiatives promoting personal responsibility and a transition from welfare dependence to employment. Workfare-type policies have sought to increase labour participation rates by a 'carrot-and-stick' mixture of money, advice and threats to withdraw benefit, accompanied by a system of tax credits for lower-paid workers and, especially, working families. These policies, and a favourable economic climate, have meant that social protection spending has risen at less than half the rate of education and health.

Public expenditure is a function reserved to the UK government, and the devolved administrations ultimately have few direct fiscal rights. Devolved administration expenditure is counted in 'total managed expenditure' set at the UK level, with a Treasury block grant providing the bulk of the administrations' budget. The level of the block grant is not determined by reference to needs or preferences in the devolved administrations, but by a population-based formula (the Barnett formula). This formula automatically adjusts the level of the Scottish, Welsh and Northern Irish budgets to correspond, on a per capita basis, with adjustments in the allocations to comparable services in *England*, as set by the UK government in its bi-annual 'Spending Reviews'. Spending adjustments based on population (relative to England) rather than need have prompted fears within the devolved nations/regions that public expenditure will be 'squeezed', especially in light of population decline. However, the Labour government's spending priorities have coincided with devolved functions – health, education and (in Scotland) public order (devolved) have been favoured over social protection and defence (reserved) – and so, as Table 2.2 illustrates, the devolved budgets have been rising faster than total UK expenditure.

Notwithstanding the lack of autonomy over the total level of spending, the devolved administrations have, in constitutional terms, complete autonomy over its distribution. Provided that the administrations do not exceed their budget, they are free to dispense it as they see fit, and diverge from the policies that underlie English spending totals. Popular and political pressure often militates against this, however, especially in politically salient areas like health and education. For example, when the Chancellor allocated additional resources to health in his 2002 Budget, the Scottish Cabinet immediately announced that the equivalent transfers to Scotland would also be spent on health care (Keating, 2002: 10), while a similar commitment was made in Wales

Whereas health and education fall under the competence of the devolved assemblies (although all Welsh primary legislation is passed at Westminster), responsibility for the policies and administration of the tax and benefit system is reserved to the UK Government.ⁱⁱⁱ With social security now integrated more closely than ever before with the income tax system, whole areas of anti-poverty policy are closed off to the devolved administrations. They have attempted to run policies on social inclusion using their tangential powers on housing, infrastructure and training, and have moved from means-testing to universalism in some areas where they have the power and means to do so. But,

while the devolved administrations enjoy the power to distribute their budgets according to their priorities, they have little power to redistribute income and resources from the wealthy to the poor (Mitchell, 1998). The characteristic inability of sub-state systems to go against international economic orthodoxy is reinforced by the structures of UK devolution. The rapid increase in welfare state spending since 1999 may have provided only an initial, temporary protection against retrenchment pressures.

The Disintegration of the UK Welfare State? Policy Divergence and Convergence

Notwithstanding their limits on redistributive powers, the UK's sub-state regions have been granted varying degrees of autonomy over large areas of the welfare state, including health, education, housing and personal social services. This has engendered an opportunity to reinforce the social democratic 'welfarist spirit' that helped bring these institutions into being. The administrations' distributive powers provide an opening with regard to means-tested remission of charges related to the devolved areas of education, health and social work. Here it is possible to maintain universalist provision as long as the devolved administrations can bear the cost, and there has been a clear policy trend in this direction with policy learning between the administrations. There have been two prominent instances of policy divergence, which were initiated in Scotland, with some evidence of policy learning in Wales and Northern Ireland.

Up front tuition fees for higher education students, introduced by the Labour government prior to devolution, have been abolished in Scotland (but only for Scottish and non-British EU students studying at Scottish universities). Student grants for those on low-incomes have been reinstated through a levy on graduates after they leave university. The Welsh National Assembly lacked the legislative power to overhaul the system of student finance, but introduced 'learning grants' to meet the cost of fees for students from low income households. After extended debate, Northern Ireland resisted the adoption of a universalist policy, and introduced a means-tested exemption from fees that covered most of the population, as well as various new grants (Osborne 2002; Wilson and Wilford, 2004: 98).

The second initiative in Scotland was on 'free personal care', the non-nursing personal care needs of the elderly (see Simeon, 2003). The British welfare state had distinguished between hospital care, which was free, and care in other residential establishments or at home, where means-tested fees were charged. With modern medical and social developments, it has become difficult to draw the line between the universal and the means-tested sector of care. After two years' deliberation, the Royal Commission on Long-term Care for the Elderly (1999) recommended that all such care should be free. Its recommendation was rejected by the UK government as a poor use of resources when many service users could afford to pay. However, under pressure from political, popular and professional opinion within Scotland, the Scottish Executive adopted a universal system, offering free personal care to all who require it. Although the policy reduced the

cost to the UK social security budget of means-tested attendance allowance, the Scottish Executive was not given the additional funding it had expected in respect of this saving. The Department of Work and Pensions, backed by the Treasury, resisted on principle any attempt to give up money saved as a result of devolved policy changes.

This cost consideration made Northern Ireland and Wales more cautious about similar moves in the universalist direction. In 2002, the Welsh Assembly voted unanimously to challenge the Westminster government to implement a universal programme of free personal care financed from general taxation, a move immediately dismissed at Westminster (Osmond, 2003: 16-18). The Northern Ireland Assembly opted for an extension of free 'nursing' but not 'personal' care, similar to the UK government's policy for England.

Policy learning has been evident in other directions and policy spheres. School 'league tables' were abolished in Northern Ireland, a measure later taken up in Wales. The National Assembly for Wales was the first to establish a 'Children's Commissioner' to act as an advocate for children and young people, with Northern Ireland and Scotland following suit (Wilson and Wilford, 2004: 97-8). Wales has one notable innovation, thus far not replicated elsewhere: the removal of charges for non-hospital drug prescriptions and eye charges from those under 25 years of age and over 60 years of age. Scotland and Northern Ireland remain in line with England here, but Wales has used its powers under secondary legislation to make a minor but visible gesture in the direction of a free National Health Service.

As well as the pursuit of distinctive policies, divergence is fostered by the devolved administrations' refusal to replicate some of the UK government's more radical policy initiatives. For example, the devolved administrations have resisted some of the Blair government's key health service reforms, including an extended role for the private sector in the NHS (Woods, 2002). This includes the controversial proposal to grant 'foundation' status to a select group of hospitals, giving greater freedom over their operation, financing and management to locally appointed boards. The devolved administrations also seem determined to resist the UK Government's policy to introduce university 'top-up' fees, which would permit the best universities to charge their students additional extra fees to pay for their education.

Part of the explanation for such policy divergence can be found in the institutional context in which devolved politics operates. Three dimensions merit particular attention.

Firstly, elections to the devolved assemblies operate under systems of proportional representation. In Scotland and Wales, the Additional Member System left the Labour Party as the largest party, but reliant upon the support of the Liberal Democrats to form a majority coalition government (from the outset in Scotland, and after October 2000 in Wales). The coalition continued in Scotland after the 2003 elections but in Wales, Labour won half the seats and was able to govern alone. Coalition politics has led to coalition compromises. In both Scotland and Wales, the impetus to diverge from UK government policy on tuition fees and free personal care came from the Liberal Democrats. In the

case of the abolition of up front tuition fees, this was the key policy in coalition negotiations in 1999.

Government in Northern Ireland is again very different. By statute, the four main parties form the Executive following elections on the basis of the single transferable vote. Ministerial posts are distributed according to the d'Hondt mechanism, with each party nominating its chosen ministers and departments. While ministers are supposed to work within the broad framework of an agreed Programme for Government, ministerial responsibility is invested in the individual minister; there is no system of collective ministerial responsibility for the Executive as a whole. This not only limits coalition compromises, but it inhibits policy development. Wilson and Wilford have argued that it has entrenched nationalist divisions and mistrust among the two communities, with policy often used as a tool of political patronage and ethno-nationalist polarization (Wilson and Wilford, 2001: 84-9; 2004: 95-104).

The second pressure for policy divergence in Scotland and Wales emerges from the wider parliamentary composition (Northern Ireland is again distinctive, with 'key decisions' requiring cross-community support). In contrast to the Labour government in Westminster, which faces an opposition led by the Conservative Party, the Scottish and Welsh administrations must face an opposition in which the principal party is nationalist - the Scottish National Party and Plaid Cymru-the Party of Wales. Both are centre-left parties founded upon a commitment to, respectively, Scottish independence and a more nebulous form of self-government for Wales. This creates a distinctive political dynamic and context in which policy battles are fought out, and where the pressure upon the leading party of government is towards social democratic rather than neo-liberal or conservative policies.

The third pressure comes from public opinion. As discussed above, the devolution campaigns in Scotland and Wales in the 1980s and 1990s were against the backdrop of Conservative Party dominance of UK government. Devolution was championed by parties whose policy priorities were broadly social democratic, and particularly in Scotland, a Scottish Parliament was held up as a means to resist unpopular Conservative policies and to find 'Scottish solutions to Scottish problems'. This backdrop contributed to generating popular expectations about what the Parliament could achieve; indeed, expectations that it would bring about improvements in health, education and social welfare were a powerful explanatory factor in the strong YES vote in the 1997 referendum. Even with the will, the Parliament lacked the power to deliver on these expectations. However, this did generate a climate in which devolution's success is in part judged by policy outcomes. Continued support for universalist policies among the parties, policy communities and the wider population can represent a force for divergence from the direction in which of UK government policies are being pursued.

The degree of divergence should not be exaggerated, however. Aside from the high profile cases discussed above, there has been considerable convergence in social policy. The Welsh National Assembly government is constrained by its lack of primary legislative powers, and so much Welsh public policy continues to be passed in England

and Wales' legislation at Westminster. The Scottish Executive, meanwhile, has opted to follow many of the UK government's initiatives, including use of the private finance initiative to support a hospital and school-building programme, and transferring public housing stock to the voluntary sector (Parry, 2002; Mitchell, et al. 2003: 127-30). Reliance on the private finance initiative - or public-private partnerships - reflects the Scottish Executive's lack of powers over revenue-raising and borrowing. In addition, UK government reforms to the health service in the two years preceding devolution left a substantial policy inheritance to the devolved administrations, and they often continued in a similar direction. Health ministers throughout the UK face similar problems (rising costs and expectations, the persistent problem of waiting times, etc.), and intergovernmental and intra-party relations have often generated shared ideas on their solutions (Woods, 2002).

Indeed, there are a number of inter-related variables inhibiting divergence in welfare policy. Although the devolution settlement brought large areas of the welfare state under the legislative jurisdiction of the Scottish Parliament and the administrative jurisdiction of the National Assembly for Wales, control over social security and taxation remains reserved to the Westminster government, save the limited taxation powers discussed above. Thus, while social justice was an early priority of the Scottish Executive, policy objectives had to be firmly embedded within, and dependent upon, social and economic policies pursued at the UK level. This not only reflected a constitutional limitation. Embedding the objectives of the Scottish Executive within the UK welfare system also represented a shared territorial objective to emphasize Scottish and UK inter-dependence, and highlight the benefits Scots enjoy from their continued membership of the UK state. As an Executive report on social justice noted, 'the shared commitment to tackling poverty provides the basis for the partnership between the Scottish Executive and the UK Government' (Parry, 2002: 317).

The inter-dependence between devolved and reserved issues, particularly in the welfare sphere, can give rise to intergovernmental tensions. Intergovernmental relations have been facilitated by the administrations at each level being led by parties which share solidarity with the party of government at the UK level. We might expect increased state/sub-state tensions should the parties of government diverge, particularly in a majoritarian system of government like the British one. Nevertheless, there have been a few instances that provide insight into the potential for intergovernmental conflict. An interesting example in 2003 was over the Scottish Executive's decision to provide compensation to those who contracted Hepatitis C from contaminated blood during their hospital care. The UK government had resisted such an agreement to patients in England with similar claims, and the UK Department of Work and Pensions threatened to 'claw back' (and effectively annul) any payments made by the Scottish Executive by a corresponding amount, through restricting recipients' social security benefit entitlement. Although in part a political dispute, this issue also revolved around the legal issue of whether the Scottish Executive had the power to make such compensation payments - health being devolved but cash transfers reserved. In the event, the UK Government adopted a similar approach in respect of England, thereby removing the intergovernmental tension.

Labour Party unity represents a further constraint on policy divergence. Devolution has thus far not altered the unitary nature of the party system. Scottish Labour and Welsh Labour are integral parts of the UK Labour Party. Although free to make their own policy decisions in the devolved areas, many of the administrations' public policy goals, and the rhetoric surrounding them, bear a strong resemblance to those articulated by the New Labour government at Westminster (Bradbury and Mitchell, 2002; Parry, 2002). This may not last. Party elites are dividing into those orientated to either Westminster or to the devolved systems. Dual mandates between Westminster and the devolved assemblies were terminated in 2001, suggesting a growing divergence between the elected representatives over the longer term. The first two Scottish First Ministers had been MPs and ministers at Westminster, but the political formation of Jack McConnell, the third First Minister, was entirely within Scotland (including a spell as Scottish Labour's General Secretary) and most of his ministers were previously unknown in London. Welsh ministers are as unknown outside Wales as their Scottish counterparts, with the exception of the Welsh First Minister (since 2000), Rhodri Morgan. Morgan's personal reputation and long experience in Westminster politics has increased his stature, but he has used this to underline Welsh distinctiveness within the UK (Osmond, 2004).

UK Ministers have been concerned about the non-uniformity of policies and the consequences for English debate, and have exerted considerable pressure on devolved administrations seeking to markedly deviate from English policy. For example, they lobbied through ministerial and civil service channels on both the student tuition fees and personal care issues, but in the end could do no more than make it clear that no extra funding was available for the policies. This lobbying comes more through party political, rather than official, channels. It might seem significant that officials in Scotland and Wales remain members of the Home Civil Service and operate under its personnel and recruitment rules. But civil service codes make it clear that Scottish and Welsh officials are accountable only to their own ministers, a role familiar from Whitehall departmental politics and now readily extended to the devolved administration. Any cross-pressure from Whitehall is limited, and is becoming less significant as more and more officials have had their civil service formation exclusively in post-devolution circumstances.

Thus, there are competing pressures for policy divergence and convergence in welfare policy. The former arises from the political and institutional context in which Scottish policy debate is conducted, while the latter stems from the inter-dependence of state and sub-state policy-making, the limited autonomy of the devolved administrations, and the political allegiance between the governments at each level. While we may be beginning to see the emergence of distinctive sub-state welfare regimes, they are firmly integrated within, and dependent upon, the UK welfare state.

Administrative Exploration as an Alternative to Policy Innovation

Given the absence of fiscal and managerial autonomy, and the presence of ties preserved at many levels through functional and party political arrangements, the UK's devolved governments have tended to explore alternative ways of expressing their identity independent of Westminster. This takes two forms: the structures of administration, and the position of public employees within them. In keeping with the asymmetry running through UK devolution, this is manifest in distinctive ways in each of the devolved nations and regions.

In the Scottish case, whereas the civil service remains reserved to Westminster, the structures of administration are devolved. The Scottish Executive can thus reshape local government and the National Health Service. It has been conservative in doing so, not least given recent pre-devolution restructuring in these sectors; local government had been reorganized on a single-tier basis in 1996, and the NHS in 1999. However, in health, the Executive is in the process of merging the administration of hospitals and primary health care in a unified top-down structure, further differentiating the institutional framework of the health service in Scotland from its English counterpart.

The National Assembly for Wales can ask the UK Parliament to enact on its behalf the primary legislation it cannot pass itself. In this way, it has secured legislation to reorganize the NHS into 22 local health units that correspond to local councils, with the regional tier abolished and some functions centralized. It has also formed a single executive body, *Education and Learning Wales*, to run post-16 education and training (even though existing statutory bodies for higher education funding and skills training remain in being). The Welsh Assembly Government absorbed housing, health and social work functions through the Government of Wales Act 1998 (the devolution statute) and subsequent clauses in English bills. Securing European Union Objective 1 status for large areas of west and south Wales financed the creation of administrative and distributive networks under devolved control. The result has been a greater reshaping of the institutional landscape in Wales than in Scotland (Osmond 2003).

Northern Ireland is once again in a distinctive and difficult position because its eleven central departments are named in statute and were chosen by the parties as part of the power-sharing arrangements. Because the largest parties wanted the central economic and finance departments (and, in the case of the Ulster Unionists, to prevent the culture department falling into Irish nationalist hands), the biggest spending ministries (health, education and social development) were left to the more extreme parties in each community. The response to the administrative immobilization this caused was to expand the Office of First Minister and Deputy First Minister as the centre of policy co-ordination.

With respect to the position of public employees, devolution always had a potential function as a protector of the welfare state, and this has been realized in practice. On the whole, pay deals have been generous, the application of challenging management initiatives more benign, and the deference to trade unions, pressure groups and local interests greater than at the UK level. This reflects the long-term dominant position in Scotland and Wales of a Labour Party dependent for its activist base on public service

professionals. In addition, the party's elected representatives in the devolved institutions have been largely drawn from among local professionals (typically in service provision or third sector organizations) rather than existing central or local office-holders. A culture of consultation and networking is strong in the devolved administrations and reflects their lack of resources on policy-making and implementation. They also have a minor technical advantage in that there is no Treasury veto on their total pay bill, as is the case for UK departments. For a time, it looked as though the devolved administrations were striking better deals with their employees than in England, especially through Scottish Executive three-year deals with civil servants in 2000 and 2003, and teachers in 2001. The teacher's settlement, following an official enquiry, gave newly-qualified teachers, in particular, higher pay than their English counterparts. However, subsequent UK or English deals have often been multi-year and comparably generous, especially when an element of pay restructuring can be justified.

The UK government has been more centralist and performance-driven in its pursuit of service delivery objectives, and has marginalized the trades union and the professions. The devolved nations have not been immune to this spirit, and some common initiatives have been taken forward (such as 'Best Value' in the efficiency of services, and performance-related pay in the public sector). But, in general, the protection offered to existing public sector interests is stronger, as it was during pre-1999 administrative devolution. Generous pay and conditions are facilitated by the favourable climate for public expenditure, which creates trades union pressure to use real terms increases in resource inputs to reward existing staff. The Treasury has found it difficult to enforce a rigorous pay policy in this context, and their instruments of control are weaker within the devolved administrations. Moreover, UK departments have not made the maximum use of the influence they have retained under the devolution settlement. They have not stood in the way of structural change and the protection of staff. As part of the political stabilization of the UK after devolution, administrative elites at UK level have suppressed their objections to many actions of the devolved administrations they might regard as unwise or unhelpful.

CONCLUDING REMARKS

The UK case provides useful insight into the territorial politics of welfare. The welfare system which developed in the aftermath of the second world war helped to legitimize the state in the eyes of citizens throughout the country, marginalizing debates over the status of its territorial minorities. These debates re-emerged when the state's capacity to deliver came into question. The retreat from a social democratic welfare state in the 1980s and 1990s, in particular, informed demands and support for self-government and territorial restructuring.

Political devolution has transferred autonomy to Scotland, Wales and Northern Ireland over aspects of state welfare, providing some scope for the devolved administrations to protect the welfarist, public service traditions that helped to justify and reinforce their nations' self-government demands. Within the political and institutional context in which

devolved politics takes shape, being completely passive and drifting with the UK tide is not a viable option. Indeed, a degree of policy divergence is consistent with the logic of devolution. The defence of the welfare state has found expression in the occasional promotion of universalist policies and in the cautious desire to resist managerial reforms and policy initiatives introduced at the UK level. The autonomy of the devolved administrations is limited by the legal framework surrounding them, their fiscal dependence on central government, and to a lesser extent, by the background and orientation of their officials, but they have been able to pursue a distinctive path when the need or the will has arisen.

As noted above, the extent of policy divergence has been insufficient to affect the integrity of the UK welfare state. Some measures have been implemented which point towards the development of distinctive sub-state welfare systems, but these remain firmly embedded within the UK welfare state. Limited welfare policy divergence has been facilitated by intra-party solidarity across territorial boundaries. With Labour as the lead party of government at every level,^{iv} there have been no overt intergovernmental conflicts, and any tensions that have emerged have been resolved behind closed 'party' doors. The benign climate for public expenditure has also prevented tensions arising. Substantial real terms increases in general transfers to the devolved administrations are unconditional, thus there is no requirement that devolved spending decisions follow the less universalist policies that have been adopted in England.

It seems inevitable that competing parties will eventually lead the government at each level of the state, creating a test for the stability of the devolution arrangements on every level. Within the welfare sphere, different policy options and priorities pose two additional challenges. Firstly, while there has always been some territorial variation in welfare provision, these variations have been expanded, and rendered more visible, in the devolution era. This challenges the solidarity principle at the heart of the welfare state - that broadly equivalent services are available, as a right of citizenship, to all citizens according to their needs (Keating, 2002: 11-12). Where policy divergence leads to citizens in one part of the country being entitled to services not available to citizens in another part of the country, this can generate a sense of injustice which may be politically difficult to sustain. This is a challenge which will be primarily faced by the state.

Sub-state governments, too, will face a challenge should the public expenditure climate become less benign. Although free to disperse resources as they see fit, the total budget of the devolved administrations is dependent upon expenditure limits set for UK government departments. Where a central government was intent on cutting back departmental expenditures, this would have a knock-on effect for the resources available to the devolved administrations, potentially putting the devolved welfare systems under considerable strain. But these are questions for the future. The United Kingdom's devolution settlement looks set to continue to offer useful insights into the territorial politics of the welfare state.

REFERENCES

Aughey, A. (2001) *Nationalism, Devolution and the Challenge to the United Kingdom State*, London, Pluto Press.

Bennie, L., Brand, J. and Mitchell, J. (1997) *How Scotland Votes*, Manchester, Manchester University Press.

Billig, M., (1995) *Banal Nationalism*, London, Sage.

Bradbury, J. and Mitchell, J. (2002) 'Devolution and Territorial Politics: stability, uncertainty and crisis', *Parliamentary Affairs*, vol. 55: 299-316.

Connolly, E. (1990) *Politics and Policy-Making in Northern Ireland*, Hemel Hempstead, Philip Allan.

Finlay, R. (1997) *A Partnership for Good? Scottish Politics and the Union since 1880*, Edinburgh, John Donald Publishers Ltd.

Hazell, R. (2000) 'Introduction: the first year of devolution', in Hazell, R. (ed.) *The State and the Nations: the First Year of Devolution in the United Kingdom*, Thorverton, Imprint Academic, pp.1-12.

Jones, B. and M Keating, M. (1988) 'Beyond the doomsday scenario: governing Scotland and Wales in the 1980s', *Strathclyde Papers on Government and Politics*, no. 58.

Kavanagh, D. (1990) *Thatcherism and British Politics: the End of Consensus?*, Oxford, Oxford University Press.

Keating, M. (1989) 'The Labour Party in Scotland, 1951-1964', in Donnachie, I, C Harvie and I S Wood (eds.), *Forward! Labour Politics in Scotland 1888-1988*, Edinburgh, Polygon, pp.84-98.

Keating, M. (2002) 'Devolution and public policy in the United Kingdom: divergence or convergence?' in Adams, J. and Robinson, P., *Devolution in Practice: public policy differences within the UK*, London, IPPR.

Labour Party (Scottish Council), (1958) *Let Scotland Prosper: Labour's Plans for Scotland's Progress*. Document prepared by working party of representatives of NEC, SCLP and the Scottish Group of Parliamentary Labour Party.

McEwen, N. (2002) 'State welfare nationalism: The territorial impact of welfare state development in Scotland', *Regional and Federal Studies*, vol. 12, no. 1: 66-90.

McEwen, N. (2005) *Nationalism and the State: Welfare and Identity in Scotland and Quebec*, Presses interuniversitaires européennes/Peter Lang.

Marsh, D. and R. A. W. Rhodes (1992) *Implementing Thatcherite Policies: Audit of an Era*, Buckingham, Open University Press.

Mitchell, J. (1990) *Conservatives and the Union*, Edinburgh, Edinburgh University Press.

Mitchell, J. (1998) 'What could a Scottish Parliament Do?' in Elcock, H and M Keating, *Remaking the Union: Devolution and British Politics in the 1990s* (special edition of *Regional and Federal Studies*, 8, 1: 68-85.

Mitchell, J. (2003) *Governing Scotland: the Invention of Administrative Devolution*, Houndmills, Palgrave Macmillan.

Mitchell, J. and the Scottish Monitoring Team (2003), 'Third year, third First Minister', in Hazell, R. (ed.), *The State of the Nations 2003: the Third Year of Devolution in the United Kingdom*, Exeter, Imprint Academic.

Morgan, K. O. (1981) *Rebirth of a nation: Wales 1880-1980*, Oxford, Clarendon.

Morgan, K. O. (1990) *The People's Peace, British History 1945-1990*, Oxford, Oxford University Press.

- Osborne, R. (2002) 'Making a difference? The role of Statutory Committees in the Northern Ireland Assembly', *Public Administration* 80: 2, 283-299.
- Osmond, J. (2003) 'The Civil Service' in Osmond, J. and Jones, J. B., *Birth of Welsh Democracy*, Cardiff, Institute of Welsh Affairs and Welsh Governance Centre.
- Osmond, J. (2004), 'Nation building and the Assembly: the emergence of a Welsh civic consciousness', in Trench, A. (ed.) *Has Devolution Made a Difference: the State of the Nations 2004*, Exeter, Imprint Academic.
- Parry, R. (2002), *Memorandum of Evidence to House of Lords Constitution Committee, Devolution: Inter-Institutional Relations in the United Kingdom*, London, The Stationery Office, H. L. Paper 147.
- Paterson, L. (1994) *The Autonomy of Modern Scotland*, Edinburgh, Edinburgh University Press.
- Pierson, P. (1994) *Dismantling the welfare state? Reagan, Thatcher and the Politics of Retrenchment*, Cambridge, Cambridge University Press.
- Richard Commission (2004) *Report of the Commission on the Powers and Electoral Arrangements of the National Assembly for Wales*, Cardiff, National Assembly for Wales.
- Rokkan, S. and Urwin, D. (1982) *The Politics of Territorial Identity: Studies in European Regionalism*, London, Sage Publications.
- Royal Commission on Long Term Care (1999), *With Respect to Old Age: Long Term Care - Rights and Responsibilities*, London, HMSO, Cm 4192-I.
- Simeon, R. (2003) 'Free Personal Care Policy Divergence and Social Citizenship' in Hazell, R. (ed.), *The State of the Nations 2003*, Exeter, Imprint Academic.
- Surridge, P. and McCrone, D. (1999) 'The 1997 Scottish referendum vote', in Taylor, B. and Thompson, K., *Scotland and Wales: Nations Again?*, Cardiff, University of Wales Press.
- Tonge, J. (2002), *Northern Ireland: conflict and change*, 2nd edition, Harlow, Pierson Education Ltd.
- Williams, F., 1989, *Social Policy: A Critical Introduction*, Cambridge, Polity Press.
- Wilson, R. and Wilford, R. (2001) 'Northern Ireland: Endgame', in Trench, A. (ed.) *The State of the Nations 2001*, Exeter, Imprint Academic.
- Wilson, R. and Wilford, R. (2004) 'Northern Ireland: renascent?', in Trench, A. (ed.), *Has Devolution Made a Difference? The State of the Nations 2004*, Exeter, Imprint Academic.
- Woods, K. J. (2002) 'Health policy and the NHS in the UK 1997-2002', in Adams, J. and P. Robinson, *Devolution in Practice: public policy differences within the UK*, London, IPPR.

TABLES

Table 2.1: *Models of Devolution and Policy-Making*

	<i>Scotland</i>	<i>Wales</i>	<i>Northern Ireland</i>
<i>Institutional design</i>	Conventional Westminster style legislature and executive (Scottish Parliament and Scottish Executive)	Single corporate body fusing legislature and executive (National Assembly for Wales), but de facto separation into 'Presiding Office' of the Assembly and the 'Welsh Assembly Government'	Westminster style legislature and executive (Northern Ireland Assembly and Northern Ireland Executive), but executive is compulsory coalition of parties
<i>Legislative powers</i>	General legislative competence in non-reserved areas, inc. education, health, housing and personal social services, but exc. income maintenance and benefits.	No primary legislative competence, but can issue secondary orders under specific statutory powers in non-reserved areas, inc. education and health.	General legislative competence in non-reserved areas, which include education, health, housing, personal social services and income maintenance, but not criminal justice
<i>Fiscal powers</i>	Budgetary freedom within block grant and limited powers to vary income tax. Tax and benefit structure reserved	Budgetary freedom within block grant; no powers to vary income tax	Budgetary freedom within block grant; no powers to vary income tax
<i>Civil Service</i>	Civil servants part of the Home Civil Service; autonomy on pay and recruitment for non-senior grades as enjoyed by UK departments	Civil servants part of the Home Civil Service; autonomy on pay and recruitment for non-senior grades as enjoyed by UK departments	Separate civil service. Fair employment legislation designed to promote balanced representation of the two communities in public organizations

Note: The Northern Ireland Assembly was suspended in February-May 2000 and since October 2002, and executive functions reverted to the UK Government. See Hazell (2000: 3-5) for full details of the three constitutional settlements.

Table 2.2: *Expenditure Trends in Devolved and Non-Devolved Services, 1998-2003*

<i>£ bn, 2002-03 prices</i>	<i>98-99</i>	<i>99-00</i>	<i>00-01</i>	<i>01-02</i>	<i>02-03</i>	<i>change</i>
<i>UK spending on main devolved items:</i>						
Education & training	44.0	45.4	48.6	52.7	55.3	+25.7
Health	51.7	53.3	57.6	61.9	66.3	+28.2
Public order and safety	19.7	19.8	21.6	23.8	24.9	+26.4
<i>UK spending on main non-devolved items:</i>						
Social protection	125.7	131.1	135.2	140.6	143.8	+14.4
Defence	26.1	26.0	26.4	25.4	26.1	+0
<i>Total managed Expenditure UK</i>	365.5	369.3	389.4	403.8	418.9	+14.6
<i>Departmental expenditure limits for devolved administrations:</i>						
Scotland	14.8	15.2	16.1	17.5	18.0	+22.1
Wales	7.5	7.8	8.2	8.9	9.6	+27.8
Northern Ireland	5.2	5.4	6.1	6.1	6.9	+32.1

Note: The budget for the devolved administrations also includes ‘annually managed expenditure’ on transfer items under little or no policy control (in 2002-03, Scotland £2.2bn, Wales £0.4bn, Northern Ireland £5.6bn [including social security]).

Source: HM Treasury, *Public Expenditure Statistical Analyses 2004* (London: The Stationery Office, Cm 6201, 2004) tables 1.4, 1.7 and 3.3

ⁱ A notable exception, however, was the community charge (poll tax), introduced in Scotland a year ahead of England and Wales, in order to avoid an unwelcome revision of the property valuations on which local taxes had previously been levied.

ⁱⁱ The Welsh devolution proposals failed by a margin of 80-20, while the Scottish margin was 48-52, a small majority vote in favour of devolution. However, the Yes vote represented only 33% of the total eligible electorate, falling short of the 40% demanded by statute.

ⁱⁱⁱ In Northern Ireland, social security is devolved, but the financial arrangements for their block budget in effect require the Executive to follow UK rules and any changes in them.

^{iv} Northern Ireland is again the exception, where the party system is unique and operates entirely outwith the British party system.

Chapter 3

Welfare Management in the German Federal System: the Emergence of Welfare Regions?

Jörg Mathias

INTRODUCTION

The present German federal system comprises a complex structure of responsibilities on all levels of territorial government, resulting in the involvement of a high number of actors responsible for welfare issues. To some extent, this multi-level interaction results from the construction of the German federal system itself. Some key principles are briefly outlined in the federal constitution, the Basic Law (*Grundgesetz*, GG). Article 20(1) GG manages to press four of these key principles into a single sentence: ‘The Federal Republic of Germany is a democratic and social federal state.’^{iv}

However, the authors of the GG have confined their ambitions in establishing social rights to some rather vague notions of protecting the family, mothers and children (Art. 6 GG). Beyond that, according to Art. 74(1)7 GG, the *öffentliche Fürsorge* (public welfare)^{iv} is a matter of *konkurrierende Gesetzgebung*, that is, the *Länder* are free to act as they see fit unless the federal level produces either specific or framework legislation on certain matters in that field. Art. 72(2) GG limits the federal level’s right to do so: the federation may legislate in the field ‘if and insofar as the establishment of equal living conditions in the federal territory or the preservation of legal and economic unity necessitates, in the interest of the state at large, a federal regulation’.^{iv} This clause was changed by the 42nd Amendment (1994). The previous version allowed the federation a greater freedom to act if the federal level deemed doing this useful – even if not strictly necessary. This apparent weakening of the federal level’s right to act can be regarded as part of a new trend aimed at making the German political system more flexible to meet the post-1990 challenges: ‘Only in the last decade or so has there been (as a legacy of the need to digest the former communist East) pressure to reverse the tendency to national policy standardisation and allow greater territorial policy variation.’ (Jeffrey, 2002:180).

National policy standardization, however, was – and to a large extent still is – very prevalent in German welfare policy-making. Indeed, the right to establish national policy standardization has for decades been seen as the main means by which the federal level is supposed to achieve the key idea behind Art. 72(2): the ‘establishment of equal living conditions’. The national welfare policies’ universal coverage was more or less automatically regarded as being ‘in the interest of the state at large’.

The organization of the welfare state in Germany has been a typical example of joint-decision making, or ‘co-operative federalism’. The federal level has consistently taken up its right to act directly and specifically (Art. 72 [2] GG) in only two major welfare-related matters. One is employment management, in particular, the administration of unemployment-related benefits and the promotion of job creation schemes (Gagel, 2002:X). The second area is the management of state pensions. In all other welfare matters the federal level has limited itself to either providing specific regulations but leaving the implementation to *Land* or local authorities, or to setting general framework regulations which the *Länder* are obliged to fill – but with considerable room for manoeuvre.

Federal regulations nevertheless provide comprehensive coverage of a wide range of social needs. The ten volumes of the *Sozialgesetzbuch* (Code of Social Security, SGB),^{iv} and associated acts such as the *Bundessozialhilfegesetz* (Federal Social Security Benefits Act, BSHG) cover an enormous range of specific entitlements in four key categories: (i) insurance-based entitlements; (ii) state compensations for victims of difficult or dangerous circumstances beyond their control; (iii) state promotion of social development; and (iv) state social security for anyone having needs not covered by any other scheme and being unable to cope with these needs on his or her own. Overall, Germany usually spends just under one third of its Gross Domestic Product on welfare matters.^{iv}

TABLE 3.1 NEAR HERE

The principle of allowing territorial variations in social security provisions is particularly relevant concerning the legislation for the worst cases of hardship, that is, persons entitled to receive support under the *Bundessozialhilfegesetz*.^{iv} This act is an example of framework legislation, setting absolute minimum standards, but devolving all specific responsibilities, including funding, to *Land* and local authorities. Therefore, since the 1960s, most *Länder* have used §§ 96-101 BSHG to devolve welfare matters – and the financial obligations that go with it – further, to the sub-regional and local levels.^{iv} The basic idea of bringing social security matters as close to the citizens as possible sounds commendable. With the exception of Berlin, all *Land* regulations define the local authorities as principal holders of responsibility for the people residing in their area.

However, the *Länder* have shown different ambitions in determining their welfare engagement, often arising out of dissimilar welfare-related clauses in the *Land* constitutions and resulting in different administrative practices with regard to the organization and funding of welfare. Pestalozza (1999:XLIV) argues that the new (ex-GDR) *Länder*, which developed their constitutions in the 1990s, have been more cautious and hence more realistic in defining their welfare engagement. The West German *Land* constitutions – products of the post-war recovery era – often specify a number of social rights, such as the right to work.^{iv} With hindsight, these ambitions were unlikely to be sustainable in the longer term, but nobody has as yet summoned the political will to change them. In the 1990s, the Eastern *Länder* limited their approach to the definition of

state aims, general political declarations of intent, encouraging – but not legally forcing – any *Land* government to do as much as they can to achieve these aims.^{iv}

The different ambitions and intentions have also filtered down into the administrative practice insofar as the *Länder* have been more or less willing to supplement the welfare expenditures by local authorities. Normally, social security benefits are paid by the local authorities in whose territory the recipient resides. This expenditure is supposed to be funded by locally raised business rates (*Gewerbesteuer*) and the local authorities' share of income tax revenue. The *Länder* therefore need to consider local authorities' ability to pay when defining, by annual review, the *Land* minimum standard rates (*Regelsätze*), and the household threshold incomes which, if not reached, trigger entitlement.^{iv} However, § 22(1)2 BSHG specifies that deviations from the standard provisions may be applicable according to a person's circumstances. To avoid downwards deviations below the federally proscribed minimum provisions, due to lack of available local or regional funding, the federal government used to provide additional federal funds. In recent years, this federal social security budget top-up support for financially hard-up local authorities has become so routine that it was a motivating factor for centralizing financial responsibility for the long-term unemployed from 2005 onwards.

The problem of welfare management has been further complicated by the fact that most items of federal and regional welfare regulations were littered with optional clauses, that is, a support measure *may* be provided but the applicant has no absolute legal entitlement to receive the support claimed. Indeed, the applicable regulations usually left it to the individual civil servant to assess an applicant's specific needs. This goes in particular for the provision of additional funds to cover larger one-off expenses. In theory, there were few limits to what can be claimed under these regulations (§§ 15, 15a, 21(1a) and 72 BSHG). However, the introduction of federal legislation regarding the new-style *Arbeitslosengeld II* (long-term unemployment benefit) and *Sozialgeld* (social security benefit for those unable to work and not entitled to a pension, a monthly lump sum supposed to cover all needs) from 2005 is likely to go a long way in reducing variations between territories as well as between individual cases. Means tests are – and will remain – strict in all cases, and often family members or persons with whom the applicant shares a residence, even unrelated co-habitants, are required to pay all or part of the applicant's living expenses before the public authorities get involved.

The remainder of this chapter first investigates historical lines of territorial welfare management in Germany since its start in the late nineteenth century to the modern era, before discussing current difficulties of welfare retrenchment. The key focus here is on the apparent conflict between the principles of federalism and the principles of national social solidarity. Since German unification in 1990, this conflict has taken on a particular territorial dimension, with significantly different experiences and political attitudes in the eastern and western parts of the country. Finally, current attempts at reform are briefly outlined, and conclusions drawn for the future of territorial welfare management in Germany.

WELFARE EXPANSION IN THE ERA OF *SOZIALE MARKTWIRTSCHAFT*

Social welfare has been a core issue in the German political and economic system for several decades. It started in the Bismarck era, when compulsory sickness insurance was introduced, and workers in certain branches of industry, for example, mining and brewing, started mutual support schemes. While this trend initially developed in Prussia and Bavaria, by the end of the nineteenth century most paid work in all parts of Germany was covered by a variety of insurance-based schemes run by private insurers, but extensively regulated by the state (see also Metzler, 2003:17-37). The Weimar Republic, in its early, optimistic days after the revolution of 1918, strengthened this approach and incorporated into its constitution a series of socially-orientated organising principles for the economy, ranging from postulating social rights to formalising and systematising welfare measures throughout the country (Art. 151-165 WRV^{iv}). Huge ambitions, such as the 'right and the duty to work' (Art. 163 WRV) were counterbalanced by much less concrete descriptions of welfare rights (Art. 161 WRV), which effectively amounted to little more than declarations of intent (Boldt, 1987:57-58). Nevertheless, the resulting legislation, the *Reichsversicherungsordnung* (RVO), in its 1924 version, was a significant step forward in the development of a coherent social security system in Germany. Indeed, it was so advanced that certain sections of it are still in force.^{iv} The Weimar approach also saw the introduction of the principle of universal coverage, taxation-funded, and with the responsibility ultimately resting with the Berlin government in cases of local or regional inability to conduct welfare matters.^{iv} However, the end of the Weimar era, with its breakdown of the welfare system and the resulting massive social unrest, served as a clear indicator to the founding fathers of the Federal Republic of Germany (FRG) that one ignores or mishandles the social welfare issue at one's peril.

The early years of the Hitler era saw a complete centralization of welfare management, as with all other matters of public policy and administration – a process known as *Gleichschaltung* (forced homogenization). Initially, the Hitler regime utilized an expanding welfare system to rally popular support for the dictatorship. Denouncing the Weimar system as clearly unworkable, they hailed tight centralized control and a prescriptive approach to welfare management as the better alternative. Huge public work creation schemes and the expansion of military and paramilitary organizations did indeed reduce unemployment and thus reduced the need for welfare payouts. Insurance-based schemes continued to operate almost as previously, though often with lower payouts than in the Weimar era, resulting in a real-terms loss of purchasing power for many groups, for example old-age pensioners (Metzler, 2003:120-122). However, the regime took harsh political decisions on the deservedness of individuals for any taxation-funded welfare support, often based on the claimant's political obedience rather than actual need, and excluding whole sections of the society completely (including Jews, and the mentally ill).^{iv} Later, the Second World War put an end to any serious welfare ambitions, except for party loyalists and senior members of the armed forces.

The catastrophic situation which presented itself at the end of the war posed a number of very serious welfare problems, undermining the very fabric of civil society. At the same time, the economy was in no position to provide the resources necessary to address these issues speedily. Consequently, welfare was regarded as an integral element of the post-war economic reconstruction effort. Even before the founding of the new state in 1949, the debate on the future shape of the German economy was dominated by concepts such as *Moralökonomie* (moral economy), *Wohlfahrtskultur* (culture of welfare) and *soziale Arbeit* (social principles in the workplace) as key characteristics of the new market economy to be established (Pankoke, 1990:88). Seen as a socially acceptable capitalist alternative to the socialist command economies emerging in Eastern Europe and the Soviet Zone in Eastern Germany, the resulting solution for the newly formed Federal Republic of Germany (FRG) became known as the concept of *Soziale Marktwirtschaft* (social market economy). This solution was regarded by many as more than just a compromise, as it contained elements of interest for a number of groups. The owners of the means of production would be happy to start investing as property ownership was regarded as sacrosanct, albeit regulated. The Social Democrats and the unions got the welfare principle established as a permanent role and responsibility of the state, and in this found much common ground with the proponents of moral justice, notably on the left fringe of the Catholic Church^{iv} (see also Nell-Breuning, 1975:13-16; Gauly, 1992:153-157). And for the masses there was Ludwig Erhard's classic promise of *Wohlstand für alle*. The state would aim to promote high standards of living for all, resulting from hard work and a stable economy, and hence society's ability to afford a sufficiently developed but not overblown welfare system for the very few needy who would be unable to participate in the new 'economic miracle' (Erhard, 1964:245-253). A number of features were incorporated into the welfare system which to this day seem to remain beyond questioning:

- (i) the mixture of elements funded by contributions and elements funded by taxation;
- (ii) the co-funding of part of the welfare system by both employers and employees (often in equal measure or slightly tilted towards higher contributions by employers);
- (iii) the 'generation contract' where the current workforce pays for today's pensions supposedly secure in the knowledge that their pensions would be paid by future generations of workers ('pay-as-you-earn' system);
- (iv) the territorial universality of coverage, in pursuit of the constitutionally-enshrined principle of aiming for an equalization of living conditions;
- (v) the close co-operation between all levels of government, vertically as well as horizontally, both to secure part of the welfare funding through taxation and to administer welfare expenditure fairly and equitably; and
- (vi) the close co-operation between the public administrations concerned with welfare, and private and voluntary providers of insurance schemes and services.

Welfare, therefore, was indeed part of an exercise in (West) German nation-building, a project almost entirely economic in nature. This economic nature resulted partially from externally enforced political limitations – Germany was still occupied at that time, and

the Allied powers were keen on exercising strict political control, including their expressed desire to see a federal political structure for the new state (Gruner, 2004:37-8). This territorial division, seen by the Allied powers predominantly as a way of preventing any repeat of Hitler's hyper-centralization, nevertheless had significant traditions in German territorial history, and was as such quite welcomed by most Germans. In economic terms, on the other hand, all *Länder* of the new FRG were more or less in the same, very leaky boat. The economic and social interest uniting all *Länder* was the desire for a speedy recovery in a climate of economic stability and widespread popular participation in the benefits to be gained from this envisaged economic boom. The federal government, and in particular Adenauer's Minister of Economics, Ludwig Erhard, therefore had little territorial resistance to overcome in its effort to put the new republic on a course of economic nation-building, where the outcome would not be a politically strong Germany but a consumers' paradise. The Allied powers did not object to this approach either, as it seemed to pose no threat to them or the continent as a whole.

A key stabilising factor for the 'Economic Miracle' and the FRG history in general was the so-called social market economy. Free competition, free markets, free price formation and free entrepreneurship were flanked by social and regulatory policies which should protect the modern mass society from the all-encompassing powers of an unregulated capitalism, and the individual from poverty caused by involuntary unemployment, sickness or old age.

(Sternburg, 1999:359 [my translation])

The 'economic miracle' came to an end in the crises of the late 1960s. Since then, the problem of funding the German welfare state has been an increasingly contested issue. The quantitative improvements of the welfare system in the 1970s, the challenges to the system caused by the 1980s economic slumps, the ever-increasing service costs and, not least, German unification in 1990 resulted in new forms of poverty. The current critical economic climate has brought the welfare debate to the fore and threatens Chancellor Schröder's hold on power every bit as much as it contributed to the ousting of Kohl in 1998. But a closer look at the German welfare system reveals that there are considerable limits to the federal government's ability to act.

WELFARE RETRENCHMENT: FEDERALISM AND THE WELFARE STATE IN CONFLICT

The remarkable success in establishing relatively equal living conditions in the pre-1990 FRG, along with the strong leadership displayed by the federal government led by Chancellor Helmut Kohl in the process of unification, prompted serious questions about the nature of the German state. Has it indeed become a unitary state camouflaged as a federation, as Abromeit (1992) suspected? Or has it retained its recognizable shape as a *Bund*, a union in the traditional sense of *foedus*, as Grasse (2001) argues? In the current debate on the nature of German federalism, there is at least some consensus insofar as it is now widely acknowledged that the problem of *Politikverflechtung*, with its associated

‘joint-decision trap’, first identified by Fritz W. Scharpf (Scharpf, 1985; Benz *et al.*, 1992; Scharpf, 1994), has limited both the federal and *Land* level’s ability to act. As a result, reform projects in many policy areas have taken a long time in the legislative process and have taken on so much of a compromise character that they are no longer capable of fulfilling their original aim. Various health reforms such as those instigated by Norbert Blüm in the 1980s and Wolfgang Seehofer in the 1990s may serve as examples for these diminutive reform approaches during the Kohl era.

However, it would be inappropriate to hold the executive branch of government alone responsible for these problems. In Germany, no executive even exists without the express support of the legislative branch. In the first chamber of the German Parliament, the *Bundestag*, only half the members represent a constituency, while the other half are effectively party representatives elected on regional quota. Party discipline is very strict for both types of members. A similar situation exists in the single-chamber *Land* legislatures, the *Landtage*.^{iv} The *Bundesrat*, the second chamber of the federal legislature, consists entirely of delegates from regional executives. Secondly, neither the federal nor the *Land* legislatures are constitutionally empowered to act unilaterally in a wide range of policy areas, with constitutional co-operation requirements augmented by a series of formal agreements and informal links from which the dense grid of *Politikverflechtung* is woven.

The German system is not designed to encourage either the members of the federation or the federal institutions of government to compete with each other in terms of domestic redistribution, or to take over each others’ functions. Moreover, co-operation and co-ordination are the key virtues to be promoted by both the federal legislature and the federal executive which depends on it, and the *Land* institutions of government (again, both legislature and executive). This system nevertheless still retains reasonably strong regional political actors to give voice to distinct regional interests and desires, in the regions themselves as well as on the federal level, through the *Bundesrat*.

Such institutional arrangements provide the *Länder* with an almost unique scope of access to decision-making on the federal level, which often is the envy of many regions and stateless nations within the EU. Yet the constitutional requirement to exercise these rights jointly rather than individually, and the need to co-ordinate policies has severe consequences for policy-formulation by the *Länder*. The regional debates are often dominated by what can be achieved on the federal level. Federal party politics also has a strong influence on these considerations, since for much of its existence, the *Bundesrat* has seen majorities which were different from the majorities in the *Bundestag*, whose majority determines the composition of the federal government. For this reason in particular, the co-operation on which the German ‘co-operative federalism’ so clearly depends has often been in short supply since the end of the Grand Coalition in 1969. The second half of Helmut Schmidt’s chancellorship (1974-1982) can probably be regarded as the period when co-operative federalism broke down.

This is not to say that co-operative federalism does not work at all. If the challenges and external pressures are severe enough – such as with several reforms of regional development policy-coordination both before and after the introduction of a distinct EC/EU regional policy, and with the economic reconstruction tasks derived from German unification since 1990 – a close working relationship between the federal and *Land* levels can produce enormous benefits. This close working relationship, however, entirely depends on the political will of the various governments to commit themselves (and their resources) to it, and this political will is in turn shaped by regional interests. Without sufficient political will, and with the constitutionally proscribed inability of the governments (both federal and *Land*) to act unilaterally, very little can be achieved – the ‘joint decision trap’ snaps shut. The outcome of this situation is commonly referred to as *Reformstau*, a backlog of necessary reforms which lack political support to get enacted, with perhaps only a lowest common denominator solution or an incremental alteration to the status quo being established instead.

CURRENT REFORM DEBATES

A key element of the welfare state reform debates in Germany – as elsewhere – focuses on the issue of funding. A comprehensive welfare system is expensive, and becomes less affordable in times of economic crisis. Both the immediate post-unification period and the current economic crisis have demonstrated this to the Germans only too clearly. Years of *Reformstau*, followed by a significant economic downturn at present, have led to a situation where two seemingly contradictory phenomena, both driven by popular and interest group demand, have appeared on the German political landscape.

On the one hand, political actors have recognized that to continue current practices is likely to become completely unaffordable in the not too distant future. So, in principle, the preparedness to mobilize the political will for substantial reform is rising, not only on the part of the federal government, but also in the *Länder*. On the other hand, there is a distinct tendency among interest groups to prevent uncomfortable reforms in their particular area of interest – the key word here is *Bestandsschutz*: reforms, yes please, but not in our backyard, or only on our terms. Some *Land* governments – notably the Bavarian and Saxon governments – have started to display a similar attitude. Reforms, though necessary, should be differentiated and enacted on a smaller (that is, *Land*) territorial scale, to allow a more precise addressing of specific needs, and within the territory’s own resource structure. Such tendencies to say farewell to the constitutional principle of establishing equal living conditions, and towards de-solidarization within German society, have not been seen since the 1960s, before the establishment of the regional development joint task (*Gemeinschaftsaufgabe Verbesserung der regionalen Wirtschaftsstruktur*).^{iv} The political will to enact federal reforms decreases, at least on the part of the *Länder*, on whose co-operation any federal reforms legally depend. By the same token, the *Länder* are very limited in their own freedom of manoeuvre unless they get the permission – or at least acquiescence – for their own reform ideas from the federal level. It is in this context that the current welfare reform debate in Germany takes place.

The current debate was initially triggered by German unification in 1990. The East German *Länder* face a number of specific welfare-related problems arising out of a trap created by a combination of federal regulation and regional/local implementation. The federal constitutional concept of striving for equal living conditions (*Gleichheit der Lebensverhältnisse*) demands that standards of social security are to be applied in (more or less) the same scope and quantity throughout the federation, including the Eastern *Länder*. Over the 40 years of separate development, the West German social security system has developed into a network of very comprehensive coverage, and has been kept going even through periods of relative economic decline and rising unemployment. As Bulmahn (1998:11) argues, these adverse conditions put a notable strain on the West German economy over time, but by gradually increasing contributions to insurance-based welfare schemes and by gradually eroding the levels of entitlements and services as and when required, the system as a whole had been preserved.

In recent years, however, these two incremental strategies have become less and less effective, giving rise to a debate about radical systemic reform involving new concepts of social security. These new concepts included introducing elements of privatization and individualization - for example, deregulation in the sickness insurance schemes which are managed by the private sector anyway - and a strengthening of individuals' personal responsibilities, in particular with regard to pensions. Furthermore, there have been several attempts to lighten the load on taxation-funded state schemes, but so far less in expenditure types affecting individual personal entitlements and more concerning institutional and infrastructural expenditure, for example, funding for job creation schemes or funding for voluntary sector organizations supporting welfare recipients. The idea was to provide more targeted funding for specific needs, as well as reducing the welfare bill by eroding provisions seen as contributing to a prolongation of dependency.

While not exactly a 'race to the bottom', these considerations were nevertheless the product of increasingly conservative thinking in a difficult economic climate – without publicly admitting any attack on the established welfare state. The Kohl government had already set this trend with various schemes in the 1990s, such as the *Kanzlerrunde*, aimed at reducing unemployment.^{iv} In 1998, the incoming Schröder government saw the reform of the social security system as one of its key tasks. Indeed, at that time Schröder (*Bundesregierung*, 1998:25) went as far as to compare the envisaged social security network to a 'trampoline': not only would anyone falling into it not slip through the net, but he should be able to bounce right back into non-dependency. To this end, Schröder announced a series of federal support measures, mainly in order to jump-start the employment market (*Bündnis für Arbeit*), in co-operation with employers, the unions, the education sector and the voluntary sector.

During the last few years, and in particular since the federal elections of September 2002, which saw the government comprising Social Democrats and Greens hold on to power by the thinnest of margins in the *Bundestag*, the German welfare reform debate has gained momentum. In March 2003, Schröder instigated a comprehensive review of all work and welfare-related matters, including a complete review of administrative practices, known as *Agenda 2010* (*Bundesregierung*, 2003). What is unusual in this context

is that most details of the reform agenda were to be developed not by the political parties or the civil service, but by two independent expert commissions, popularly known as the *Hartz-Kommission* and the *Rürup-Kommission*, based on the names of their chairmen, Dr. Peter Hartz and Professor Bert Rürup, with the government committing itself to taking their advice. The first commission's brief comprised all employment market matters, while the second commission was put in charge of finding long-term financially sustainable solutions for all welfare matters. Their proceedings have sparked a substantial public debate, and a series of reform steps has since been started, after considerable debate in both chambers of the parliament. An uneasy bipartisan approach to the reforms has emerged since late 2003, although the Christian Democrats are still torn between their agreement on most of the reform contents – with many measures appearing to be quite hard on citizens' private purses – and their party-political instinct not to support a politically vulnerable and increasingly unpopular Social Democrat Chancellor.

Thus far, the reforms instigated have seen a mixed success. The first two reform packages, commonly known as Hartz I+II, were aimed at reforming the employment market. The reform of the *Bundesanstalt für Arbeit* (Federal Employment Agency) was taken straight out of Tony Blair's scrapbook, similar in aim and contents to the UK's 'Job Centre Plus' initiative to combine individual help with finding work and applying for the appropriate benefits. While these new agency operations have yet to make any noticeable contribution to reducing unemployment, the administrative process has become significantly more efficient and convenient for both the applicant and the bureaucracy. Less successful was the accompanying measure of licensing private employment agencies (*Personalservicegesellschaften*, PSG), which the unemployed may be legally forced to use, or else risk a cut in their unemployment benefit entitlement. Apart from a few small local schemes, these PSG have failed and often quickly went bankrupt themselves – there simply were no jobs to broker. Secondly, the reform package comprised a number of measures to expand the use of part-time and low-wage jobs. If the worker's monthly earnings did not reach certain threshold levels, there were considerable tax breaks and exemptions from insurance contributions. This idea has largely been counterproductive, as the threshold levels were set so low that it is hardly worthwhile to lose unemployment benefit by taking up such a job. Moreover, many people who were earning just above the threshold level lost their job and were then re-hired at a wage below the threshold, with only the employer better off as a result. A third reform idea, a series of schemes to promote self-employment as sole traders (*Ich-AG*), has not been taken up widely and is the object of much ridicule among the population.

Compared to this rather mediocre performance of the first reform package, the recently enacted second wave of reforms, known as Hartz III+IV, seems to be of a more robust and wide-ranging nature. Also comprising some ideas put forward by the Rürup Commission, this package aims to overhaul the system by which unemployment is funded. The first element of note here is a significant reduction in entitlements. The standard, contribution-based unemployment benefit, where a previously employed person receives a percentage of his or her former wage, is now limited to a maximum of 12 months (18 months for those over 55 years of age). Previously the figures were six months to three years, depending on age and duration of previous employment. The old federal taxation-funded *Arbeitslosenhilfe* (need based, lower-level unemployment benefit, again a percentage of the former wage) and the traditional, locally-funded *Sozialhilfe* (for all those not entitled to any unemployment benefit) are to be scrapped as of 1 January 2005. Instead, both the long-term unemployed and those *Sozialhilfe* recipients who are capable of working will be receiving *Arbeitslosengeld II*, a fixed amount of 345 euro (western *Länder*) or 331 euro (eastern *Länder*), plus pension fund contributions and a small allowance for clothes and furniture. For most former *Arbeitslosenhilfe* recipients, this means a significant entitlement drop, for most former *Sozialhilfe* recipients, it means a small entitlement improvement. Significantly, the entire bill for the new scheme is to be paid by the federal government. Only current *Sozialhilfe* recipients who are incapable of working, and who live in households with no wage earner, will not be covered by this new arrangement and will remain the financial responsibility of the local authorities. This regulation has a double effect: it removes territorial imbalances in entitlement assessment and support levels, and – perhaps more importantly – it considerably reduces the welfare bill of local and regional authorities. The need for strong federal solidarity has thus been reduced by the back door: the federation no longer asks for it to the same extent as before.

For some interest organizations, notably the Federal Association of German Industry (*Bundesverband der Deutschen Industrie*, BDI), the reforms currently in progress do not go far enough. Couched in terms of keeping the German industry's competitiveness up to the requirements not only of today but also tomorrow, the BDI has essentially argued^{iv} that something akin to a 'race to the bottom' would probably not be a bad idea: constitutional changes would be in order to facilitate a transformation of German co-operative federalism towards a federalism of competition (*Wettbewerbsföderalismus*). Moreover, a greater regional differentiation, not part of Agenda 2010, would also be welcome: there would be no reason why welfare services, and indeed wages, should be uniform in all *Länder*.

THE PRICE OF WELFARE UNIFICATION

It would certainly be quite inaccurate to blame all the current economic and social difficulties in the German federal system on German unification and its aftermath. However, German unification must be regarded as a massive systemic shock to the entire German concept of social security coverage. In accordance with the concept of equality of living conditions, most West German social security regulations became applicable in East Germany virtually overnight on 3 October 1990.^{iv} The decision to make the West German social security legislation applicable in the East immediately was probably a political necessity to prepare the ground for the political union, and a nation-building tool for integrating the eastern *Länder* into the new Germany. After all, the greatest fear among East Germans, and the only serious source of political resistance against unification, was the fear of social insecurity. A population which was accustomed to a perfectly organized welfare state with virtually no unemployment, subsidized living expenses, including housing and public transport, generous support schemes for families and children, and access to free healthcare on demand, and also, thanks to West German television, well-informed of the social shortcomings of the West German system, needed a lot of convincing, despite the allure of a potentially far higher material standard of living associated with having the DM in one's pocket.

However, the months and years immediately after the unification saw the complete overhaul of the East German economy, creating almost instant mass unemployment (3.4m jobs were lost, over a third of all jobs that existed on unification day – see Maretzke and Irmen, 1999: 4), an enormous amount of re-training needs, and millions of new welfare entitlement holders. Three factors, to some extent intertwined, can be identified which created very difficult conditions for the establishment of a Western-type welfare state in the Eastern *Länder*: a lack of previous contribution payments; significant demographic shifts in patterns of residency and employment; and the severely limited ability of local authorities to raise revenues at the local level.

With regard to the lack of previous contributions, only the smaller part of the East German welfare expenses were paid out of the *Sozialversicherungskasse* (SVK), a blanket state-run national insurance system which in effect was little more than a general

fund to supplement state expenditures on politically-defined needs and social engineering intentions. One's entitlement usually did not depend on the amount of contributions paid in, but on actual need (for instance, sickness), or on personal social circumstances which attracted special support by the state (for instance, families with three or more children). The only notable exception to this rule was pensions, where the sums received by pensioners did depend on contributions made previously by the individual. However, workers usually had a lump sum deducted from pay packets for all other social service entitlements. These deductions normally amounted to less than a quarter of gross wages, and the sums raised came nowhere near the sums spent by the state on welfare matters. The difference was paid from the profits of state-run industries (*Gewinnabführung*). The privatization or closure of these companies following unification cut off this source of revenue for the state, and usually there were no alternative schemes in place. Full employment in East Germany meant that the GDR government had seen no need to run an unemployment insurance scheme. Only in the process of German unification, in particular the monetary, economic and social union which started on 1 July 1990, were such schemes introduced in the GDR. Therefore, neither the federal government nor the new, Western-style regional and local authorities had any former GDR funds available to cover those welfare expenses which in the West were insurance-based. The shortfall had to be paid out of the newly raised contributions, and federal tax revenue, not least the new *Solidaritätszuschlag*, a 7.5% surcharge on income tax to be paid on all incomes, in both East and West.^{iv} According to Art. 17-25 of the Treaty on Economic and Social Union (*Vertrag über die Herstellung einer Wirtschafts-, Währungs- und Sozialunion*, WWSV), further funding for welfare schemes was available on application by the GDR government.

TABLE 3.2 ABOUT HERE

The key issue in getting the East German welfare system up and running under the new structures was the double strain of reduced tax and contributions income, and the triggering of new entitlements associated with a person becoming unemployed. Regarding unemployment, the East-West divide could not be more obvious. By 1998, regional disparities had emerged which have become relatively stable since. All East German local government districts apart from the Eichsfeld, a small strip of Thuringia along the borders to Bavaria and Hesse, showed unemployment rates of at least 125% of the federal average.^{iv} By contrast, none of the West German local government districts were in that category. Only about one fifth of the West German districts showed rates around the federal average, notably districts along the old inner-German border, Northwestern Lower Saxony, the central part of North Rhine Westphalia, and The Saar). By contrast, Bavaria, Baden-Württemberg, Northern Rhine Land-Palatinate, and Northern North Rhine-Westphalia showed unemployment rates of less than 75% of the federal average (Maretzke and Irmen, 1998:5). Between December 1991 and June 1998, unemployment in the Eastern *Länder* rose by 57%, as the number of industrial jobs in

existence declined by 65%. The service sector, despite going through a phase of massive expansion, was clearly unable to absorb that much labour.

So far, these territorial imbalances have not significantly undermined the political efforts of German post-unification nation-building. However, while the political integration proceeded apace, in particular between 1990 and 1995, economic and social integration has lagged behind. In economic terms, there are still two clearly distinct parts of the country, and at least the population in the eastern *Länder* is well aware of these differences. Many Eastern *Land* politicians are torn between having to sell their time in office as achievements and having to portray their territories as economically and socially underdeveloped areas in need of extra support from the federal government and the western *Länder*. In the current economic climate, western *Land* politicians show increasingly less inclination to undermine their own territories' prospects by agreeing to continue prolonged resource transfer commitments to the East. The federal government is constantly engaged in trying to negotiate compromise solutions. Its chances of success in these efforts are, however, limited by two key factors. The first is an economic factor, the very limited availability of federal resources that can be pledged in addition to the commitments already made. The federal government's decision to fund the entire bill for *Arbeitslosengeld II* can therefore be seen as a truly remarkable show of Schröder's commitment to reforming public welfare spending. The second factor is political in nature, namely the government's wafer-thin majority in the *Bundestag* and its lack of a majority in the *Bundesrat*. The Christian Democrats' support for all measures requiring legislation is therefore essential, but not always forthcoming. In this scenario, the Christian Democrats know that they have little to lose, and a lot to gain, from operating a delaying strategy. And at the moment, this strategy seems to be working, with the federal government getting the blame and the Social Democrats losing election after election in recent months, in both East and West.

In practical terms, though, there were only very few achievements until 2003 in reducing the socio-economic territorial imbalances. It is therefore not surprising that many East Germans saw their personal way out of this crisis in a move to the West, or, to a lesser extent, abroad. Between 1991 and 1997, the East German districts saw an average loss of population of 4.6%. Most affected were the cities over 100,000 inhabitants, where the average loss was 11.8% (Sahner, 1999:30). One could cynically argue that this was perhaps even beneficial for the Eastern communities as the welfare responsibility for these people moved with them.^{iv} However, it was often the younger generations and the better qualified members of the workforce who moved out of the Eastern districts, while people who were more likely to need social security benefits tended to stay put – a clear example of national policy standardization preventing welfare tourism. It is therefore not surprising that by the late 1990s, many Germans residing in the Eastern *Länder* had not only accepted the new Western-style welfare system, but had become vociferous supporters of its continued existence without too many changes.

Consistent demands throughout Germany for an extensive welfare state make a debate on the funding of welfare provisions inevitable. Prior to 1998, federal debates on

welfare reform rarely went beyond a general agreement on the need to save money. While several federal reforms in the two federally-administered schemes, employment management and pensions, have been introduced more or less successfully in the last decade or so, the real funding crisis is prevalent at the local level. Virtually nowhere in Germany are local authorities able to meet all their expenses. Local authorities have three main categories of income: local business rates, service charges/fees, and their legally-guaranteed share of federal and regional taxes (in particular income tax). A typical West German local authority may raise as much as 35% of its budgetary needs from local business rates, while comparable East German authorities are normally pleased to raise about 15% in that way. Federal and regional tax shares in the West usually account for about 25-30% of the authority's budget, in the East it may be as much as 55% (down from over 75% in the early 1990s).^{iv} All over Germany, local authorities have repeatedly received additional support from the federation or the *Land*, often paid in the form of special support for individual projects, such as one-off help with capital expenditures on improving the local infrastructure. In the East German *Länder*, where infrastructure projects were often the second largest cost factors (behind personnel costs) in the early years after unification, ERDF (Objective 1), ESF and EAGGF funds also were a significant source of income. This support, strictly linked to developmental tasks, has declined considerably since 1999 and is likely to be phased out by 2006 in all but the worst-affected areas. The welfare bill, however, is likely to gain increased significance. As Sahner (1999:33) shows, West German authorities spend around 20% of their budgets on welfare matters. In the East, this rate is still only around 15% (up from just 4.5% in 1991), but this picture is distorted by the disproportionally higher rate of capital expenditure in the East. Still, in both East and West local authorities face an annual budgetary shortfall of 20-25%, to be covered either by extra federal and *Land* support measures, or by taking on public debts, resulting in interest payments of as much as 4.5% of an authority's annual budget. It is in this sector, not the individual experience of welfare recipients, that the Hartz III+IV reforms are likely to have the strongest impact. The incorporation of not only the long-term unemployed, but also those social security benefit (*Sozialhilfe*) recipients who are able to work into the new *Arbeitslosengeld II* from 2005 on, is a financial masterstroke which on the one hand is likely to wipe out at least 50-60% of the local authorities' annual budget deficit (possibly more in urban centres with high unemployment), while on the other hand being almost revenue-neutral for the federal government itself, as correspondingly fewer federal support payments will be required to bail out failing local authorities.

Up to now, the protracted funding problems have not been without consequences for the social acceptability of the welfare state. Local authorities were forced to deliver welfare provisions which had been mainly set in places beyond their control, either federally or regionally. Due to a chronic funding shortage locally, hardly any community has been able to deliver provisions beyond these externally set minimum standards. Local authorities, especially in the East but also, for instance, in Berlin, Schleswig-Holstein and Lower Saxony, have recently sought to reduce the financial pressures by other means. Draconian interpretations of optional clauses in the

applicable legislation do help but can achieve only so much. An increasingly popular route since the mid-1990s has been the use of welfare recipients' labour for local authority tasks or local businesses, such as maintaining public parks and gardens, cleaning public areas, or providing a cheap source of seasonal labour in agriculture and tourism. The relevant federal legislation in this area, §§ 18-20 BSHG, constitutes a double-edged sword. The legislation allows – and indeed encourages – the use of such measures to ‘accustom’ welfare recipients, in particular young ones, to regular work. However, work creation schemes for social security recipients are supposed to create additional work,^{iv} not to substitute welfare recipients for council workers or properly employed casual labour. Yet this is exactly what seems to happen in most East German cities, and in the rural areas of Northern Germany. In one of the most incredible acts of creativity in federal framework regulation-writing, § 19(2)1 BSHG even allows the local authority to choose whether to pay the draftees the proper salary for the job *or* the standard social security benefits (plus a small allowance for additional expenses, such as for transport to and from work). No prizes for guessing which of the two options is usually chosen. Federal authorities and the local Job Centres do not complain – people on such schemes are not counted as unemployed.

CONCLUSIONS

The first point to note is that the principle of federalism, supposedly allowing for greater regional self-determination, and the principle of striving for equality of living conditions, are now in open conflict. The current German system is in constant search for a compromise between the two ideals, with only partial success: *Politikverflechtung* as the guiding principle of co-operative federalism, initially hailed as a sound solution, has led to the joint-decision trap and thus has itself become a significant part of the problem. Putting welfare into the concurrent legislation category seemed a logical choice in the early days of the FRG. However, in practice, the system that emerged was a functional division of labour, which favoured centralized decision-making while putting the implementation burden on the lower levels of government. Regional influences and freedoms regarding welfare decision-making have been eroded as federal governments saw welfare as a key priority on their domestic policy agenda. The extensive and detailed welfare legislation has certainly contributed to achieving a high standard of social security, with roughly equal basic standards throughout the federation.

The regional and local freedom of manoeuvre would perhaps be useful to have if that meant relatively wealthy areas could afford better provisions beyond the federally-fixed minimum standards. Indeed, in some other European regions, such arguments may provide the rationale for greater regional and local self-determination on welfare matters. In Germany, on the other hand, even the richest regions and local authorities

find it extremely hard to fund the quite extensive federally-required welfare expenses. These expense structures were imposed federally at a time when the FRG needed credibility as a welfare state, and when they seemed affordable as the economy was booming. However, since the 1970s, these structures have led to a now chronic funding crisis, becoming even worse by the rising long-term welfare costs following German unification. As a result of this, the newly emerging claims by some of the *Länder* for greater regional self-determination cannot avoid sinister connotations of de-solidarization: shedding joint responsibilities for welfare problems experienced elsewhere within Germany.

Virtually all attacks on the well-entrenched German welfare system exhale a whiff of political suicide. First, the two classic approaches: leave the system basically unchanged but lower the levels of payment and/or raise contributions to insurance-based schemes. Both strategies have been employed in an incremental way over the years, but are no longer working effectively. Secondly, altering the general taxation structure. The key idea here is to use the funds raised to jump-start the employment market, as envisaged by the Hartz Commission. It remains to be seen whether Schröder will be more successful in this area than the Kohl government was. However, the Hartz III-IV reform packages, initiated by Schröder's SPD/Greens government, but having gained their approval in the *Bundesrat* with the votes of the CDU/CSU-governed *Länder*, can be regarded as a cause for cautious optimism.

Thirdly, privatization and liberalization. Acknowledging that state pensions will not be enough to cover living expenses in the decades to come (an end to the hallowed 'generation contract'), the government has recently promoted private pension insurance schemes, run by private sector insurers, where the state will top up individuals' contributions. Participation in these schemes is voluntary so far. Deregulation has also taken place concerning sickness insurance, which continues to be managed by the private sector but is now confronted with far less regulatory red tape.

Nevertheless, the government appears determined not to alter the key defining characteristics of the social security system: employment triggers the requirement to join compulsory insurance schemes, the amounts of contributions is linked to the wage or salary earned, both employer and employee contribute to the costs, and resulting entitlements are federally regulated. Privatization and liberalization cannot work in one crucial area, the social security benefits for the most needy; people on income support who for whatever reason have never been able to find work and thus were unable to build up insurance-based entitlements.

There are two rather persuasive arguments in favour of a further federalization of welfare matters. First, if the aim remains to retain a high level of national policy

standardization, if only to prevent a 'race to the bottom', this can be more straightforwardly achieved by federal management. Secondly, federal regulation is more effective in driving through the undoubtedly necessary further system reforms. The only really large element of welfare legislation outside the SGB canon is the BSHG, and it is time to bring it in. Once again, the aim would be to prevent an underhand 'race to the bottom' without placing an undue burden on regional and local authorities in the name of national solidarity, and procedural transparency and efficiency need not be costly.

The bottom line, nevertheless, is that regardless of how the welfare system is organized territorially or functionally, it needs to be adequately funded. It is here that the German system is in the most urgent need of reform. The Hartz III+IV reform packages are a first powerful stride in this right direction. However, the long-term future of the welfare state depends on sustainability, and how to achieve this is a matter for the intense political debate which is currently under way – but in which the territorial dimension is likely to remain a secondary issue.

REFERENCES

- Abromeit, H. (1992) 'Der verkappte Einheitsstaat', Opladen, Leske and Budrich.
- Benz, A., Scharpf, F. W. and Zintl, R. (1992) *Horizontale Politikverflechtung: Zur Theorie von Verhandlungssystemen*, Frankfurt/M., Campus-Verlag.
- Boldt, H. (1987) 'Die Weimarer Reichsverfassung', in Bracher, K. D., Funke, M. and Jacobsen, H.-A. (eds.), *Die Weimarer Republik 1918-1933*, Bonn, Bundeszentrale für Politische Bildung, pp.44-77.
- BSHG (2000) *Bundessozialhilfegesetz mit Ausführungsgesetzen der Länder und anderen ergänzenden Rechtsvorschriften*, 29th ed., München, Verlag C. H. Beck.
- Bulmahn, T. (1998), 'Plurale Vorsorge', *Aus Politik und Zeitgeschichte*, Vol. 18: 11-18.
- Bundesregierung (ed.) (1998) *Die Regierungserklärung von Bundeskanzler Gerhard Schröder*, 10 November, Bonn, Presse-und Informationsamt der Bundesregierung.
- Bundesregierung (ed.) (2003) *Die Regierungserklärung von Bundeskanzler Gerhard Schröder*, 14 March, Bonn, Presse-und Informationsamt der Bundesregierung.
- Bundesverband der Deutschen Industrie (eds) (2003) *Für ein innovationsstarkes Deutschland*, BDI Position Paper for the 15th Legislative Period, <http://www.bdi-online.de/Publikationen>.
- Bundeszentrale für Politische Bildung (eds) (1990) *Verträge zur deutschen Einheit*, Bonn, Bundeszentrale für Politische Bildung.
- Bundeszentrale für Politische Bildung (eds) (1999) *Grundgesetz für die Bundesrepublik Deutschland*, Bonn, Bundeszentrale für Politische Bildung.
- Erhard, L. (1964) *Wohlstand für alle*, 8th ed., Düsseldorf and Vienna, Econ Verlag.

-
- Gagel, A. (ed.) (2002) *SGB III. Arbeitsförderung*, 7th ed., München, Deutscher Taschenbuchverlag.
- Gauly, T. M. (1992) *Katholiken. Machtanspruch und Machtverlust*, Bonn and Berlin, Bouvier Verlag.
- Grasse, A. (2001) *Das deutsche Föderalsystem zwischen Kontinuität und neuer Dynamik*, Bologna: CLUEB.
- Gruner, W. D. (2004) 'Historical dimensions of German statehood: from the old *Reich* to the new Germany', in Gunlicks, A. B. (ed.), *German Public Policy and Federalism*, New York and Oxford, Berghahn Books, pp.15-46.
- Hanesch, W. (1998) 'Soziale Sicherung im europäischen Vergleich', *Aus Politik und Zeitgeschichte*, Vol. 34-35: 15-26.
- Jeffrey, C. (2002) 'Uniformity and diversity in policy provision: insights from the US, Germany and Canada', in Adams, J. and Robinson P. (eds.), *Devolution in Practice*, London, IPPR.
- Maretzke, S. and Irmen, E. (1999) 'Die ostdeutschen Regionen im Wandel', *Aus Politik und Zeitgeschichte*, Vol. 5: 3-14.
- Metzler, G. (2003) *Der deutsche Sozialstaat. Vom bismarckschen Erfolgsmodell zum Pflegefall*, Stuttgart and Munich, Deutsche Verlagsanstalt.
- Nell-Breuning, O. (1975) 'Einführung', in Bundesverband der Katholischen Arbeitnehmerbewegung (eds.), *Texte zur katholischen Soziallehre*, Kevelaer, Verlag Butzon and Bercker, pp.9-31.
- Pankoke, E. (1990) 'Arbeit und Kultur: Moralökonomie, Wohlfahrtskultur und Gesellschaftspolitik in Deutschland 1945-1990', in Hettlage, R. (ed.), *Die Bundesrepublik. Eine historische Bilanz*, München, Verlag C. H. Beck, pp.88-110.
- Pestalozza, C. (ed.) (1998) *Verfassungen der deutschen Bundesländer*, 6th ed., München, Deutscher Taschenbuchverlag.
- Sahner, H. (1999) 'Zur Entwicklung ostdeutscher Städte nach der Wende: nicht nur 'dem Tod von der Schippe gesprungen'', *Aus Politik und Zeitgeschichte*, Vol. 5: 26-37.
- Scharpf, F. W. (1985) *The Joint-Decision Trap: Lessons from German Federalism and European Integration*. Discussion Paper IIM/LMP 85-1, Berlin, Wissenschaftszentrum Berlin.
- Scharpf, F. W. (1994) *Optionen des Föderalismus in Deutschland und Europa*, Frankfurt/M., Campus-Verlag.
- Schulin, B. (ed.) (2002) *Sozialgesetzbuch*, 27th ed., München, Deutscher Taschenbuchverlag.
- Sternburg, W. von (1999) *Deutsche Republiken. Scheitern und Triumph der Demokratie*, Munich, C. Bertelsmann.
- Tschentscher, A. (2002) *The Basic Law (Grundgesetz)*, [English version], Würzburg: Jurisprudencia Verlag.

Table 3.1: *German Welfare Expenditure 2000, by type*

Type of Expenditure	Amount (bn DM)
State Pensions (contribution-based)	425
Sickness Benefits (insurance-based)*	258
Accidents at Work Benefits (insurance-based)*	21
Care for the Elderly (insurance-based)*	33
Unemployment-related Support (approx. one third insurance-based)**	127
Childcare Benefit (taxation-funded)	7
Top-up Pensions for Farmers (partially contribution-based)	6
Compensations for Victims (taxation-funded)*	10
Support for Juveniles (excluding education; taxation-funded)	33
Students in Higher/Further Education (half taxation-funded, half loan)	2
Housing Benefit (taxation-funded)	8
Social Security Benefits (taxation-funded)*	50
Other Social Security Measures (taxation-funded)*	350
Total	1330

* Disability Allowances may be paid out of any of these sources (or a combination thereof), depending on the nature of the disability, and on the reason why it occurred.

** *Arbeitslosengeld* (unemployment benefit) is insurance-based, *Arbeitslosenhilfe* (lower-level unemployment benefit for those whose insurance entitlements have run out)^{iv} and special funding for job-seeking activities and participation in re-training measures are taxation-funded.

Source: derived from Schulin, 2002: XIX.

Table 3.2: *Federal Start-up funding for East German Welfare Schemes, 1990-1991*

Scheme	Period	Funds (m DM)
State Pensions	1990 (July-December)	750
Unemployment Benefit	1990 (July-December)	2,000
Unemployment Benefit	1991 (January-December)	3,000

Source: derived from Art. 28 WWSV.

Chapter 4

Territorial Politics and Welfare Development in France

Alistair Cole

INTRODUCTION

French republicanism has a bias against policy diversity and local experimentation. Though a distinctive form of sub-national governance has evolved in France, it has been bounded by a powerful coalition of centralising institutions, state-centric professional interests and widely disseminated ideas, equating republican equality with uniformity. For many French citizens, decentralization is synonymous with social regression, unequal provision, even a return to a pre-republican social order. Upstanding republicans equate territorial uniformity with ideas of progress, equal opportunity and citizenship; this equation makes the territorial identification of welfare politics highly problematic. The building of France as a modern state provides the key to understanding this equation of territorial identity and political regression. The French state-building enterprise has, historically speaking, been remarkably successful in inculcating deeply rooted beliefs linking the national territory with social progress.

The underpinning institutional variables are not conducive to territoriality. The principle of social partnership governs healthcare, old age pensions, unemployment insurance and family allowances. Social partnership relies on a vertically organized professional and producer network. Representatives of the employers, the trade unions and the professions dominate the social funds (*caisses*) that manage the various branches of the welfare system. Social partnership also forms the cornerstone of public discourse about training and employment, the belief being that social partners (employers and trade unions) are the key stakeholders in determining priorities for increasing skills in the workforce. Since

1995, the French state has become more directly involved in managing labour and welfare policy, notably in healthcare. Wherever questions of social inclusion are involved, the central state reserves for itself a right to intervene. This centralising dynamic does much to undermine the role of local and regional actors in exercising what rights they have to provide or co-ordinate welfare provision. The challenge for local and regional actors has always been to substitute a territorial for a functional logic. This horizontal ambition is rendered very difficult in the sphere of welfare policy, broadly defined. There has been resistance to allowing local government a role in the policy process on the part of pre-existing networks of solidly implanted institutions. Local and regional authorities have uncertain legal competencies in social policy. Most important of all, there are permanent pressures for recentralization, as the central state identifies itself automatically with politically sensitive issues in the area of social inclusion.

France has been subjected to many varied pressures for change since the late 1970s, including change in the management of its welfare and social policy systems. In recent decades, governments in *all* European countries have been confronted with a weakening capacity to steer society by proposing solutions to the problems they have identified. If the metaphor of 'steering' refers to 'the ability of political authorities to mould their social environments' (Mayntz 1993: 11), all modern states have sought to lower expectations of public policy action and develop new policy instruments to manage complexity. The history of French decentralization itself is to some extent tributary to the efforts of the French State to deal with the increasing complexity of its charge and to reform itself. In France, the United Kingdom and other EU states, the state can no longer assume alone the management of complexity, if it ever could. 'Steering at a distance' refers to one strategy to cope with increased complexity: namely, that of delegating difficult decisions to lower echelons of public administration, either as a form of blame avoidance or in a belief in the efficiency of decentralized solutions. 'Grass roots' is a similarly loose metaphor to signify a concern for proximity as a principle of decision-making, with the (unproven) causal belief that proximity equates with democracy. Decentralization has often been justified in terms of bringing decisions closer to the people, of connecting with the grass roots. These top-down and bottom-up justifications for decentralization compete within French political discourse. While the constitutional demand for equality favours centralization, the complex demands of policy-making in a multi-layered polity encourage local and regional experimentation. Offloading expensive service delivery functions to lower levels of public administration has been a favoured strategy of central government, nowhere more than in the sphere of social policy.

Underpinning arguments based on proximity is the idea of a goodness of fit between specific issue-areas and particular scalar institutional responses. Issues of direct daily relevance to the citizen (social assistance, education, housing and so on) should be dealt with by the particular sub-national authority (in the French case local, inter-communal, departmental or regional) that is best suited to provide services at that level. The 1982 decentralization reforms in France enshrined the principle of the level of competence (*blocs de compétences*), referring to particular responsibilities carried out by the different

levels. As a general rule, matters of *immediate proximity* (low-level social assistance, administrative port of first call, planning permission, waste) are the preserve of the 36500 communes and the various inter-communal bodies to which they delegate authority. Matters of *intermediate proximity* are the policy province of the 96 elected departmental councils, which manage large budgets and are major service delivery agencies: in social assistance; some intermediate education; social services; roads; and minimal income. Matters deemed to be *strategic* are, in theory, the preserve of the elected regions: economic development, vocational training, infrastructure, some secondary education, some transport (and regional rail services since 2002), with additional responsibilities in culture and the environment.

For the rest of the chapter, we investigate varying forms of territorial governance in France, placing special emphasis on the difficulties that local and regional authorities encounter when they attempt to initiate or co-ordinate welfare policies.

FUNCTION, SECTOR AND TERRITORY: THE DIFFICULTIES OF SQUARING THE WELFARE CIRCLE

The French Welfare state combines these principles of central state steering, social partnership and territorial accommodation. The policy mix between these three drivers varies according to function, sector and territory. Healthcare, social policy and human capital policies all have a territorial, as well as a welfare dimension. We pay little attention here to healthcare per se, because it is the least open to territorial influences. Healthcare provision is, in the main, managed by the social partners (employers and trade unions) through the national healthcare social fund (CNAM - *Caisse Nationale d'Assurance Maladie*). The CNAM engages a contractual relationship with the Ministry of Health, with the medical professionals and with a wide variety of mutual and private healthcare providers. Traditionally self-steering, the CNAM has been subject to much stronger central state regulation since 1995. The French parliament now has the right to set annual expenditure limits for the medical sector, targets that are routinely exceeded in practice. The healthcare sector is the least prone to territorial influence and the reform being enacted in 2004 explicitly rejected the creation of regional health authorities. Social policy, on the other hand, incorporates a strong territorial dimension, as do human capital development policies.

The policy dilemmas facing the French welfare system are those of a national system of regulation. The most important recurrent dilemma is how to finance the generous system of social protection. The basic organising principle is one of a mainly contributions-based system, with workers and employers paying into funds (*caisses*) managed by the social partners for healthcare, old age pensions, family allowances and unemployment insurance. France is one of the EU countries with the highest proportion of public

expenditure revenues from contributions and the lowest from direct taxation (Levy, 2001, Palier, 2000). Central government was for long unwilling to intervene too directly in the management of welfare policy. The autonomy of the *caisses* allows social expenditure to be excluded from the calculations of the national budget (though not public expenditure totals under the Maastricht criteria).

Since the late 1980s, however, the policy dilemmas have been too acute for governments to stand aside. In 1988, the Socialist government introduced the general social contribution (*contribution sociale généralisée* – CSG). Unlike contributions, paid only by workers and employers, the CSG is levied on all sources of income, including capital and savings, making it socially more just. The CSG now provides most of the finance for the Family Allowances budget. After the 1995 Juppé reforms, the social debt reimbursement fund (*remboursement de la dette sociale* – RDS) was introduced as another ‘temporary’ tax, one made permanent in 2003. Social deficits remain a major problem. The social protection bill is static – or rising – but government revenue is dependent on the economic cycle. The health care budget is particularly stubborn and difficult to reform. Health care expenditure has risen well above the rate of inflation, the result of an ageing population and major advances in medical technology. At the time of writing, in July 2004, the Raffarin government was introducing the latest attempt to reform and retrench healthcare expenditure. In these circumstances of penury, decentralization offers a useful palliative for the French State, calling upon local and regional authorities to provide additional funding for a welfare system from which they are largely excluded from influence.

Underlying demographic trends aggravate these intractable problems of financing social protection. Rising unemployment, the ageing of the population and the increase in single person families all pose acute policy dilemmas. The old age pensions and health social security funds have had great difficulty balancing their budgets. Attempted reforms by left and right have demonstrated the extent to which the French are attached to their social welfare system. Indeed, the tendency for the past 20 years has been one of increased governmental intervention, implemented and financed in part by the activities of local and regional authorities. In 1988, the Rocard government introduced the minimum income (*revenu minimum d’insertion* [RMI]), a social minimum to be funded from general taxation. As measured in terms of take-up, the RMI has been a great success and has demonstrated the need to bridge the gap between a contributory social security system and a rise in poverty and social exclusion for the poorest members of society. The departmental councils have managed the minimum income. Initially envisaged for 350 - 400,000 individuals, the RMI was benefiting two million by the end of 1991. There is some evidence that criteria for allocating the minimum income have varied between different departmental councils. Relabelled RMA (*revenu minimum d’activité* [RMA]) since 2003, the minimum income now carries an obligatory training component, rather like the New Deal in the UK. Through the RMI/RMA and other social policies (which we consider below), local and regional authorities are often at the harsh end of managing poverty.

A further area where the concerns of welfare meet those of territory is in the domain of human capital policy. The closely related issue-areas of education and training are valuable for elucidating different aspects of function and territory. The well-documented policy field of education mobilizes strong professional interests (teachers, educational administrators), to the extent it has sometimes been considered a closed, impenetrable policy community (Cole and John, 2001). In France, attempts to reform the education system have been resisted by powerful constellations of professional interests (the strongly organized teaching unions), supported by ingrained ideas equating equality of opportunity with centralization and a distrust of local and regional influences within the education system. The field of post-16 training and adult learning relies much more on a social partnership mode more typical of French welfare. In both education and training, local and regional authorities have important service delivery responsibilities, although they are contested by state actors in the regions and localities. In some important respects, education and training can be conceived of as *welfare policies*. Education and training policies are not only aimed at increasing levels of human capital or raising specific skills; they are also powerful instruments of social cohesion. Training as social cohesion is a major preoccupation of the French regions. The regions have a legitimate, legally recognized interest in promoting social cohesion, though the departmental and municipal councils (or municipally-funded associations) are the ones that generally manage territorial welfare programmes (such as RMI/RMA).

What are the territorial dimensions of French welfare? We now address this issue in some depth, first by presenting an overview of the development of local and regional capacity in France during the past 20 years, then by focussing more specifically on the 2002-2004 decentralization reforms.

THE TERRITORIAL DIMENSION OF FRENCH WELFARE

France's dynamic post-war modernisation occurred in spite of local government. The administrative organization of French local government lagged far behind the challenges of democratisation, industrialisation and urban change. The period from 1945-74, known as *les trente glorieuses*, was a period of strong demographic growth, and technocratic modernisation. The orthodox account of French public policy, as developed by Jobert and Muller (1987), described determined central state action, uncovered the existence of tight policy communities and diagnosed a specific form of French state corporatism. It had important ramifications for territorial public policy-making. Armed with a modernising ideology, French state technocratic planners piloted most significant public policies in the 1950s and 1960s, including in areas such as housing that have a welfare dimension (Lorrain 1991).

This phase of ambitious top-down urban expansion was interrupted by the economic crisis of the 1970s. From the 1970s onwards, the state no longer had the means to realise its ambitions; in this sense Crozier's (1992) description of decentralization as a 'reform of the state' was accurate. The growing complexity of decision-making called into

question the central state's capacity to deliver services alone. The belief was widespread that excessive centralization in service delivery produced inefficient services, interminable delays and a lack of flexibility to deal with local circumstances. This was manifest in a domain such as secondary education, where exclusive central state control left school buildings in desperate need of repair. Proximity itself was a means of improving the quality of public services; this belief came to be shared not just by local policy actors but by powerful interests within the state.

Growing local experimentation in municipal governments occurred from the 1960s moreover, an evolution that was greatly strengthened by the decentralization laws of the early 1980s (Cole and John, 2001). Local social experimentation was not in itself new. During the inter-war period, ambitious municipalities launched road-building and electrification programmes; certain Socialist-controlled cities adopted local anti-unemployment policies against central government opposition. During the 1970s, the French Socialist Party renovated itself within the municipalities (in 1971 and 1977) before achieving national victory in 1981. Old-style municipal socialists were gradually replaced by innovators determined to use local government as a policy laboratory. A belief in proximity, democratic empowerment, citizenship and local self-reliance were thus important facets of a changing ideological and policy climate that preceded the institutional reforms of the early 1980s.

French sub-national authorities have traditionally operated within the confines of a highly centralising state tradition, which emphasized the indivisible nature of political legitimacy and the organizational pre-eminence and legitimacy of the state. The orthodox French model of territorial administration rested upon the principle of administrative uniformity across the nation. It formed part of a hierarchical mode of public policy formulation, whereby public policies that originated within government departments or administrative corps were implemented in localities by state field agencies and local authorities and were co-ordinated by the prefect, the representative of the French state in the departments. Government departments were organized in an analogous manner, with decentralized units often operating at the departmental and sub-departmental levels.

The French Socialist government's decentralization reforms of 1982-83 were a major landmark in French administrative history that challenged this traditional model in some important respects. The reforms created 22 elected regional councils, replacing previously co-opted institutions, and greatly enhanced the decision-making powers of the 96 departmental councils and of the larger communes. The decision-making responsibilities of a range of local actors were increased, with the extension of their influence into policy sectors within which they previously exercised a marginal influence, or from which they were excluded altogether (such as social affairs, economic development and education). The three layers of French sub-national government - the region, the department and the commune - were all strengthened, with increases in budgets, staff and powers. However consequential, the decentralization reforms did not alter the basic, highly fragmented structure of French local government. There has been no root and branch structural reform of local government in France; rather a process of

incremental accretion has taken place. New structures have been added to existing ones, without a fundamental overhaul of the territorial system as a whole. This observation remains as true in 2004 as it did twenty years ago.

Communes, Départements and Regions

Let us now consider briefly the role of each of the three main layers of French sub-national government: the communes, the departments and the regions.

The 36500 **communes** (and the inter-communal bodies) are distinguished from other layers of French sub-national government by their proximity to local citizens. The demands placed on municipal governments far outweigh their legal responsibilities. Their core service delivery responsibilities involve primary education, water, fire prevention, land use, street-lighting, sewerage and waste disposal. Ambitious communes provide a range of additional services in areas such as cultural and economic development. Aside from their role as service providers, municipal governments are the focal point of France's thousands of local communities. The communes remain the foci of local identities. The central figure in French small town and rural society is the mayor, who performs the combined roles of locally elected politician and servant of the state. De facto, the mayors of smaller communes usually perform an important welfare function. Not only do the communes manage basic local social services (CCAS - *centres communaux de l'action sociale*), but they are important intermediaries on behalf of their citizens in relation to the more remote social service agencies (especially those managed by the 96 departmental councils). The delivery of good local services can create faithful clients anxious for the survival of the municipal team in place. Mayors must interest themselves in everything that goes on in their communes, including in the insalubrious poorer quarters. Efforts to improve living standards in visibly deprived areas are probably more important for their survival than high-level prestige projects, especially in a climate of municipal corruption. Finally, the communes often perform a key role in delivering central government social inclusion programmes, notably in the area of housing and childcare.

In addition, urban communes usually sponsor a range of semi-autonomous agencies, associations or partnership bodies to deliver services in areas such as careers advice, youth integration, childcare or employment advice. One example of such a voluntary partnership body is that of the Local Mission. Existing in most cities, the Local Missions are co-financed by local authorities (usually the communes and the inter-communal public corporations), and the state (in the form of the Labour, Employment, Training or Social Affairs ministerial field services) and are often in receipt of European structural funds as well. Communes (and the inter-communal bodies) also form an important part of the network delivering social housing through the Housing Associations (HLM).

The 96 **departmental councils** are the major service deliverers in the field of social policy. The departmental councils possess important financial, bureaucratic and legal resources. They are legally obliged to deliver include social services, some healthcare, post-primary education and departmental road-building programmes. Defenders of the

departments point out that these basic services rarely occupy the limelight, but involve an extremely sophisticated financial and organizational infrastructure. The cost of social service provision has escalated dramatically, plunging several departmental councils into a severe financial crisis. Departments have taken over responsibility for services they did not ask for: the case notably for the minimum income, created by the Socialist government in 1988, or for delivering the old age ‘dependency’ allowances since 1995. Many departmental councils have fallen seriously into debt in carrying out their new responsibilities (INSEE, 2003). The departments manage welfare services at the forefront of social inclusion agenda, notably child protection policies, lower secondary education, the minimum income, care, old age homes and social work. Even more than the communes, the departmental councils are usually relied upon to deliver new central government priorities, often determined without prior notice or negotiation. Several interviewees in departmental councils objected strongly to this pattern of central intervention. The departmental councils also sponsor their own range of semi-autonomous agencies, associations and partnership bodies, sometimes in collaboration, but often in competition with those of the communes and inter-communal bodies.

The third level of sub-national government is that of the **regions**. Consistent with the territorial management policies of the post-war French state, French administrative regions were first established in the 1950s as technocratic advisory bodies to assist in strategic functions of economic development, transport and territorial planning. They have been fully operational sub-national authorities only since 1982, with their main responsibilities in economic development, transport, education, training and culture. In contrast with the sizeable bureaucracies serving the large cities, and the departments, the organizational resources available to the regions are minimal: there are fewer than 100 salaried staff in most regions. The regions have neither the organizational heritage, nor the political or bureaucratic resources available to the departmental councils. But the regional councils do have precise legal responsibilities in economic development, secondary education, training, transport and several other fields. They have used their powers ambitiously and are actively seeking and obtaining new powers. The Vaillant law of 2002, though falling well below regionalist expectations, transferred new responsibilities to the regions (in regional transport and adult training) and granted a right to regional ‘experimentation’ in certain prescribed areas (for instance culture). The Raffarin reform of 2002-4 strengthened further the regions in ways we describe below. Since the capture of a majority of regions by the left-wing opposition in March 2004, the regions have provided a new arena for various social experiments.

The regions have not replaced the state, which has never abandoned its territorial ambitions. Indeed, administrative ‘deconcentration’ preceded political decentralization by two decades. The creation of the regional prefectures in 1964 marked a significant regionalization of state structures. The regional prefectures are the privileged site for co-ordinating bids for EU structural funds. The regional prefectures are also the main arena for the negotiation of the five yearly state-region planning contracts with the regional councils. Some critics have accused the French state of using contracts to invent new forms of ‘steering at a distance’, and to ensure that the regional and other local authorities

co-finance central state priorities. The state's own priorities, for example in higher education, social inclusion, housing and transport, have to some extent been imposed upon the regions and other local authorities. Crucially, however, the state-region plans help to legitimize the idea of a regional public sphere within which numerous organizations interact in a relationship of 'competitive interdependency' (Breuillard and Cole, 2003).

The emergence of a regional public sphere should not be exaggerated. Social partners – employers and trade unions – generally look either to national-level negotiations (in welfare, training or employment policy, for example), or to more localized agreements. There are numerous obstacles in the way of developing local and regional inputs into welfare policy, in addition to the broad institutional variables we set out at the beginning of the chapter. The first obstacle is that of institutional overcrowding. Networks of pre-existing institutions have reacted unfavourably to the emergence of welfare newcomers, especially the upstart regional councils. We can demonstrate this in the field of youth training, where existing players are reluctant to recognize local and regional authorities as key stakeholders. The second obstacle to developing local and regional public policies relates to the uncertain legal competencies. In practice, the various sub-national authorities have overlapping territorial jurisdictions and loosely defined spheres of competence. Even when responsibilities are clear, they are not respected. Communes, departments and regions compete openly with each other and adopt policies designed to appeal to their electorates. Moreover, there is no formal hierarchy between them. In theory, no single authority can impose its will on any other, or prevent a rival authority from adopting policies in competition with its own. There is a measure of competition between local authorities, a policy inflation rather than a race to the bottom.

Third, and most important, the central state declares continuing responsibility in all areas of social inclusion. By definition, social inclusion includes a vast range of policy areas: childcare, housing, poverty, the environment, training, minimal income and many others. The response of the French state to problems of economic crisis and unemployment throughout the 1980s, 1990s and 2000s has been to strengthen its own powers to intervene in the area of social inclusion, even in areas where local and regional authorities had previously been given a clear leadership role. The case of youth training provides a good example of this more general trend. While the regions supposedly have control over all youth training, new central government programmes in the 1990s (such as TRACE for the youth unemployed) often did not refer to the regions at all. The state continues to control specific populations, such as prisoners, the socially excluded and the unemployed (ANPE) and generally ignores the regions in these areas. Employment-related training programmes are generally reserved for the state field services or agencies, with the argument that the duty for equal treatment precludes regional variation, a reasoning diametrically opposed to the whole decentralization enterprise. Moreover, it is the social partners, in tripartite discussions with the state, who determine the number of day release schemes for young people (*contrats d'alternance*) that will be financed on an annual basis (Reverchon, 2003). Finally, though regions have statutory responsibilities in

youth training and lifelong learning, they have none in the field of employment policy, which remains largely the preserve of the state and its field agencies (DRTEFP, ANPE).

The final obstacle to building local and regional capacity in the area of welfare policy is actor-induced. Even more than in formal rules, centralization in France is rooted within the minds of established actors and interests. The most formidable obstacle to developing local and regional policies has been the converging pressures for recentralization: from threatened interests (such as teachers or careers advisors), from pre-existing institutions and from embedded ideas equating all decentralization with neo-liberalism or worse.

THE RAFFARIN GOVERNMENT AND DECENTRALIZATION, 2002-04

With the re-election of Jacques Chirac as President in May 2002, France entered into another period of major institutional reform. President Chirac rallied to the idea of decentralization in a speech in Brittany in 1998. With the Jospin government (1997-2002) also undertaking reforms aimed at strengthening local and regional authorities (the 1999 law on inter-communality, the 2002 law on Corsica) political circumstances were favourable for a renewed phase of decentralization. However, there were basic differences of approach between Chirac, who favoured the departments, and Jospin, who preferred strengthening the regions and the inter-communal authorities (EPCI).

Once named Prime minister, Jean-Pierre Raffarin announced there would be a massive public consultation on the future of decentralization. The *Assises des libertés locales* were organized in all 26 French regions. These public meetings brought together over 40,000 people drawn from politics, the voluntary sector, the chambers of commerce, firms and trade unions (though few women or young people were involved). Though top-down in inspiration, the *Assises* was a democratic process that came up with some unexpected results (Reynié, 2004). In total, there were 603 separate submissions by local and regional authorities calling for a transfer of competencies. Most of these concerned education and training (28%), followed by social affairs (24%), equipment (20%), economic development (17%) and environment (11%). The *Assises* revealed a number of fears: notably that decentralization would be followed by local tax rises, and that there would be an increased inequality between local areas. Local mayors expressed concern that a 'regional Jacobinism' would replace the national version: strong regional councils might be less respectful of communal rights than the central state or the departments.

Surveys carried out to coincide with the *Assises*, however, were strongly suggestive of public support for the regional level. The Paris-based think tank, the *Observatoire Interregional du Politique* (OIP), carried out a major survey in September 2003, with a

large representative sample of 13,000 people. The main findings were that the French were very favourable to the transfer of functions to regions: 56% thought health care should be a regional responsibility; 60% thought education should be transferred to the regions; even 48% thought that control over educational diplomas should be a regional priority. There was very little difference between left and right here. Even public sector workers supported further decentralization.

There are three main principles to the 2003 constitutional reform. First, it embeds the regions in the constitution and refers to the decentralized organization of the Republic. Explicitly rejecting federalism (though in Article 72 referring to the principle of subsidiarity), the constitution reaffirms that all territories must be treated according to the principle of equality. Four levels of local authority are now recognized within the French constitution: the commune; the department; the region (new); and those with a 'special statute'.

Second, the constitutional reform introduces the possibility for the experimental transfer of functions to sub-national authorities. Under the provisions of reforms made public in December 2002, any sub-national authority – a region, but also a department, an inter-communal structure or a commune – can bid to exercise a range of responsibilities – such as training, roads, airports – that were previously in the policy domain of the central state or other public authorities such as the chambers of commerce. The initial expectation was that the regions would impose a form of leadership over other authorities, as these strategic responsibilities are best exercised at a regional level. But the weight of the pro-department and pro-communal lobbies has ensured that these other layers of authority can also bid to run services. As in 1982-83, the competition between regionalists and departmentalists has prevented a genuine clarification. There remains enormous confusion about who does what. There are now as many as seven layers of public administration between the French citizen and Europe (commune, inter-communal structure, pays, department, region, nation-state and European Union).

The provisions for 'experimentation' are open to two separate readings. They can be seen as very radical within the French context, or framed by existing institutions. Chavrier (2004) goes so far as to suggest that the initial provisions would have created a federal state, before the Council of State watered down the proposals in August 2003. Experimentation needs to be understood on two levels: as an internal process of state reform and as an empowering of local and regional authorities. In terms of the organization of the French state, the reform allows for more administrative decentralization. Article 37/1 allows central ministries to transfer new functions to their territorial field services, coming close to admitting subsidiarity as a principle of the organization of the state. Article 72 creates a local power of initiative and derogation (*pouvoir normatif local*). Article 72 enables central government competencies to be transferred on an experimental basis to regions, departments or communes (including inter-communal structures). Not only can local and regional authorities bid to run new functions, they can also derogate themselves from providing services on a case by case

basis. Article 72 stipulates that experimental functions/derogations can remain in force for up to eight years, before any definitive decisions are made.

For traditional republican opponents of the reform, the principle of experimentation undermines the constitutional provision for equality. In practice, the spirit of uniformity is likely to remain more pervasive than that of local or regional differentiation. Though any sub-national authority can bid to run services on an experimental basis, this decision will need to be approved by the French parliament. Moreover, after a five-year period, the parliament will then have to decide whether the transfer of functions should be made permanent. If so, the new policy responsibility will be transferred to all cognate sub-national authorities throughout France, thereby ensuring equal treatment.

The regions were thought the most likely to benefit from the experimental transfer of functions. The bolder French regions have made ambitious demands for policy transfer, including in education (Ile-de-France), transport, health services (Nord/Pas-de-Calais), universities, ports and airports (Brittany). Most regional presidents, however, argued they needed more time and resources to deal with the responsibilities they already had, such as economic development, training, European funds, planning and tourism. In two areas, the government backed down faced with the opposition of the trade unions: the building and maintenance of hospitals, and the management of technical and administrative staff in higher education. The most significant permanent transfer to the regions is likely to be complete control over European structural funds.

An internal note circulating within the French prime minister's office, dated 2 December 2002, defined the likely future transfers as well as the areas of experimental transfer. As a general rule, the regions were strengthened in matters deemed to be strategic: economic development; education; training; and EU structural funds. They were also given responsibilities in some new areas, such as health, from which they were previously excluded. But the most significant transfers, involving large-scale service delivery responsibilities, were to the departmental councils, which took over roads and increased their responsibilities in social welfare and intermediate education. The departments obtained 70% of transferred funds, as against 20% for the regions and 10% for the communes/EPCI (Fréville, 2004). This 'victory' of the departments could only in part be explained by political choices. The basic institutional architecture of French sub-national governance, whereby the departments have a much more sophisticated administrative infrastructure than either the regions or communes, accounted in practice for the decision to transfer new responsibilities to the departmental councils. For their part, the regional councils are not major service deliverers or personnel managers. The presidents of the regional councils were deeply ambivalent about assuming new responsibilities. Taking over the management of school technical and maintenance workers was headache enough, with the regions having to create new personnel departments.

'Who does what' is not the most interesting question. French sub-national governance rests upon a complex actor system, whereby several levels with overlapping responsibilities manage policy. In education, for example, the roles and responsibilities of

the departmental councils, regional councils and state field services were all strengthened, without the relationship between these actors being definitively determined. For one prominent observer, educational decentralization was conceived in functional and financial terms, rather than for reasons of territorial efficacy (Legrand, 2004). In transport, ports and airports were already functionally decentralized, but the central state retained an important presence. As far as roads were concerned, the departments and the state have been swapping control for over 200 years. The 2004 law gives the departments complete control over the national road system, and also over the 1300 sub-divisions of the Equipment ministry. In health, there were contradictory movements. The tendency since the late 1970s has been for a recentralization of responsibilities: the state took over responsibility for mental illness in the 1970s, and as recently as 2003, policy responsibility for tuberculosis, sexually transmitted diseases and leprosy were all transferred back to the state. Though some healthcare is being decentralized in the current process, other recent decrees have had the effect of recentralising healthcare. The effects of decentralization in healthcare are likely to be limited, with the regions above all called upon to contribute financially. In the area of social services, finally, the 2003 law vested departments with complete control over the minimum income and the old age dependency allowance and transferred control over social workers to the departments. In a manner typical of the untidy reality of French sub-state governance, the regions (not the departments) would have responsibility for training social workers.

The main criteria for evaluating the degree of local and regional capacity are the nature of the actor system and the type of policy area transferred. Complex actor systems produce interdependent relationships, rather than clear-cut transfers of responsibilities. In education, local and regional authorities have been strengthened, but the key actors – teachers, organized into strong trade unions, and parents – continue to look to the national (state) level for regulation. In health, decentralization has introduced a new actor in the form of the elected regions. But the regions will find it very difficult to establish a place alongside the well-entrenched partners of the French State and the social security system (and, behind this, the medical professions). In youth training, there have been four separate laws transferring competencies to the regions since 1983, but the French state still wants to retain control of priority problems, and jealously guards its control over employment policy. The labour code (article L910.2) gives the state priority in matters of employment and, hence, legitimizes its intervention in matters of employment and training.

How best should we interpret recent decentralization reforms? Public speeches accompanying the parliamentary debates in 2003 and 2004 revealed two contrasting pressures. The first of these we can label steering at a distance: the top-down impulse of delegating difficult decisions to lower echelons of public administration. The government's motivation was made clear in the documentation. Those areas to be transferred were those which were 'technically and socially the most difficult', implicitly those where central government had failed (*Le Monde*, 13 December 2002). This delegation of service delivery responsibilities formed part of a broader process of state reform, the perennial preoccupation of policy-makers in France. There were echoes of

British-style new public management, insofar as government ministers welcome the prospect that local financial accountability would be enhanced. Steering at a distance was not in the least a federal conception. Services would be delivered at a regional, departmental or local level in ways that were closely regulated and defined by the central state. Regional Presidents feared additional service delivery responsibilities, which would transform them into super Prefects, rather than leaders of strategically important authorities. Regions did not, in general, merely want to take over central government service responsibilities (for example, buildings and equipment) but sought to influence substantive policy choices (for example, in education or health).

In important respects, the Raffarin reform marks a return to traditional models of centre-periphery regulation. Though the 2003 reform recognized the regions for the first time, and strengthened them in important respects, the Raffarin reforms did not embed the primacy of the regions over other sub-national authorities. Many of the new functions to be decentralized were to be delivered by the departments, classically conceived of as the ally of central government. In important respects, the Raffarin reforms halted the moves to greater inter-communal cohesion enacted in the 1999 Chevènement and Voynet laws. The 2003 reform bill did not even mention the urban communities, for example, until a fierce lobbying campaign by the Conference of the Presidents of Urban communities. In the event, the inter-communal authorities (EPCI) received some additional powers relating to social housing, but nothing more.

We should also note the strength of opposition from groups of public sector workers to the law, in addition to the predictable caution of the Council of State. In late February 2003, Premier Raffarin announced that around 150,000 civil servants would be transferred to the control of the regions or departments. Most of these are technical workers charged with school maintenance. There is a functional logic to this, as the building and maintenance of upper secondary schools (*lycées*) is a responsibility of the regional councils. Likewise, as the departmental councils are to obtain new responsibilities in child healthcare, it is logical that some 2500 social workers and 1250 school doctors should be transferred to their charge. There is a similar logic for transferring careers services (SAIO) from the field services of the Education ministry to the regions, as the latter now have complete responsibility over training. However functionally coherent, these proposed transfers created an uproar that mobilized the powerful trade unions in the education and healthcare sectors, as well as amongst the 30,000 or so agents of the Equipment ministry who are due to be transferred to the departmental councils. Experienced observers might predict that the resistance of mobilized workers will triumph against a rather half-hearted decentralization reform.

CONCLUSION

From the above analysis we can identify a number of prevailing, somewhat contradictory trends over the past two decades. There has been an increased centralization of core

welfare regulation, with the French State obliged to attempt to control social expenditure, especially in the area of healthcare. There has been a lessening of the autonomy of social partners and the professions, who remain key drivers of the welfare system in healthcare, old-age pensions and family allowances. There has also been a growing decentralization of welfare support services, facilitating in practice considerable diversity of practice and experimentation across the territory. Since the first decentralization reforms of the early 1980s, local authorities have performed an increasingly important role in delivering social services.

In some respects, the national state territory has been reconceptualized as a meso-level in a more closely integrated European Union. French governments (especially that of Jospin, 1997-2002) have been at the forefront of the drive for a more assertive European social dimension (Cole, 2001). They consider 'social Europe' to be the unfulfilled promise of the European project. No French government would admit to being satisfied with the social dimension of the European Union as it currently operates. The debates within France around the European Constitution converge in this respect, with leading Socialists campaigning against the Constitution for its lack of social ambition. All the more important, in these circumstances, to defend the French model of social, economic and political citizenship that appears threatened by the neo-liberal logic of closer European integration. This reconceptualization of the territorial dimension leads to the defence of the French model in general, rather than any sub-state version of it. To this extent, the expansion of welfare in France during the post-war period has strengthened the basis for national state unity by creating a cross-partisan attachment to the national state as the ultimate guarantor of equality.

If French republicanism has enjoyed a revival during the past two decades, this is because it provides the promise of social and economic citizenship as the corollary of political citizenship. The French left, in particular, has undergone an ambiguous evolution. From being the firmest advocates of decentralization in the 1980s, an important fraction of the French left now resists further decentralization, especially in the field of social policy. They fear the decentralization of core welfare functions will produce a race to the bottom, not least because the transfer of functions from central government has in the past not been fully compensated by financial transfers. There is, as yet, no system of national financial equalisation (*péréquation*), for example, leaving richer communes, *départements* and regions in a position to offer more generous services. Such a system of *péréquation* is promised in the 2004 reform of local government finance. Countervailing forces are at play, however. On the one hand, there is a large measure of public support for more decentralization in the fields of education, social services, even healthcare. This support coincides, to some extent, with the activities of recent French governments, which have decentralized difficult policy choices (amongst others) in the areas of old-age care, child protection and youth training. At the same time, the decentralization project has been bounded by a powerful coalition of centralising institutions, state-centric professional interests and widely disseminated ideas, equating republican equality with uniformity. These ideas are more powerful in the sphere of welfare policy than in most

others, where the demand for equal treatment often obscures the development of innovative policies at the local and regional levels.

REFERENCES

- Breuillard, M. and Cole, A. (2003) *L'Ecole entre l'Etat et les collectivités locales en Angleterre et en France*, Paris: Harmattan.
- Chavrier, G. (2004) 'L'expérimentation locale: vers un État subsidiaire?', paper presented to the GRALE colloquium on *Réforme de la Décentralisation, Réforme de l'Etat*, National Assembly, 22-23 January.
- Cole, A. (2001) 'National and Partisan contexts of Europeanisation: the case of the French socialists', *Journal of Common Market Studies*, vol. 39, no. 1. March, pp.15-32.
- Cole, A. and John, P. (2001) *Local Governance in England and France*, London: Routledge.
- Crozier, M. (1992) 'La Décentralisation est-elle une réforme de l'Etat'? *Pouvoirs locaux*, 12, 130-134.
- Fréville, Y. (2004) 'Les transferts de compétences', communication presented to the GRALE colloquium on *Réforme de la Décentralisation, Réforme de l'Etat*, National Assembly, 22-23 January.
- INSEE (2003) *Tableaux de l'Economie Française*, Paris: INSEE.
- Jobert, B. and Muller, P. (1987) *L'Etat en Action: politiques publiques et corporatisme*, Paris: PUF.
- Legrand, A. (2004) 'L'Education nationale', communication presented to the GRALE colloquium on *Réforme de la Décentralisation, Réforme de l'Etat*, National Assembly, 22-23 January.
- Levy, J. (2001) 'Territorial Politics after Decentralization', in Guyomarch, A., Machin, H., Hall, P. and Hayward, J. (eds) *Developments in French Politics 2*, pp. 92-115.
- Lorrain, D. (1991) 'De l'Administration républicaine au gouvernement urbain', *Sociologie du Travail*, 4, 461-484.
- Mayntz, R. (1993) 'Governing failures and the problem of governability: some comments on a theoretical paradigm', in Kooiman, J. (ed.) *Modern Governance*, London: Sage
- Palier, B. (2000) 'Defrosting the French Welfare State' *West European Politics*, vol. 23, no. 2.
- Reverchon, A. (2003) 'La Formation professionnelle toujours en quête de cohérence', *Monde*, 17 June.
- Reynié, D. (2004) 'L'apport des assises des libertés locales', paper presented to the GRALE colloquium on *Réforme de la Décentralisation, Réforme de l'Etat*, National Assembly, 22-23 January.

Chapter 5

Spain: From State Welfare to Regional Welfare?

Raquel Gallego, Ricard Gomà, Joan Subirats

INTRODUCTION: A CASE OF LATIN MEDITERRANEAN WELFARE

Since the transition to democracy at the end of the 1970s, the agenda of public authorities in Spain has undergone a profound structural transformation. This transformation arose from two distinct yet interrelated processes: first, the establishment of a welfare state close to European standards, as a response to both internal social demands and pressures from the European political and socio-economic context; and second, changes in the political and territorial organisation of the state, from a unitary to a more decentralised state. The need to draw closer to European levels of social and economic development necessitated the creation of a welfare state with a capacity to intervene in economic and social arenas similar to those of neighbouring countries – that is, with a much broader and more diversified agenda than that of the Franco dictatorship. This need was first called for by the social forces during the transition, mainly leftist political parties and trade unions. In these circles, the process of democratisation was indissolubly linked to enshrining social rights in a constitution. Another source of pressure to modernise and increase the state's capacity for intervention as an engine of the country's socio-economic development was the European Community, which Spain wished to join.

In terms of the model of welfare state, Spain belongs to the Latin Mediterranean type. The literature on welfare states (Titmuss, 1974; Esping-Andersen, 1990) has systematically omitted the southern European states (Spain, Greece and Portugal, and Italy to some extent). After the transitions to democracy in some of these countries and the consolidation of politics comparable to those of the northern neighbours, southern Europe slowly joined the sphere of comparison among welfare states. To some authors (Castles, 1995), the southern European model is defined primarily by its low levels of social spending – which correspond to late processes of industrialisation and modernisation – within the framework

of political welfare structures of a clearly continental nature. This would thus be a Christian democratic-style social protection and employment system which is still in its embryonic stages. Other authors, however, maintain the existence of features unique to the southern European countries (Sarasa and Moreno, 1995; Ferrera, 1996; Rhodes, 1997), which remain evident in spite of the dynamics of modernisation and convergence with the northern part of the continent. On the contrary, in this scenario, the expansion of social costs – an expression of the new correlations of strength originating from democratisation – arise within the framework of specific political welfare structures whose distinctive features tend to be strengthened.

In accordance with this latter focus, the defining features of the Latin-Mediterranean welfare state, as concerns the case of Spain, can be summarised as follows:

- A virtual historical superimposition of the processes of construction and re-organisation of the social Keynesian pact. The transitions, which mainly took place during the decade from 1975 to 1985, laid the foundations of this model; its development, unlike in the rest of the European Union, took place in the context of underlying structural changes.
- The centrality of the contributory and distributive system of social security, which is highly fragmented in terms of its categories of recipients, with high degrees of protection centred in small groups of workers coexisting alongside broad layers that are excluded, thus generating the superimposition of fragmentation and dualism.
- The adoption of universal models of health care and education financed by taxation, with per capita spending levels below the European average and coexisting with more extensive private sectors than in the rest of the European Union.
- Maintenance of the family-based system of assistance, with weak public roles in the areas of social exclusion despite the establishment of new public networks of social services, and income support programmes that are partial and somewhat fragmented.
- The establishment of models of labour relations with high rates of coverage by collective negotiation but with low labour union affiliation rates. The lack of correspondence between these two indicators is higher than in the continental systems. The high coverage is explained as a labour union conquest in exchange for the re-direction of social conflict toward agreement scenarios via upward-pacting at times of transition and democratic fragility.
- A very significant impact, in comparative terms, of the European Union's social and cohesion policies in each of the countries, from both a quantitative (social spending financed by structural funds) and qualitative (adjustment of state policies to Europe's designs) standpoint.

Nevertheless, this is not a pure model of welfare state, nor has it developed in a single direction. Until the transition to democracy, corporate features were a pillar of the Franco state. The reference values of the social élites in the Franco regime were based on a rickety and authoritarian model of welfare that was enormously divergent from the European models. Since the transition and throughout the past twenty years, social policies in Spain have combined a dynamic of convergence with the European Union norms along with a dynamic of reorganisation determined by tension between the paradigms of public

regulation and the market as alternatives for generating welfare. During the 1980s, under the mandate of Spanish Workers' Socialist Party (PSOE), education and health care drew closer to social-democratic values as they became universal and tax-financed. And since the mid-1990s, with the Popular Party (PP) governments, a gradual permeation of liberal principles has been observed. However, the Spanish welfare scheme today does not fall within the parameters of neo-liberal orthodoxy. The framework of reference values is not homogeneous: universal access to health care and education services coexists with the principle of obligatory taxation on social security transfers (pensions and unemployment), with a minor public role in social assistance, and with successive waves of labour deregulation.

The construction of this welfare state in Spain cannot be understood without including in the analysis the process of political and administrative decentralisation initiated with the transition to democracy. This has led to a growing importance of the regional level of government – the *Comunidades Autónomas* (Subirats and Gallego, 2002). And despite the fact that the degree of self-government is not the same in all the Communities, they have tended to become the bodies that define and implement the social policies that have been transferred to them. The combination of both processes - of decentralisation and the creation of the welfare state - has also produced a much more fragmented and complex institutional agenda. Its fragmentation derives from the fact that in addition to the central government, there are also now seventeen autonomous governments with far-reaching powers to shape their own agenda and with the ability to intervene in highly diverse sectors. Its complexity derives from the allocation of competences as established by the Constitution and the corresponding seventeen Statutes of Autonomy.

The gradual regionalization of welfare carried out during the 1980s and the early 1990s resulted in a map in which social policies with a strong component of service provision, such as health care, education and social services, were left largely in the hands of the *Comunidades Autónomas*. In these areas, the competences are shared among levels of government: the state government approves the basic legislation, within whose framework the *Comunidades Autónomas* may also legislate, develop the corresponding regulations and manage the services. It is the Spanish parliament that, by law, defines what is basic within a matter or competence – usually those aspects that it considers should be homogeneous across the state territory. However, this distribution of powers does not require a time sequence for their exercise. In this respect, the Constitutional Court has sentenced that the *Comunidades Autónomas* may legislate in the absence of basic legislation, as their self-government capacity shall not be limited by political dynamics at the central government level. In this case, what is basic within a matter shall be deduced from the existing legal framework (Pérez Royo, 1988). By contrast, the main contributory policies, including unemployment benefit and pensions, are exclusive state competences with virtually no responsibility given to the *Comunidades Autónomas* in these fields. Among the exclusive competences of the *Comunidades Autónomas* are the income support policies with a lower redistributive and budgetary impact, such as the minimum income guarantee programmes. Finally, other policies such as housing, which take up a small proportion of the welfare budget in Spain, are shared among different government levels.

Overall, decentralization involved providing *Comunidades Autónomas* not only with decision making and implementation powers, but also with resources – namely, their own budget. However, as Table 5.1 shows, their per capita budget does not always reflect their levels of powers – some Communities with a lower powers ceiling have a larger budget per capita than some with a higher powers ceiling, while among Communities with similar powers, the budget per capita varies considerably.

INSERT TABLE 5.1 HERE

DECENTRALIZATION AND WELFARE EXPANSION

The Spanish experience of founding and developing a welfare state presents two main differences compared to that of its neighbouring European countries. Firstly, the calendar of expanding welfare in Spain began three decades later, based on the political transition that took place at the end of the 1970s. Secondly, this expansion of welfare was linked from the outset with a decentralised state structure. As a result, although the state government is responsible for designing – through basic legislation – the parameters defining the main welfare policies, the *Comunidades Autónomas* have a margin of action that enables them to make different policy choices (Gallego, Gomà and Subirats, 2003).

The process of devolving competences has been asymmetrical and complex, as it has led to the attainment of different levels of power at different points in time for each *Comunidad Autónoma*. Moreover, it has not been a technocratic but a political process. It can only be understood as an ongoing negotiation between state and regional governments, each of them pursuing different political projects. Thus, competences in health care were transferred to Catalonia, Andalusia, the Basque Country and Valencia during the 1980s, while Galicia, Navarre and the Canary Islands received them at the beginning of the 1990s. Similarly, the process of transferring competences in education to these *Comunidades Autónomas* spread through the eighties and the beginning of the nineties. Thus, for more than three legislative sessions, there have been seven *Comunidades Autónomas* with the ability to develop a basic nucleus of social policies. To this we must add that social services and income support policies have mainly been developed within the domain of the *Comunidades Autónomas* (in all of them and not just in the seven with the greatest range of competences), with relatively little participation by the central state. Finally, housing policy is a competence that is shared between the central state and the autonomous governments. The idea of equal ceilings of competences was set forth in the 1992 Autonomous Pact. Thus, in 1996 an agreement was signed to initiate decentralisation in matters of education to the remaining *Comunidades Autónomas*. The process of *de facto* transferring the competences once the agreement was signed (calculation of costs, transfer of management responsibilities, etc.) took four years.

In December 2001, agreement was reached to devolve health care to the ten remaining *Comunidades Autónomas* that did not already have this competence.

Thus, an analysis of the development of welfare in Spain lends itself to discerning sectors of policies and actions carried out by those *Comunidades Autónomas* with a greater number of competences.

Education

In the area of education, the transition to democracy marked a relative turning point in the underlying orientation of late-Franco era education policies. The laborious article 27 of the Constitution, and the Programme of School Places (*Programa de Puestos Escolares*) which was part of the 1977 inter-party Moncloa Agreements, reflect the Schooling Agreement that was part of the transition. Its basic parameters reflected mutual concessions between the right and left: the commitment to increased spending on public schooling as a specific step reflecting the right to education, and the recognition and support of a broad private network of schools as a specific step reflecting freedom of choice in education. However, the implementation processes served to erode the Schooling Agreement. The slow-down in the pace of public investment in education contrasted with the massive increase in subsidies to private schools. Additionally, the 1980 School Law (*Ley de Centros Escolares*), which sparked opposition amongst all progressive sectors, regulated the internal democratisation of schools in a highly restrictive way and consolidated the policy of indiscriminate subsidies.

PSOE's victory in the 1982 election led to a new partial substantive shift, the momentum of which – albeit with changing priorities – was maintained until the early 1990s. The basic legislation that staked out the education policy of the Socialist governments – LODE (*Ley del Derecho a la Educación*, 1985), LOGSE (*Ley General del Sistema Educativo*, 1992) and LOPEG (*Ley de la participación, la evaluación y el gobierno de los centros escolares*, 1995) – put emphasis on guaranteeing access to education. The guaranteed access policies were a feature of three types of actions. The first was the moderate yet sustained expansion of the range of public education available, especially in mid-level, post-compulsory education. The second was the substantial increase in spending on scholarships and the number of recipients. The last was a range of regulations, including the free public school network, the extension of compulsory education until sixteen years of age, use of the criteria of income and proximity when allocating scarce places in public schools, and the re-definition of the subsidised private school network with the design of criteria for financing, admissions and operations in accordance with the public school parameters. The *Comunidades Autónomas* are responsible for managing the policies ensuring access, while local governments play a minor role.

In the education policy of the autonomous governments, the most noticeable differentiating factor can be found in the two-fold school network (public schools and subsidised private schools). Andalusia, the Canary Islands and Galicia have the lowest

percentages of student registration in private schools, while Catalonia, Navarre and the Basque Country have the highest percentages, and Valencian Community lies somewhere in the middle. These groupings are reinforced by another indicator: the highest percentage of public spending on education over total spending on education can be found in the Canary Islands, Andalusia and Valencian Community. The balance between public and private schools that characterises the educational choices available varies among *Comunidades Autónomas*, and it is also the variable that best explains the characteristics, dynamics and results of the education system. Thus, the differences among *Comunidades Autónomas* depend on how the two-fold network of public and private schools is defined (Calero and Bonal, 1999). On the other hand, these differences can also be explained by historical particularities, although they are clearly strengthened or weakened by more recent political choices. These histories and choices are manifested in differentiated education systems that, perhaps even more importantly, also generate different results in terms of efficacy and fairness.

Health Care

An analysis of the contents of health care policy obliges us to examine a series of basic indicators: the nature and rate of coverage, the financing system, the scope of services available, the evolution of costs and the management model. In accordance with these parameters, the departure point for Spanish health care transition was characterised by a professional system, with broad coverage (81.4 per cent of the population). It was contributory and widespread but of low quality, and was under-capitalised and placed under the umbrella of the social security direct provision system. From 1977 until today, all of these aspects have undergone reconsideration, albeit to varying degrees. The health care policies of the Democratic Centre Union (UCD) governments (1977-1982) never underwent an overall reform process. The explanation for this lies in the fiscal weakness of the transitional state, the impact of the economic crises and the incipient conflicts arising among the network of stakeholders. Perhaps the only noteworthy change in health care policy during this stage was the introduction of user co-payment for medicines prescribed outside hospitals, with the exception of retired persons.

The health care policies of the PSOE governments (1982-1996) were founded upon two successive pillars. The 1984 Royal Decree on Basic Health Care Structures (*Real Decreto de Estructuras Básicas de Salud*) and the 1986 General Health Care Law (*Ley General de Sanidad*) reflect the first of these. The pre-existing professional and contributory model was replaced by a universal model which was financed by progressive taxation. Also, the health system was to be based on the direct provision model, which already characterized the existing public health services. The second pillar was decentralisation. The unitary provision and management scheme was replaced by a scheme involving central state co-ordination of public health care services provided by the *Comunidades Autónomas* to which these competences had been transferred. In short, the National Health Care System was established as a model of universal provision of health care services managed by different regional governments.

Public spending on health care consistently rose (from 4.30 per cent of GDP in 1980, to 5.59 in 1994, and 5.36 in 1998), although even today it is still below the OECD average, which is above 6 per cent of GDP (OECD, 2001). The spending structure reveals a significant weight in specialised care and pharmaceutical costs, which is indicative of the low level of development of primary preventative policies and the scant importance of the generic pharmaceutical market. Public coverage is situated at universal level. However, 7.5 per cent of the population – namely, civil servants – are covered by a mutuality, which reflects the survival of a corporatist arrangement.

Among the *Comunidades Autónomas*, an analysis of health care policies shows similarities and differences with the classification of education policy. Thus, Navarre and the Basque Country emerge as the *Comunidades Autónomas* which are most pioneering in terms of policy initiatives that serve as an example to both the state government and the remaining Communities, although they work within the health care system model enshrined in the country's basic regulations. Within the framework of the National Health System, they provide a model which is differentiated due to its quick response and explicit commitment not only to universal coverage, but also to needs diagnoses and corresponding health policy planning. Likewise, both *Comunidades Autónomas*, preceded in this case by Andalusia, were pioneers in the implementation of primary health care reform, and Navarre even managed to exceed the average coverage in reformed primary health care for the ten Communities managed by the state government. Andalusia is also a case of commitment to the public health care model of direct provision of services, and it is the *Comunidad Autónoma* in which primary care emergencies are the most active, with the concomitant implications of fairness in access to services. However, this Community's outstanding performance is recent, for example, in the area of the assessment of the quality of services; thus, it still identifies with the model pre-established by the state government. Finally, the Canary Islands demonstrate a commitment to the public model, yet one which is highly differentiated because of its heterogeneity and fragmentation within the public provision network itself belonging to different government levels.

The cases of Catalonia and Galicia are defined under the private, differential model, but for different reasons in each Community. Catalonia and Galicia were the *Comunidades Autónomas* in which primary health care reform, one of the pillars of the National Health Care System, evolved more slowly. In the former this can be attributed to the highly urban population, and in the latter to the highly rural population. In both, it is also due to the fact that the medical profession and the political elite were in league with each other, all of this despite the fact that Galicia received the devolution of health care competences nine years after Catalonia, with the concomitant differences in experience. Just as in the area of education, Valencian Community emerges in the middle ground, standing out in all aspects neither for its commitment to the public health care model contained in the state's basic regulations nor by offering any other alternative model or pioneering initiatives.

Social Services

Social services policy differs from the other policies in the weak definition of the subjective right to coverage, and in the minor role it occupies within the Spanish welfare system. This weakness is even more pronounced than in the rest of Europe. The 1978 Spanish Constitution does not clearly define the subjective right to social services (that is, there is no legal precept that must be adhered to in order to request, for example, a place in an assisted living home or at-home assistance for persons with physical dependencies). Nor is this right enshrined within *Comunidades Autónomas* legislation. Social assistance and social services constitute matters in which the *Comunidades Autónomas* have exclusive competences. The right of a publicly funded system of social services to exist is acknowledged, as well as the right “to” the service, and even the right to participate in the arrangement, planning and management of the services. However, neither the *Comunidades Autónomas*’ laws on social services, nor the regulations on their implementation, nor their plans or programmes, outline the real and efficient mechanisms to implement them (scope of responsibilities; human, technical and financial means; guarantees; and so forth).

The available range of not-for-profit and private services covers only part of the deficiencies in public provision, which is fragmented among levels of regional and local government and is operationally quite weak. While private provision is oriented toward services with a solvent demand, not-for-profit services prioritise those services with low economic profitability and which are frequently not covered by the public sector. To this end, it is worth highlighting that the *Comunidades Autónomas* with higher levels of per capita income usually have higher percentages of public social services (Equipo EDIS *et al.*, 1998). Thus, among the seven *Comunidades Autónomas* being examined, the Canary Islands, Catalonia, Valencian Community and the Basque Country have the greatest presence of public social services, while Andalusia and Galicia provide fewer services. Precisely in these two latter Communities, which are among those with the highest poverty rates in Spain, Caritas and the Red Cross have a greater presence than in the former group.

Housing

Housing policy is also an extremely weak component of the welfare state and, as in the case of social services, it is more noticeably so in Spain than in the rest of Europe. Despite the general trend toward a crisis in accessibility due to rising prices, market deregulation and the predominance of homes priced on the free market, differences can be discerned in the public policy choices made by the *Comunidades Autónomas*. Average public spending in this area in the Basque Country, Navarre and Andalusia is almost double that in Catalonia, Valencian Community and Galicia. Along these lines, the

Basque Country and Andalusia have opted for more intense protective measures, while the latter three have chosen weaker protective measures (Ministerio de Fomento, 2000). Nevertheless, the development of an active housing policy does not always imply the predominance of low prices on the market (as shown by the case of the Basque Country), nor does a weak policy imply high prices (as shown in the case of Galicia). In other *Comunidades Autónomas*, however, such as Catalonia and Navarre, there is indeed a direct correlation between the intensity of the policy and a greater or lesser ability to affect housing prices.

In sum, welfare expansion in Spain had its foundation on the democratic transition of the late seventies, and was part of political compromises by some of the main state-wide parties. The leftist parties managed to bundle together democracy and welfare. Thus, establishing a welfare state played a legitimising function, but more for the new political regime – a democracy – than for a process of nation-building. In fact, nation-building at state level was inevitable reminiscent of the centralising model that had characterized the Francoist dictatorship. The result of the negotiation and correlation of forces during the transition on this issue, between a right wing supporting a unitary state and a left-wing supporting a federal state, was a half-way solution – an *Estado Autonómico* which could guarantee the same level of citizens' rights across the territory, but which could also allow for some regional specificities.

EXPANDING REGIONAL WELFARE

Although the main welfare policies were developed in Spain during the 1980s, in the 1990s the need for their reform began to be considered in light of the propositions being formulated internationally. Some of the main avenues of reform initiated in Spain's neighbouring countries during the 1980s focused on the instruments of public intervention. In terms of forms of organisation and service provision, in which hierarchical, integrated structures predominated, the tendency has been toward fragmentation into a network of independent organisations that are specialised according to function (regulatory, purchasing, providers). The mechanisms for financing this network of organisations have also been modified, with budgetary allocations being replaced by financing based on contractual mechanisms. In certain cases, these might include incentives for more efficient management and the competition for resources, both public and private. These changes have been accompanied by immediate effects in the public domain. On the one hand, the margin for manoeuvre has been expanded for the public stakeholders within the framework of private law; on the other hand, the network of actors involved in providing benefits and services has become more complex as it has been opened up to private and not-for-profit stakeholders.

Thus, the service-providing areas that make up the basis of the welfare state, such as universal health care and education services, have been subject to in-depth reforms in their management instruments. Likewise, other areas of intervention with less budgetary

implications, such as social services, and which are key in more highly consolidated welfare states, have been affected by international trends towards reform. In the case of Spain, despite a point of departure characterised by much weaker intervention in these sectors, strong re-organisational currents have also been unleashed. Finally, in emerging areas, such as income support and active employment policies, although experience is still quite recent, a commitment and capacity for intervention can be detected among all levels of government involved.

In this respect, the *Comunidades Autónomas* have followed the prevailing trends emerging from both the central government and other European countries in their efforts to develop new forms of intervention. However, the ability to create new management instruments and generate dynamics and networks of stakeholders linked to these cannot be explained solely by the political will of the political élites in the *Comunidades Autónomas*. This ability has also been affected by factors such as the timing of the devolution of competencies, as well as by the amount of all types of resources with which each *Comunidad Autónoma* started in these sectors. Thus, despite the fact that the state's basic regulations envisage, for example, a model of direct provision for a certain service which must be organised and managed by the *Comunidades Autónomas*, if these Communities already have a service-providing structure that lends itself more to a model of indirect provision, this Community will tend to develop instruments and encourage networks of stakeholders more in line with the latter, as will next be analyzed.

Education

Education policy presents similar challenges and instruments for intervention among all seven *Comunidades Autónomas* with the broadest range of competence in this sphere. The process of modernising the education system has also included instruments aimed at improving schools' decision-making autonomy while at the same time facilitating the participation of stakeholders from within the education sector. The difficulties encountered in the implementation of these measures are common to all the *Comunidades Autónomas* as well. During the 1990s, partly in response to these difficulties, the sector tended toward deregulation, thus making student admission criteria more flexible and diversifying schools' sources of financing. These measures have contributed to deepening the two-fold nature of the education network. This degree of duality remains the clearest criteria for identifying differences among the *Comunidades Autónomas*, with all of them sharing the complex model of networks of stakeholders characteristic of the education system. Nevertheless, one can distinguish a greater prominence of management instruments in line with the private sector in three Communities (Catalonia, Navarre and the Basque Country), while in the others (Andalusia, the Canary Islands, Valencian Community and Galicia) the use of instruments characteristic of the public domain is more prominent.

Health Care

In the area of health care policy, the reform of the instruments for intervention has been a main feature in the debates and choices of both the central government and the autonomous governments with devolved competences in health care. Indeed, the health care system as defined by the state's basic regulations includes among its defining features specific instruments for intervention. This made up an integrated model of direct provision of services with completely public regulation in all its organisational and managerial aspects. As early as the 1990s, the Abril Report (*Comisión para el Análisis y Evaluación del Sistema Nacional de Salud*, 1991) succinctly set forth the choices for change in health care policies. First, the discourse on rationalisation was accompanied by cutbacks in the range of public services provided: the list of services and the list of medicines financed by the National Health System, which, in a context of a weak culture of social rights, opens the door to the possibility of rejecting the inclusion of new benefits due to costs. Likewise, the model of public management began to be re-organised with the introduction of market mechanisms, though only in selected experiences, such as the introduction of programme-contracts. Regulation and service production were segregated in a few self-selected hospitals (health care foundations) that opted out of the direct management system.

Nevertheless, differences can be seen among the *Comunidades Autónomas*. The Basque Country, Navarre and Andalusia stand out for their emphasis on health care personnel being civil servants, and for the role the labour unions played in these processes. Galicia, the Canary Islands and Valencian Community have had the greatest difficulties in implementing the model defined in the basic legislation of the state government, albeit for different reasons. Catalonia is the most highly differentiated case. This *Comunidad Autónoma* developed instruments for intervention that laid the foundation for a model of indirect provision with the involvement of a complex network of public, semi-public and private stakeholders (Gallego 2000). Only two *Comunidades Autónomas* (Catalonia, including the private sector, and the Canary Islands, with a complex public sector) present models of complex networks of stakeholders, while the remaining Communities have simple models. Finally, the three Communities that have experimented the most with management instruments from the private sector are Catalonia, Galicia and Valencian Community.

Social Services

In the area of social services, models of complex networks of stakeholders and management instruments from the private sector predominate. Social services policy shows a weakness in its forms of intervention, which denotes a strong lack of public commitment. This weakness is reflected on an organisational level, in terms of both financing and the structure of service provision. The *Comunidades Autónomas* have supplemented the scant financing mainly coming from central government by only marginal amounts. The structure of social service provision is fragmented amongst

different levels of government, different departments within each of these, and amongst the public, private and not-for-profit service providers. Thus, it is difficult to establish distinctions between the different *Comunidades Autónomas* in terms of the actions carried out by their respective governments. All the *Comunidades Autónomas* share not only this fragmentation, but also the bureaucracy derived from *Comunidad Autónoma* regulation, a lack of co-ordination in the provision of services, and a low degree of involvement by municipalities in this area of intervention. The wealthiest Communities have more social services of all types and more providers, and they register higher levels of use, but there is no evidence to suggest that this is due to a greater use of their capacities for self-government.

Housing

Housing policy has not become a significant pillar within the welfare state, and it is allocated considerably fewer funds compared to the other sectors. What is more, in housing policy the autonomous governments have not been granted capacities for action similar to those found in the education and health care sectors, or even in the social services sector. Unlike these sectors, housing policy is characterised by a strong focus on the main instruments of intervention, especially the regulation of access to government-subsidised housing, with its concomitant financial implications, and the regulation of the rental market. The only exception is the Basque Country, which does have regulations granting it full capacities to act on access to and loans for government-subsidised housing. Beyond this multi-level configuration, all the *Comunidades Autónomas* have opted for a strongly agency-based management model, with public or mixed operators which are independent from departmental organisations. However, widely divergent scenarios once again emerge when analysing the network of public and social stakeholders involved in public housing promotion. This ranges from *Comunidades Autónomas* with scant involvement by social initiatives and municipal governments (Galicia) to others which are strongly co-operative and local in nature (the Canary Islands and the Basque Country), to numerous combinations falling somewhere in the middle. Whereas in Galicia and Valencian Community the management instruments tend to be modelled after those in the private sector, in the Canary Islands, Navarre and the Basque Country, models involving complex networks of stakeholders are more common.

Income Support

Income support policies are aimed at providing assistance to those who are poor or excluded but who in theory are “capable” of earning a living, and who at the same time do not have access to contributory benefits or any other type of assistance benefits, such as unemployment insurance. In Spain, these policies have tended to be inspired by the French model of income support (*Revenu minimum d’insertion*, RMI). Income support, as the last economic or social assistance safety net, has been regulated by all the *Comunidades Autónomas* since the late nineties. These regulations are heterogeneous in nature and, in all cases, the income support provided is far below European levels in

terms of the sufficiency of the benefit, coverage, financing and the definition of the subjective right to it (Aguilar, Gaviria and Laparra, 1995). In fact, only the Basque Country has an income support system which fully integrates the components of economic benefit and workplace and social integration. Catalonia and Madrid are the Communities that are closest to this model, but their levels of sufficiency, coverage and financing are among the lowest of the seventeen *Comunidades Autónomas*. (However, it is worth mentioning the case of Navarre, which without meeting the criteria of being income support *per se*, has a protected social employment programme which reaches levels of sufficiency, coverage and financing equal to, and in some cases superior to, those in the Basque Country [Ayala, 2000]). In general, there is no direct correlation, rather a somewhat reverse correlation, between the poverty indexes in the *Comunidades Autónomas* and the levels of sufficiency, coverage and financing of income support programmes.

In the area of income support, the management instruments are public in all the *Comunidades Autónomas*, which is why what has gradually been defined as their main component – economic transfer – is managed by the corresponding public authorities. Nevertheless, insofar as the integration and activation mechanisms (which have to be further developed) are linked to the component of economic transfer, the network of stakeholders involved is potentially very complex. In line with the trends noted in social services and active employment policies, the mechanisms of social and workplace integration can at times involve diverse Community stakeholders, both for profit and not-for-profit.

Active Employment Policies

It is difficult to draw a map of these interventions due to the recent onset of a comprehensive view of these policies as a series of actions aimed at creating and maintaining employment. Active employment policies have been adopted quite recently by the *Comunidades Autónomas* – the first to receive competences in this area were Galicia and Catalonia in 1998. Nonetheless, the first employment agreements were signed in 1997 in Andalusia, the Canary Islands and the Basque Country. In the two following years the remaining *Comunidades Autónomas* joined this trend (Ministerio de Trabajo y Asuntos Sociales, 2000). These initiatives have been associated with a high degree of institutional fragmentation, as well as fragmentation in the active policies themselves. In fact, there is a strong presence of multiple governmental domains in the active policies, encompassing everything from the European Union to the local sphere, with each having its own relevant activities. These employment agreements, with different structures and levels of specificity, constitute a series of initiatives promoting employment that is quite homogeneous and similar to the avenues of intervention carried out by the state. On the other hand, in certain *Comunidades Autónomas* there has been an attempt to design active employment policies that are in consonance with other areas of intervention related to economic promotion. Nevertheless, the extent of the *Comunidades Autónomas* engagement in such employment agreements can be further enhanced.

To date, we can observe a significant degree of dependence by the *Comunidades Autónomas* on the instruments for intervention developed by the central government in the areas of occupational training, job orientation and labour intermediation. The interventions in matters of labour policy lack mechanisms for diagnosing the situation, follow-up management and impact assessment that would enable them to be monitored and updated. The mechanisms for labour intermediation have tended to be duplicated, and they also tend to overlap (the National Employment Institute, INEM, and the homologous employment services in the *Comunidades Autónomas*) without there being a base of co-ordination between them. Nor have functional links been established with the town halls that participate in this area. Another general trend is the growing participation by social stakeholders and organisations outside the administration in the management of active employment policies. In this way, the employment plans contribute to creating highly plural arenas of co-ordination. Some differences have already begun to come to light, such as the greater number of initiatives in Andalusia and Navarre compared to the other *Comunidades Autónomas*, and the non-participation by the Basque government in the agreements signed in its Community, while the other governments do participate.

In sum, regional welfare reforms over the 1990s have mainly focused on the management dimension. There is no evidence that these reforms have had a substantial differential impact on citizens' rights across regions, as such rights are defined within the general basic legislation enacted at the state level. Some differences have emerged in policies such as income support, but these play a minor role within the Spain welfare system. Such differences are within the domain of regional self-government powers and have produced a 'race to the top' rather than 'race to the bottom' strategy. Such a development may be interpreted as a consequence of the *Comunidades Autónomas*' lack of full fiscal responsibility. However, this hypothesis could be questioned. The Basque Country and Navarre are the *Comunidades* which have achieved the highest levels of public commitment to income support policies, and they are the only ones with nearly full fiscal responsibility, as they collect and spend almost all their own taxes (except for Social Security contributions). In any case, the extent to which this 'race to the top' strategy has led to a process of territorial identity-building at the regional level is an empirical matter which has yet to be analysed.

CONCLUSION: THE EMERGENCE OF DISTINCT REGIONAL WELFARE REGIMES?

In Spain, the decentralisation of the welfare state has led not only to the emergence of public policy choices which vary on a regional level, but also to the need to replace the concept of welfare state with that of welfare regime. Each *Comunidad Autónoma*'s different points of departure, with respect to social structure, resources or institutional background, have revealed the importance of domains other than those of the public authorities in order to understand the policy choices adopted. The distinctive welfare

regimes have emerged from the allocation of responsibilities and functions related to welfare (both individual and collective) among the state, private, family and community domains.

Since the end of the 1970s, the Spanish state's responsibilities and capacity for intervention in the social sphere has experienced unprecedented growth. This growth reflects the creation and consolidation of a welfare state which in a short time has reached levels of protection similar (although still below) the European average, taking on functions and responsibilities that had previously fallen on the family, private or community domains. This increased state interventionism via social policies has taken place parallel to an increasing questioning of the welfare state in the more advanced countries. In these countries, the state has tended to lose importance by allocating resources to the market (for the middle classes), and transferring responsibilities to the family and the community (for the working classes). Spain has not been immune to these trends. In the provision of welfare services, the Spanish state, as in other countries, is no longer the only actor in welfare provision and has tended to transfer responsibilities and functions to the market, the family and the community.

In this context, we can plot the different areas of intervention according to the responsibilities taken on by the state, family, private and community domains (Figure 5.1). An overall interpretation of the choices made by the seven *Comunidades Autónomas* with higher ceilings of competences leads us to conclude that the areas of social services, income support and housing fall mainly under the responsibility and influence of the family and private domains. The low level of intervention of the public domain in these three sectors deflects these functions and their direct and indirect costs to families (depending on their purchasing power). In the case of active employment policies, the weak degree of public intervention, and the difficulty for the family domain to take on job creation, leads these policies to be placed in the sphere of influence of the private and community domains. Nevertheless, the influence of the private domain is greater than that of the community domain, given the weakness of the latter and of the agents involved in it compared to neighbouring countries. The areas of education and health care are those with the highest degree of public intervention, mainly due to the process of making both of these services universal. However, the degree of public intervention in relation to the market (the degree of de-commodification) is higher in health care than in education, since in the latter the two-fold public-private network in several *Comunidades Autónomas* shows a broader range of different choices other than the strictly public choice found in the area of health care. Finally, health care, but not education, is shared between the state and family domains (in fact, Spain has one of the lowest rates of hospital beds per inhabitant in Europe [4 beds per 1,000 inhabitants, as against 6.1 in the European Union and 7.3 in Europe, in 2001], with families assuming responsibility for care where at-home assistance is underdeveloped, as in the Spanish case) (World Health Organization 2004).

INSERT FIGURE 5.1 HERE

The *Comunidades Autónomas* with the greatest number of competences can also be plotted in a space that shows the relationship between the state, private, family and community domains. This enables us to identify the welfare regimes in the *Comunidades Autónomas*, that is, the predominant trends that these Communities have followed when allocating responsibilities for welfare to the stakeholders in the different social domains (Figure 5.2). A holistic interpretation of the main choices that Andalusia has made in the welfare policies analysed place it in the quadrant defined by the state and family domains. There is a more intense preference here than in the other *Comunidades Autónomas* to promote the public presence and public activities in a *Comunidad Autónoma* where, at the same time, the family is highly important when taking on functions and responsibilities not covered by the public sector. Catalonia, on the other hand, has tended to fall within the quadrant defined by the private and community domains. Despite the fact that, as in the other Communities, public intervention in Catalonia has experienced an unprecedented increase in the past twenty years, the private and community domains have been promoted by both the institutions and civil society itself. Indeed, the network of associations in this community is especially dense and dynamic. This latter characteristic is shared to a large extent by the Basque Country and Navarre, but these two Communities have stood out, in the majority of policy areas, in their promotion of the public domain above all the others. Finally, Galicia and Valencian Community tend to be situated at the beginning of the quadrant influenced by the family and private domains. Their choices in the different policy areas have shown a certain degree of weakness in their ability to promote public intervention, although the Community domain is neither highly dynamic nor able to take on the welfare functions that are not publicly covered. In the case of Galicia, the family domain has tended to be more prevalent due to its more rural social structure, while in Valencian Community, the market has taken on a more central role.

INSERT FIGURE 5.2 HERE

The different regional welfare regimes that are emerging in Spain as a result of the decentralization of powers to the *Comunidades Autónomas* may pose a challenge to more territorially homogeneous conceptions of the welfare state. However, according to a survey conducted in September 2002 by the *Centro de Investigaciones Sociológicas*, an immense majority of the Spanish population would like the degree of self-government of their Community to be either the same as it was then, or even higher (see Table 5.2). The main difference among Communities is the distribution of percentages between those preferring the same and those preferring a higher degree of self-government. There are five Communities in which 50 per cent of their population or more (up to 68 per cent) would prefer a higher degree, among which there are Catalonia and the Basque Country. In Canary Islands, Galicia, Andalusia and Valencian Community the percentages are more evenly distributed, each choice appealing to around 40 per cent of their populations. Navarre appears to be an outlier among the Communities with a higher competencies ceiling, as more than 60 per cent would prefer the same degree of self-government.

INSERT TABLES 5.2 AND 5.3 AROUND HERE

The institution building process and the increasing role of autonomous governments have provided regions and their political elites with a wide range of identity-building tools and opportunities. Although it cannot be argued that citizens' identity feelings are a direct effect of the policy options of the *Comunidades Autónomas*, it may be interesting to point out some data (see Table 5.3). A large majority of Spaniards express an equal dual identity, that is, their sense of being Spanish is as strong as their sense of being from their own *Comunidad Autónoma*. Only in four Communities did those with a dual identity fall below 50 per cent of the population. Among the latter, citizens in Catalonia and the Basque Country, with 40 per cent and 49 per cent respectively, identify either more or only from their Community. These figures compare with 31 per cent and 47 per cent for the period 1990-1995 (Moreno, 2001: 116). Galicia, Navarre, Canary Islands and Valencian Community have between 50 and 60 per cent of the population with an equal dual identity; the former three with 20 to 25 per cent who feel more from their Community, while only 13 per cent in Valencian Community. Among the seven Communities analyzed, Andalusia shows the highest percentage of population with an equal dual identity (70 per cent, which contrasts with 58 per cent for the period 1990-95), and with 13 per cent feeling more Andalusian than Spanish.

Overall, taking both sets of data together, it could be interpreted that the vast majority of the Spanish population approve of the degree of self-government provided to the *Comunidades Autónomas* as a new regional government level, and that they have massively developed a dual identity or sense of belonging, which makes compatible simultaneous territorial allegiances. There is evidence that in *Comunidades Autónomas* such as Catalonia and the Basque Country there has been an increase in the percentage of citizens that identify more with their respective Communities, and in others such as Andalusia, there has been a decrease in those who identify as only Spanish. There is also evidence that in most *Comunidades Autónomas* regional institution-building has itself been used by political elites as a tool to build new regional identities where they did not exist, or to increase existing nationalist political identities (Grau 2000). However, there is no evidence that the evolution of territorial allegiances are a direct consequence of welfare decentralization, as these survey questions did not link both variables when they were defined. Some case studies do show that nationalist elites in some *Comunidades Autónomas* were aware that self-government in welfare policies could provide them with a tool in the politics of nation-building, as in the case of health policy in Catalonia, and they have explicitly used its leverage (Gallego, 1998). Nonetheless, welfare policies, just as any other policy sector, such as infrastructure or industrial policy, are not in themselves a nation-building tool. Any policy may become a nation-building tool depending on how the political elite conceptualizes, formulates and manages it. Therefore, more research on the connection between nation-building (both at state and regional level) and decentralization of welfare would need to be developed in order to formulate cross-regional generalizable conclusions for the case of Spain.

REFERENCES

- Aguilar, M., Gaviria, M. and Laparra, M. (1995) *La caña y el pez: Estudio sobre los salarios sociales en las Comunidades Autónomas*, FOESSA, Madrid.
- Ayala, L. (2000) *Las rentas mínimas en la reestructuración del estado de bienestar*, Madrid, Consejo Económico y Social.
- Calero, J. and Bonal, X. (1999) *Política educativa y gasto público en educación*, Barcelona, Pomares.
- Castles, F. (1995) 'Welfare state development in Southern Europe', *West European Politics*, vol. 18, no. 2.
- Comisión para el análisis y la evaluación del Sistema Nacional de Salud (1991) 'Informe del análisis y evaluación del Sistema Nacional de Salud', mimeo, Madrid, Congreso de Diputados.
- Equipo EDIS *et al.* (1998) *Las condiciones de vida de la población pobre en España. Informe general*, Madrid, FOESSA.
- Esping-Andersen, G. (1990) *The Three Worlds of Welfare State*, Cambridge, Polity Press.
- Ferrera, M. (1996), 'The "Southern Model" of welfare in social Europe', *Journal of European Social Policy*, 6: 17-37.
- Gallego, R. (1998) 'New Public Management Reforms in the Catalan Public Health Sector, 1985-1995: Institutional Choices, Transactions Costs and Policy Change'. Ph.D. Thesis. London, London School of Economics and Political Science.
- Gallego, R. (2000) 'Introducing Purchaser/Provider Separation in the Catalan Health Administration: A Budget Analysis', *Public Administration – An International Quarterly*, vol. 78, no. 2: 420-439.
- Gallego, R., Gomà, R. and Subirats, J. (eds.) (2003) *Estado de bienestar y Comunidades Autónomas: La descentralización de las políticas sociales en España*, Madrid, Tecnos-UPF.
- Grau, M. (2000) *The effects of institutions and political parties upon federalism. The channelling and integration of the Comunidades Autónomas within the centre level policy process, 1983-1996*. Ph.D. Thesis. Florence, European University Institute.
- Ministerio de Fomento (2000) *La desigualdad urbana en España*, Madrid, Ministerio de Fomento.
- Ministerio de Trabajo y Asuntos Sociales (2000) *Pactos y medidas de fomento del empleo en las Comunidades Autónomas*, Madrid, Ministerio de Trabajo y Asuntos Sociales.
- Moreno, L. (2001), *The federalization of Spain*. London, Frank Cass.
- OECD (2001). *Social expenditure database 1980-1998*. Paris, OECD.
- Pérez Royo, J. (1988) *Las fuentes del derecho*. Madrid, Tecnos.
- Rhodes, M. (1997) *Southern European Welfare States*. London, Frank Cass.
- Sarasa, S. and Moreno, L. (eds) (1995) *El estado de bienestar en la Europa del Sur*, Madrid, Centro Superior de Investigaciones Científicas.

Titmuss, R. (1974) *Social Policy*. London, Allen and Unwin.

Subirats, J. and Gallego, R. (eds) (2002) *Veinte años de autonomías en España: Leyes, políticas públicas, instituciones y opinión pública*, Madrid, Centro de Investigaciones Sociológicas.

World Health Organization (2004) www.who.dk/hfadbf (last accessed June 9, 2004)

Table 5.1: *Budgets of the Comunidades Autónomas, 2002 (euros per capita)*

<i>Comunidades Autónomas</i>	<i>Euros per capita</i>
<i>a) Higher powers ceiling (include health):</i>	
Navarre+	4,266
Basque Country+	2,852
Canaries	2,502
Galicia	2,448
Andalusia	2,366
Catalonia	2,120
Valencia	2,051
<i>b) Lower powers ceiling (does not include health*):</i>	
<i>Pluriprovincial:</i>	
Extremadura	2,352
Aragon	2,086
Castille and Leon	2,080
Castille-La Mancha	1,994
Balearics	1,271
<i>Uniprovincial**:</i>	
La Rioja	1,935
Cantabria	1,903
Asturias	1,875
Murcia	1,427
Madrid	1,421

+: Navarre and Basque Country have a different financing system – they collect their own taxes and negotiate with the Spanish government the share they transfer to it in payment for the services that the peripheral Spanish administration still provides in their territories.

*: The agreement to transfer health to these *Comunidades Autónomas* was signed in December 2001, but the transfer process has not yet been completed.

** : The *Comunidades Autónomas* composed of only one province receive less money from the central government mainly because the provincial administration merged with the *Comunidad Autónoma*'s administration. By contrast, the *Comunidades* with more than one province kept their corresponding provincial administrations differentiated and active (one *Diputación Provincial* per province).

NB: These budgets do not include the money that is earmarked to be transferred to municipal governments.

Source: Adapted from Tornos (dir.) (2003: 569)

Table 5.2. *Would you like the degree of self-government of your Community to be higher, lower or the same as it is nowadays?*

<i>Comunidades Autónomas</i>	<i>Higher</i>	<i>Same</i>	<i>Lower</i>	<i>Doesn't know/Doesn't answer</i>
Aragon	68	21	3	8
Catalonia	62	28	5	6
Basque Country	53	30	3	14
Extremadura	52	34	4	11
Balearics	50	38	3	9
Castille and León	47	30	5	18
Canary Islands	46	34	6	14
Castille-La Mancha	41	39	8	11
Galicia	39	46	6	10
Andalusia	38	39	5	19
Valencian Community	36	48	9	7
Asturias	34	40	7	20
Cantabria	32	52	9	7
Madrid	27	54	8	11
Navarre	26	63	1	10
La Rioja	21	59	8	12
Murcia	20	49	15	16

NB: This survey was carried out by the governmental agency, *Centro de Investigaciones Sociológicas*, in September 2002 (study n. 2475)

Source: Adapted from Centro de Investigaciones Sociológicas (2003:9)

Table 5.3: *With which of the following sentences do you identify to a higher degree?*

<i>Comunidades Autónomas</i>	<i>I feel onl Spanish</i>	<i>More than Community</i>	<i>Spanish from m. Community</i>	<i>As Spanish a m. from m. Community</i>	<i>More from m. Community than Spanish</i>	<i>Only from m. Community</i>	<i>Doesn't know/Doesn't answer</i>
Extremadura	3	6	75	13		2	1
Aragon	5	5	73	14		1	1
Andalusia	7	7	70	13		2	1
Asturias	4	4	67	21		2	2
Murcia	21	8	66	3		2	0
Galicia	5	4	58	25		7	1
Cantabria	17	11	57	11		0	4
Castille-La Mancha	23	14	57	2		1	4
Navarre	3	4	55	20		11	7
Castille and Leon	28	12	55	3		2	1
Canary Islands	5	2	52	23		15	3
Valencian Community	21	13	52	13		1	1
La Rioja	8	11	50	18		1	12

Balearics	12	5	49	16	11	8
Madrid	30	14	43	3	2	9
Catalonia	12	8	37	24	16	2
Basque Country	5	3	34	19	25	15

NB: This survey was carried out by the governmental agency, *Centro de Investigaciones Sociológicas*, in n September 2002 (study n. 2475)

Source: Adapted from Centro de Investigaciones Sociológicas (2003:10)

Chapter 6

From the Southern to the Northern

Question:

Territorial and Social Politics in Italy

Valeria Fargion

INTRODUCTION

In the introduction, the editors to the volume remind us how shared national identity ‘represents an essential pre-requisite to the functioning of redistributive welfare systems’ (cf. Miller, 1995). Given these premises, the case of Italy appears extremely interesting: from its very origins, the Italian state suffered from a low sense of national identity, and almost 150 years later it is still struggling with this crucial issue. Under these circumstances, one can expect Italy to somehow deviate from the path which continental and northern European countries followed. In the latter countries, a widespread sense of national belonging allegedly facilitated the introduction of social protection entitlements, which in turn reinforced the polity’s boundaries, and interpersonal bonds within it. By contrast, the weakness of Italian national identity and civic culture – as Almond and Verba suggested in their pioneering work – might be seen as spurring what March and Olson (1993) define as aggregative politics: an outcome which stands at odds with any integrative strategy aimed at strengthening the common bases of citizenship. In fact, one can easily envisage a vicious circle, whereby the parcelling out of ‘provisions’, while not challenging the consolidation of

state building processes, further undermined the construction of a sense of national identity. Yet, without a basic understanding of Italy's political, cultural and economic heritage, any further elaboration of this hypothesis rests on shaky grounds. Post-war developments of both territorial and welfare politics are embedded in long-term trends which can hardly be ignored if we are to fully grasp their rationale and current implications. Thus, before turning to an examination of the Italian social protection system from a territorial perspective, I shall first concentrate on the historical junctures which provide the background against which social policy choices are made.

ITALY AND THE SOUTHERN QUESTION

A few words are in order on the very origins of the Italian State. Notably, among European nation-states, Italy was a latecomer. The unification of the country only occurred in 1861 under the House of Savoy which originally reigned over Piedmont; most importantly, involvement in the national liberation movement – the *Risorgimento* – was largely confined to the country's cultural and socio-economic élite. The myth of Italy, namely the idea of bringing the country back to the splendours of ancient Rome after centuries of foreign domination, inflamed intellectuals and larger social groups in urban areas. But, it was alien to the peasantry and, thus, to the bulk of the population, which was overwhelmingly illiterate, only spoke local dialects and very often lived under feudal conditions, especially in the South.

D'Azeglio, a prominent statesman in the early days of the new Kingdom, made the point very clearly by suggesting: 'we have made Italy. Now we must make Italians'. Unfortunately, the ruling class in power during the second part of the nineteenth century did very little to fulfil this task. Actually, in many ways the various coalitions running the country over the period further deepened the territorial cleavage which already existed between northern and southern Italy.

The newly established Italian government opted for a highly centralized political and administrative system, by extending Piedmontese rules and institutions to the rest of the country. In principle, this was supposed to avoid the resurgence of pre-unitary states and enhance national standards, but in practice, it was perceived, especially in the South, as an utter imposition, which soon came to be known as 'Piedmontization'. The negative implications of the process appear most clearly if one considers that, in the backward and impoverished areas of the *Mezzogiorno*, the Italian state essentially meant new taxes, compulsory military service, and repression by the armed forces of revolts by peasants asking for land. To fully appreciate this outcome and its long-term consequences, one also needs to place into the picture the role played by the landed aristocracy. In return for maintaining their privileges, large landowners from the South pledged allegiance to the new monarchy, and entered what can be labelled a non-

interference agreement with the emerging class of northern entrepreneurs. As a result, while northern Italy rapidly industrialized, especially in the triangle between Turin, Genoa and Milan, economic modernization was entirely blocked off in the South.

In short, although the historical roots of the duality between North and South can be traced as far back as the Middle Ages, the first four decades following the birth of the Italian state appear of paramount importance. The basic features of what came to be known throughout the twentieth century as the ‘Southern question’ were largely shaped by the territorial and political settlement of those early days. Southern scholars raised their voice against the administrative mismanagement of their regions and extensive draining of resources in favour of northern economic development. But their well-documented claims only managed to build up a considerable body of literature!

The gap between the two Italies continued to widen after the turn of the century. Furthermore, neither the Liberal Cabinets running the country before the first world war nor the Fascist regime – which came into power in the aftermath – were successful in their nation-building efforts. Giolitti moved in this direction: firstly, by attempting to integrate Catholics in political life and thereby overcome the harsh conflict between state and church^{iv}; secondly, by extending suffrage to the masses; and thirdly, by legitimizing workers’ organizations. Notably, the inclusive strategy underpinning these moves failed in the midst of the social upheavals following the end of the Great War. The transition to mass democracy gave way instead to an authoritarian regime, under the pressure of the right-wing Fascist movement, supported by an alliance once more between large landowners and industrialists.

It goes beyond the scope of this article to discuss the various aspects which characterized the 20 years of Italian Fascism. For the purpose of my argument, it will suffice to recall the following: on the one hand, while tightening its grip on civil society, the Fascist Party enhanced the centralization of the political and administrative system, and abolished (among others) elected local governments; on the other hand, the Regime’s agricultural policy tended to isolate rural from urban areas, letting the South drift even further away from the Centre-north, and allowing it to linger in backwardness – especially from a social and cultural point of view.

As a result, after the collapse of the Fascist regime and the end of the second world war, Italy returned to democracy with the burden of an unsolved Southern Question. Actually, between 1946 and 1947, the writing of a new constitution opened a ‘policy window’ for a redefinition of centre-periphery relations, albeit one which was promptly closed by the cold war’s impact on Italian politics. In detail, the Christian Democratic Party, in line with the principles of subsidiarity embedded in its pre-fascist heritage, supported the idea of a regional state. Hence, the constitution envisaged the establishment, within one year, of 15 regions under ordinary statute and five under

special statute. The latter regions – namely Sicily, Sardinia, Valle d’Aosta, Friuli and Trentino Alto Adige – were supposed to enjoy greater autonomy to address specific geographic, linguistic and ethnic problems.

Yet, for over 20 years the constitutional design largely remained a dead letter. In the cold war climate – with the ending of the Grand Coalition in power during the immediate post-war period and the ousting of the Communist and the Socialist Party from government – Italy witnessed a complete role reversal between the Christian Democratic Party (DC) and the Communist Party (PCI) concerning the regional issue. By taking full advantage of its sweeping victory in the 1948 elections, the Christian Democratic Party decided not to implement the relevant constitutional provisions – to prevent the so-called red-belt regions of Emilia Romagna, Tuscany and Umbria from falling in the hands of the Communist Party. The latter in turn, along with the Socialist Party, became the staunchest defender of decentralization and the establishment of regional governments. While the five regions under Special Statute were gradually established between 1948 and the mid-sixties, it was only in 1970 that the regions under ordinary statute were at last set up.

The institution of this new level of government occurred within the context of the political axis’ progressive shift from centre to centre-left coalitions, and was hailed by a growing regionalist front as the Trojan horse which would trigger administrative innovation of state bureaucracy and economic modernization. At a distance, and especially by keeping in mind the entrenched geographical disparities illustrated above, these expectations appear far too high and definitely require territorial qualification. Furthermore, during the first stage of the devolution process, central government opted for a very restrictive interpretation of what the Constitution originally envisaged. The transfer of powers enacted in 1972 did not consider policy sectors as a whole; but gave the regions responsibility only for specific and detailed issues. This was corrected in 1977, when the national government provided for a comprehensive shift of legislative responsibility in the areas listed by article 117. Nevertheless, the central level of government continued to control the purse strings, by almost exclusively using earmarked funding.

If regional governments had almost no fiscal autonomy until the last decade – which marks a watershed not only in centre-periphery relations but also in the Italian party and political system as a whole – local governments were in no better position. Despite being confronted with entirely different problems, metropolitan cities like Rome or Milan, and small municipalities with a few hundred inhabitants, had to conform to the same antiquated legislative framework dating back to the Fascist period, precisely to 1935.

But how did the post-war territorial arrangement briefly outlined in these paragraphs impinge on the North-South divide which the republic inherited from the previous period? The continuation after 1945 of a predominantly centralist approach was not necessarily at odds with the redressing of territorial imbalances. In fact, the governments ruling the country during the 1950s, 1960s and 1970s invested a considerable amount of public expenditure in promoting state-assisted industrialization in the South. The largest proportion of available resources was funnelled to the single purpose agency which was specially set up to promote Southern development: the *Cassa per il Mezzogiorno*. From an economic point of view, the strategy failed,^{iv} ending with the closing of most state-owned firms over the course of the 1980s. Yet, for the purpose of this chapter, it is social policy rather than economic policy development which appears most interesting. Hence, in the following sections, I shall consider how welfare state measures affected the unfolding of centre-periphery relations and whether or not they helped bridge the gap between the North and South of Italy.

A DUAL WELFARE STATE FOR A DUAL POLITY

Despite the existence of an abundant literature covering most aspects of Italian social policy, available studies have not yet directly addressed the questions raised above. In attempting to fulfil the task, I shall not engage in a comprehensive overview of the country's social protection system, which could hardly contribute to cumulative knowledge on the subject. Rather, I shall try to assess the extent to which the distribution of social policy benefits mirrors a territorial pattern.

In approaching the issue, the pension system appears as the most obvious starting point. Over the post-war period, pensions progressively received the lion's share of social spending. At the beginning of the 1950s, pension expenditure represented 45% of total outlays for income maintenance programmes, equal to spending on family allowances. Over the next three decades, pension spending increased to the point that, by 1980, it accounted for 80%, while spending on family allowances decreased to about 10%, and sickness, work injuries and unemployment insurance made up the remaining 10% (Ferrera, 1984).

Given the occupational basis of the social insurance system, and the radically divergent profile of the economy in northern and southern Italy, one can expect an unequal distribution of pension benefits, favouring the more industrialized areas of the North. Table 6.1 bluntly documents the extent of the imbalance in the mid-1980s, by focusing on old age and seniority pension benefits for the private sector. As data in the third column show, an overwhelming proportion of total expenditure was funnelled to the North. Whereas northern regions received as much as 69% of total spending against 48.6% of Italian elderly population, central and southern regions only received about 15% of the relevant expenditure, while housing, respectively, 20.6% and 30.8% of the elderly. The

second column provides an even better indicator of the allocative disparities stemming from the interplay between a dual economy and an insurance programme, primarily designed for the core sectors of the workforce with regular jobs and standard long-term contracts. While in northern regions, on average, one in two retired persons received a relatively generous benefit from private sector pension schemes in 1985, in central Italy, the corresponding figure was only one in three, dropping – with the exception of Puglia – to one in five in southern regions (Fargion, 1992).

TABLE 6.1 ABOUT HERE

In the following years, as the pension system increasingly reached maturity, the gap widened even further. However, this is only one side of the coin. The structural disadvantage of the South was perversely counterbalanced by granting less generous second-class benefits which appear well tuned to the logic of southern politics and apt to reinforce it. I am especially referring to disability pension benefits and their misuse. In his well-known article on the ‘Southern model’ of welfare, Ferrera provided international readers with an accurate analysis of the highly sophisticated mechanisms underpinning the ‘clientelistic welfare market’ of disability benefits (1996: 26-27). To fully appreciate why this peculiar market – namely the exchange of disability benefits for preference votes – was able to thrive at least until the mid-1980s^{iv}, with devastating political and institutional consequences, we need to shed some light on the peculiarities of political dynamics in the South of Italy.

For a long time, the attention which Italian political scientists devoted to the catholic and the communist subcultures obscured a deeper cleavage in the Italian political system. There was, it is true, a large literature on southern clientelism, but the latter was not integrated into a broader framework. To move in this direction, we need to consider the different relations between civil society and political institutions rooted in each part of the country. As Farneti suggested long ago, ‘the political system can be dynamically interpreted as an historical formation which emancipates itself from civil society, especially with respect to the two aspects of legitimacy and effectiveness’ (Farneti, 1971: 60). Following this and similar arguments made by Graziano (1980), the ‘southern question’ can be interpreted in terms of missed political emancipation. By looking through this conceptual lens, clientelism – the paramount feature of southern politics – appears as both privatization of politics and colonization of civil society: a situation which severely undermined the standard functioning of democratic institutions.

Despite this initial neglect, the duality of the Italian polity has increasingly attracted systematic investigation over the last 15 years. As most studies point out, the political process in southern Italy displays remarkably different features compared to the Centre-north: pre-political particularism; an instrumental approach to politics; absence of collective action; vertical channels of articulation; and aggregation of demand. In

historical perspective, none of this is actually surprising. As the previous section highlights, the long-term features of public intervention in this part of the country were certainly not conducive to building southern people's trust in state institutions. Within this context, the type of answers which the welfare state provided to meet the economic needs of large sectors of the population suffering from unemployment and/or under-employment reinforced this negative trend. The lack of a broad-based social insurance scheme granting adequate unemployment compensation as of right, and the availability instead of largely discretionary disability benefits – which could only be captured through particularistic channels – clearly resulted in strengthening even further entrenched client-patron relations. To highlight the broad social, cultural and political consequences of this trade-off, Cartocci's insight seems appropriate:

Whenever particularistic criteria – rather than universalistic norms – define the functioning of a public institution or access to its services, the integrative capacity of such an institution is lost. The latter will operate according to *ad hoc* successive aggregations on the basis of partial and uncertain criteria, building in turn on political exchange or personal bonds. Under these circumstances, the guarantees typical of entitlements – which place all citizens on equal footing – are no longer there, benefits and services become instead provisions, that is to say the granting of favours.[...] Individuals start competing against one another in what they perceive as a zero-sum game: anyone's advantage (access to the services and benefits granted by an institution on particularistic grounds) turns out to be a disadvantage for everyone else. As a result, the connective texture of society, which is made of horizontal, egalitarian and informal relations based on trust and solidarity, gets systematically destroyed. What develops in its place is a series of vertical and asymmetrical links ending in the hands of a variety of institutional representatives controlling the relevant resources and their allocation. Within this context, individuals give up their citizenship rights to obtain favours; or, to put it in Dahrendorf's terms, they give up entitlements to obtain provisions (Cartocci, 1994: 59).

Summarizing, the evidence presented on the territorial impact of income maintenance programmes, particularly pensions, shows beyond any doubt how the North and South of Italy benefited in very different ways from the social protection system. This outcome was not merely a reflection of different contextual factors – particularly the different labour force profile – in the two parts of the country. It was also a result of specific, albeit questionable, political decisions involving both the national and local level. By leaving wide discretionary powers at the local administrative level of INPS (the major social insurance fund) Italian policy makers allowed political bargaining to penetrate into a policy area which in contemporary welfare states is usually dominated by standardized bureaucratic procedures. Even more, by stating local commissions should take into consideration the socio-economic conditions of the different geographical areas, national regulations indirectly legitimated the misuse of disability benefits.

These last comments hint at the existence of opaque cross-party relations between southern political élites operating at the sub-state and the state level of government. That

argument is beyond the scope of this chapter, but it is worth noting that this element fits well into the consociational logic, typical of Italian democracy up until the end of the first republic in 1992. This logic resulted in distributive policy making, primarily aimed at accommodating diverse categorical, sectoral and territorial interests, with hardly any consideration of economic consequences or of the overall results in terms of equity and equality.

HEALTH AND SOCIAL CARE SERVICES IN THE CONTEXT OF REGIONAL DEVOLUTION

So far, I have only concentrated on that part of the social protection system which was and still remains under the responsibility of national government. To get a complete picture, however, one also needs to consider the social policy sectors falling, to varying extents, under the jurisdiction of regional governments: primarily social assistance and social care services, but also health care, which was recently the object of an increasingly comprehensive regionalization process. Actually, while the regions started operating in the field of social assistance from the very beginning, they became involved in the management of health care some years later, with the transfer of hospital care in 1974 and the establishment of the National Health Service in 1978. Moreover, in the latter case, the regions were confronted with quite different legislative constraints from the national government.

Social Assistance and Social Care

The constitution entrusted the regions with legislative power in the field of public assistance and social care services, but for over three decades, parliament never passed the required framework law. This permitted regional governments to differentiate their policies to a greater extent than institutionally envisaged. In light of the North-South cleavage, and considering the divergent profile of political dynamics in the two parts of the country, one could easily expect the southern regions to follow a quite different path compared to central and northern regions. Building on the evidence presented in the previous section, one could also assume that, for most of the southern political élite, the regional level of government would present an alluring opportunity to allocate a consistent flow of resources, according to particularistic criteria.

Elsewhere, I have extensively documented how, and to what extent, regional policy making in this field actually diverged, depending on the region's territorial location and political majority (Fargion, 1996; 1997). For the purpose of this chapter, I shall focus on only a few of the major findings. It is important to note, in the first instance, that the system inherited by the regions was essentially geared to the poor and dominated by

institutional care. Along with religious bodies directly linked to holy orders, charities always represented the main providers of institutional care for the elderly, as well as for children and the disabled. Regional policies developed against this backdrop. However, while southern regions largely continued along the same path, northern and central regions committed their course of action to innovation.

In the Centre-north, regional governments stimulated the expansion of a wide range of community services: home help for the elderly, rehabilitation and training for the disabled, day-care centres, home nursing for the sick and the disabled. The list lengthens if we consider the implementation of national laws on maternity services and day-care facilities for children under three years of age. It is true that north-central regions were facilitated because they interacted with a strong system of local government which already played an active role during the 1960s in experimenting with innovative social care services. Given the traditional weakness and inefficiency of local government in the *Mezzogiorno*, quite the opposite holds true for southern regions. Nevertheless, the institution of a new level of government, endowed with legislative power, offered southern political actors opportunities that they did not even attempt to consider. With the exception of Basilicata, southern regions ignored local authorities in favour of direct provision of benefits, and financial support for the intricate network of public agencies and private institutions traditionally operating in the field.

During the 1970s, the Centre-north actually witnessed a further differentiation between left-wing regions and regions run by centre or centre-left coalitions. While the former channelled practically all social spending to local governments, the latter distributed funding more or less evenly among private institutions, municipalities and other public agencies in the attempt to maintain a pluralist system. However, the regions could only provide extremely limited funding for the new services, and essentially left the financial burden with local authorities. The latter were in no better position to meet the new legislative requirements. Municipalities almost exclusively relied upon state transfers but, throughout the 1980s, national measures heavily curtailed local funding and imposed a hiring freeze for local-level personnel. As a result, urban municipalities, in particular, were increasingly 'squeezed' between mounting social care demands (fully legitimized by regional legislation) and the growing inability to directly provide the services.

Under these circumstances, local authorities increasingly turned to the third sector. Considering traditional charities were ill-equipped to meet new social care demands, municipalities often stimulated the creation of new non-profit organisations, particularly co-operatives. Co-operatives could easily provide a wide range of services including home help, while also addressing youth unemployment. The outcome was an intricate web of public-private arrangements, not only where the Christian Democrats held power, but also in leftist regions such as Tuscany and Emilia Romagna, which originally attempted to create an Italian version of the Scandinavian model. Over the 1980s, even Communist-led regions gradually endorsed a pluralist welfare model shifting from a publicly-centred approach to the mixed economy of welfare. As these developments blurred the initial difference between left and centre-left regions, the basic divide which

surfaced was once again territorial. To the south of Tuscany and Marche, one could detect interesting signs of institutional diffusion, but overall regional policies remained backward and fragmented.

Health Care

Turning to the health sector, at first glance, one might get the impression that the relevant legislation in this case allowed for greater achievements in redressing regional imbalances. Prior to the 1978 reform, health care was offered by several sickness funds. Coverage varied widely across occupational groups, and regional disparities were superimposed on disparities among social groups: the wealthier northern and central areas were in fact better endowed with hospitals and physicians, compared to the poorer cities of southern Italy and the rural areas. With the establishment of the National Health Service, all of these disparities were gradually supposed to disappear, in line with the stated goals of universality, equality and uniformity of access.

From an organizational point of view, the law envisaged a three-tier system involving the national government, the regions and local health districts (USL). Within this context, the central level could use the national health fund as a powerful lever to redistribute resources in favour of the South; as one can notice by comparing regional *per capita* health expenditure before and after the health reform, this actually occurred. For instance, while in 1977, the relevant expenditure varied from 36 percentage points above the national average (in the case of the Province of Trento) to 28 points below in the case of Molise, ten years later, the corresponding variation was almost halved, ranging from +16 (Friuli) to -15 (Basilicata) (Fargion, 1992). Yet, it would be highly misleading to over-emphasize this type of evidence. By moving from merely financial data to quantitative and qualitative indicators on the provision of health and hospital care across the country, one soon realizes how distant North and South remain. Under these circumstances, it comes as no surprise that, throughout its existence, the NHS witnessed a constant flow of hospital patients going from southern to central-northern regions (Falcitelli, Trabucchi and Vanara, 2003).

The persistence of a wide territorial gap in the development of hospital facilities as well as in the public-private mix and the quality of available specialist care is not the only aspect which deserves careful consideration. When looking at Italian health policies from a territorial perspective, one certainly needs to address the complexity of centre-periphery relations stemming from the rather unusual institutional arrangement of the health system. Although the British NHS represented the alleged model, the Italian health reform attempted to combine central budgeting and planning with local control, a very unique and contradictory mix. From the outset, this resulted in widespread central-local conflict. The national government was responsible for raising the money and distributing it to the regions. The regions, in turn, were supposed to allocate resources to local health districts and in line with left-wing parties' ideals of democratic participation and

accountability, the latter were put under the responsibility of lay management committees reflecting the balance of power among local parties.

Considering how easy it was to shift the blame, the separation of funding and spending responsibility did not enhance co-operative intergovernmental relations. Ever since 1978, the central government deliberately under-funded healthcare and set tight budgetary ceilings. Failure to respect these ceilings would regularly result in local health districts running chronic deficits. The central government generally ended up footing the bill, but the overall uncertainty on funding levels tended to create a siege mentality oriented towards crisis management, with little attention paid to efficiency or medium-term planning.

As documented by opinion polls (cf. Maino, 2001), over the 1980s, Italians expressed increasing discontent with respect to the performance of the NHS, lamenting the poor quality of the services provided along with the red tape which entangled the whole system – causing all sorts of inequities and inefficiencies. Contrary to widespread beliefs, public health spending during the 1980s was not spiralling out of control, although Italians certainly got far less for their money than did other Europeans. However, this was too controversial an issue to be effectively handled within the highly resilient context of distributive politics. As in the case of the pension reform, correcting the anomalies required going against powerful interests, primarily against the medical profession: a strategy which was hardly compatible with the consociational logic of the first republic.

Linking health policies to the broader framework of Italian politics allows me to introduce a general consideration on the different timing of Italian welfare restructuring, compared to the rest of the industrialized world. While most western countries were already striving for fiscal restraint and austerity in the 1980s, in the case of Italy, it was precisely during this period that public expenditure (with the exception of health and local expenditure) spiralled out of control. Over the period 1980-90, total public expenditure rose from 42% to 53% of GNP, while public debt skyrocketed from 54% to 97.8% of GNP (Ferrera, 1997: 239). Within this context, the Italian welfare state became even more of a 'Pension State'. Makeshift attempts at cost containment were only made with respect to health and social services, that is to say, precisely in those policy areas which were largely devolved to the regional and local levels. It was only following the collapse of the first republic, and the crumbling of the old party system under the 'Clean hands' judicial enquiries, that an opportunity emerged to seriously question the Italian welfare model and its particularistic syndrome.

THE RISE OF THE NORTHERN QUESTION

The evidence presented in the previous sections amply documents how post-war welfare state developments exacerbated the North-South divide, instead of enhancing a common

sense of belonging. Returning to the hypotheses in the introduction, social policies developed by both state and sub-state levels of government contributed to widening the territorial gap, with highly detrimental consequences for inter-regional solidarity. Indeed, one can fruitfully refer to a 'geography' of social citizenship, when attempting to describe the Italian case.

How did the political turmoil of the 1990s affect this picture? In line with the basic focus of this volume, what needs to be investigated is the relationship between territory, politics and the welfare state in the midst of what is usually labelled as the Italian 'transition'. In his last work on the politics of the peripheries of Western Europe, Stein Rokkan made the following insightful speculation, which appears most appropriate to approach the issue:

While the question of regional economic policy, when it first arose between 1930 and 1950, focused more on backward, more remote areas (the Italian Mezzogiorno was outstanding), these areas are not the home of the outstanding territorial problems of Western Europe. No matter what their cultural strength, economic weakness can easily provide the basis for arguments against the credibility and viability of self-sufficiency.[...] The major territorial challenge may well come from economically superior or improving regions: these have an economic weight that more demonstratively can support independence and/or counterbalance the political resources of the centre (Rokkan and Urwin, 1983: 134-35).

The scenario which Rokkan outlined in the late 1970s effectively materialized in the case of Italy just over twenty years later. Having struggled for over a hundred years with the 'Southern question' (without been able to solve it), in the early 1990s, Italy ironically had to come to terms with a far more challenging 'Northern question'. Indeed, while the former never represented a threat to national unity, the latter – forcefully voiced by the Northern League – quickly challenged Italy's territorial integrity. Notably, the Northern League was not only successful in channelling creeping malaise and mobilizing local protest within white subculture areas, but it actively contributed to shaping a new nationalist identity (Diamanti, 1996). Moreover, whilst initially the emphasis was only on demands for greater local autonomy and the official use of dialects, in 1994, the League's charismatic leader, Bossi, moved to outright separatism, demanding political independence for Northern Italy.

How crucial are these events in explaining the interplay between territorial politics and welfare state developments? According to Carl Levy (2002: 4), 'The Lega Nord set the pace of Italian politics for over a decade. At every crucial step in the transition of Italian politics over the past ten years, the League has been the necessary catalyst or active agent'. Although I will not go as far as that, I want to argue that the pressure exerted by the League, and particularly its quest for Northern political independence in the mid-1990s, were the key factors triggering the devolution process set in place first by centre-left and later by centre-right governments. In my view, since the mid-1990s, the sequence of policy steps concerning the centre-periphery balance of powers has largely been a reaction to the first mover in the game, that is, the League. This encompasses the decentralizing measures passed in the following major social policy areas: health, social care and labour market policies.

To fully appreciate why the Northern League managed to play a pivotal role in setting the agenda of the devolution process, one needs to bear in mind what was happening in the Italian political system at the time. Notably, the core parties of the First Republic, which made up the coalition in power throughout the 1980s – that is, Christian Democrats, Socialists, Social-Democrats, Republicans and Liberals – almost vanished between 1992 and 1994. On the opposite side of the political spectrum, the Communist Party was entangled in the painful redefinition of its identity and organization, and therefore was largely unable to move away from an inward-looking strategy. If this political vacuum offered the League an extraordinary opportunity to take over the banner of devolution from left-wing parties, the ‘Tangentopoli’ scandal provided an endless source of details on corruption and fraudulent behaviour to flesh out its attack against the central government. Anna Bull summarized well the kind of arguments underpinning the League’s distrust and bitter resentment against ‘Roman politics’:

In the eyes of the League the 'Southernization' of the Italian state as evidenced by the emergence of a widespread corrupt and clientelistic system of government was a clear sign that the process of national unification, far from promoting the homogenisation of the country around 'northern' laws, practices, institutions and economy, had succeeded only in imposing 'southern' deviant practices upon the whole of the country (Bull, 1994: 75).

It was precisely building on these and similar allegations that the Northern League abruptly threw into the political debate a number of increasingly disruptive federalist proposals and combined them with a variety of imaginative and symbolically salient actions. The effect was such that the Italian scholar, Rusconi, indicatively entitled one of his works (Rusconi, 1993): ‘Will Italy remain a nation?’ Quite clearly, irrespective of whether and to what extent the League’s proposals were well grounded, none of the political actors was in a position to ignore them. This was not only because of the League’s increasing electoral strength, but also because the League’s victories were embedded in the context of rising regional and local power^{iv} and new grassroots politics, exemplified by the emergence of clearly visible and potentially powerful city mayors.

DEVOLUTION UNDER CENTRE-LEFT RULE

Attempting to mitigate the destabilizing effects of the League’s more radical proposals – without rejecting the federalist perspective – proved the best viable option for its political counterparts. This is precisely what happened with the centre-left governments which came into power, following Prodi’s electoral victory in 1996. Although the parties within the centre-left coalition had a long-standing tradition in favour of decentralization, there are at least two factors which prevented the centre-left majority from pushing the devolution process too far. On the one hand, one should consider that the former

Communist Party – at the moment *Partito Democratico della Sinistra* (PDS) – was part of a national executive for the first time in 50 years. It is not far-fetched to speculate that this opened up a different perspective for the PDS, thereby favouring a more careful balance between old and new preoccupations. On the other hand, the deeply rooted commitment in favour of social citizenship rights, and particularly universal access to health and social care services, made extreme federalist solutions totally unacceptable.

In fact, by focusing on the social policy measures passed over the period 1996-2001, one can notice that regional and local levels of government were entrusted with primary responsibility in the three social policy fields mentioned above: namely, health, social care services and labour market policies. However, looking at the details of the relevant regulations, one can immediately appreciate the extent to which the central level of government attempted to counterbalance the decentralization process. Following a path largely similar to the British one, the Italian national government displayed a clear ‘command and control’ inclination, emphasizing national standards and granting the central level substitutive powers with respect to ‘failing’ regional institutions. Further, the relevant legislation envisaged national planning, the identification of minimum service levels to be provided across the country, and tight national monitoring.

The underlying rationale appears straightforward: given the North-South cleavage, decentralization could easily be expected to widen the gap between the highly developed Centre-northern regions and the underdeveloped areas of the South. Precisely to counterbalance this possible outcome, and especially to avoid southern Italy drifting even further from the rest of Europe, centre-left governments opted for a co-operative version of federalism. This was achieved first of all by emphasizing the role of the State-Regional Board (*Conferenza Stato-Regioni*) as the proper institutional setting for addressing centre-periphery controversies, and for reaching joint-agreements, particularly on national minimum standards.

Space limitations permit only a brief overview of the specific measures passed by centre-left governments in each of the three policy sectors under consideration. Starting with personal social services, the most important step was the passing in November 2000 of a Reform Law which, for the first time in 30 years, provided a comprehensive framework for social care policies and established clear guidelines for regional legislation. The new rules – which were further specified by the first national plan on social care services – created a responsibility on the part of municipal governments for guaranteeing, within their jurisdiction, a well-defined set of social care services and benefits. The list included home help, sheltered housing and professional counselling by social workers which, as discussed above, were still unknown in the vast majority of southern municipalities. Law no.328/2000 placed the greatest emphasis on the voluntary sector but at the same time clearly stated a public responsibility in the field, and urged local governments to achieve greater transparency in their relationship with private and third sector service providers.

In labour market policies, great emphasis was placed on active measures aimed at improving 'employability', especially of hard-to-place categories. However, as the official documentation suggested, the radical restructuring of national job placement – which traditionally operated according to strictly bureaucratic rules and procedures – represented a precondition for fulfilling this commitment. The strategy pursued by the Prodi Cabinet, and particularly by Minister Treu, a leading labour legislation scholar, envisaged the merging of passive and active labour policies under the umbrella of thoroughly renewed and regionalized employment services. Hence, the 1997 legislative decree 469 initiated a comprehensive devolution process in this area, by entrusting the regions with a primary responsibility for organizing the new system. To highlight the dynamics at work between the state and sub-state levels of government, one needs to consider especially the agreement which was signed within the context of the State-Regional Board in December 1999. The relevant act defined the basic functions which the new local employment services were to provide throughout the country. Quite clearly, this was not enough to guarantee similar performance levels in the different parts of Italy^{iv}. But the agreement highlights very well the approach to devolution typical of centre-left cabinets.

Considering the relevant social spending levels, the measures passed in the health sector appear even more important. On the one hand, these measures substantially increased regional responsibilities for financing the health system. But on the other hand, they emphasized national goals and targets to be achieved by each and every region. Actually, one can trace back to 1992-93 – that is, to Amato and Ciampi's technocratic Cabinets – the first move towards greater regionalization in the health sector. But, whereas the reforms of the early 1990s were primarily concerned with cost-containment and efficiency, and paved the way for the creation of distinct regional healthcare models, centre-left governments changed the course of action in favour of national standards and greater cross-regional uniformity (Maino, 2001). The strategy pursued by Health Minister, Rosy Bindi, combined increased regional autonomy on the revenue side with a standard-setting role and stringent monitoring by the central government.

Two developments in health funding merit particular attention. Firstly, a new regional tax (IRAP) was established in 1998, to be levied on all production and professional activities. The new tax replaced compulsory health contributions and was directly collected by the regions. The second and most important development occurred in 2000: legislative decree no.56 on 'fiscal federalism' abolished earmarked state funding which – via the national health fund – complemented the new regional taxes while also allowing for a redistribution of resources in favour of the less-developed areas. Revenue-sharing on indirect taxes – particularly VAT and excise duties on petrol – was to be phased in by 2003, replacing all previous state transfers and redressing regional disparities through an equalization fund. Within this context, the settlement of previously accumulated regional deficits and the setting of annual per capita health expenditure for the period 2000-2003 represented the pivot of the new funding mechanism (France, 2001). According to the

August 2000 agreement between the national government and the regions, from then on the latter were responsible for financing health expenditure eventually exceeding the agreed threshold by resorting to the following alternatives: (i) streamlining measures; (ii) co-payment increases; (iii) the introduction of a regional addition to personal income taxes; and/or (iv) further increases to IRAP.

Albeit tediously complex, the above details are very important in placing into perspective the development of centre-periphery relations, especially following Berlusconi's electoral victory in 2001, and the shift from a centre-left to a centre-right majority. What are apparently only technical complexities in fact lie at the heart of a sharp turn from largely co-operative to confrontational centre-periphery dynamics. However, before examining this particular issue, a few words are in order on the programme and political priorities which characterized the centre-right coalition during the 2001 electoral campaign.

DEVOLUTION UNDER CENTRE-RIGHT RULE

Considering the League was a crucial partner in the Pole of Freedom's alliance, it is certainly not surprising to find that federalism and federalist reforms received the greatest attention, along with the promise of cutting taxes and eliminating bureaucratic red-tape. Compared to the previous government, the new winning coalition – at least officially – endorsed a very different strategy. The action taken by the Berlusconi Cabinet during its first year in office underscored the value of regional autonomy *per se*, irrespective of the implications for the effective profile of social rights in the different parts of the country. In line with the neo-liberal paradigm, this approach was complemented by an option in favour of privatisation: quite clearly, strengthened regional autonomy offers more opportunities for the introduction of privatized arrangements. The so-called government bill 'on devolution' apparently crowned this strategy. The bill envisaged a constitutional amendment aimed at granting regional governments exclusive legislative powers with respect to education, healthcare and the police.

Three years later, one can fully appreciate the distance between discourse and policy implementation: as of May 2004, the bill is still pending in Parliament; over 830 days have gone by since the Cabinet approved the original draft (Circap, 2004). This incredibly long delay^{iv} clearly hints at the conflicts and contradictions which progressively surfaced within the centre-right coalition, particularly between the League and the right-wing National Alliance Party. Needless to say, the two parties radically diverge when it comes to their perspective on territorial politics. In contrast to the League's northern electoral basis, Fini's party has its strongholds in the capital and in the South. Moreover, taking into account its traditionally conservative and patriotic values, one could hardly expect National Alliance to share the League's aggressive federalism and anti-southern bias.

Yet, the gap between official commitments and actual policies cannot be fully explained by referring exclusively to the different ideas and interests which the League and National Alliance represent. Budgetary constraints stemming from the EU stability pact – in the context of an increasingly imbalanced public finance management – represent a second crucial factor explaining the difference between devolution as presented to the public and devolution in practice (Vandelli, 2002). The measures passed by the Berlusconi Cabinet in the health sector are a case in point.

The honeymoon between the national and regional governments only lasted for around a year: during this first period, the central level seemed to follow in the same path as its predecessor. In August 2001, state and regional representatives signed a second joint agreement on health funding and, a few months later, the Health Minister established minimum healthcare standards, thereby implementing the relevant provisions in the constitutional reform which the centre-left majority managed to pass just before the legislature ended. The problems started when the central government had to fulfil its costly commitments: for almost two years, the relevant Ministers kept postponing the identification and subsequent allocation of the VAT share to which individual regions were entitled. Given that health spending accounts for about 75-80% of total regional outlays, one can immediately understand how sensitive the regions were on this issue. Moreover, while health expenditure kept increasing beyond the agreed thresholds, the 2003 national budgetary law barred the possibility of the regions upgrading the major regional source of health funding – namely IRAP – or to increase the regional addition to personal income taxes. The underlying goal of these restrictive measures was clearly to prevent overall fiscal pressure from growing, in line with the electoral promise of lowering taxes, but this could hardly be perceived as compatible with the proclaimed ideas of federalism and regional fiscal autonomy.

By imposing detailed rules on local health management, the so-called ‘expenditure-cutting’ decree by Treasury Minister Tremonti further fuelled the political debate. As a reaction, all of the regions accused the central government of interfering in areas falling under their jurisdiction, and successfully appealed to the Administrative Court (TAR). As a result, the measure was cancelled in April 2003, but this was only a drop in the ocean and litigation continued to increase, including cases involving the Constitutional Court. The climate deteriorated to the point that, during the first part of 2004, regional representatives provocatively abstained from participating in the State-Regional Board.

If one places recent events against the backdrop of long-term trends in the development of Italian territorial and social politics there is little room for an optimistic scenario. Going back to my opening comments, it seems rather unlikely that welfare state measures will at last foster a sense of national identity instead of undermining it. Recent developments concerning the establishment of a national public assistance scheme

support this interpretation. As Ferrera noted, public assistance represents 'a sphere of asymmetrical solidarity (i.e. public support purely based on need considerations) [which] presupposes those ties of 'we-ness' that typically bind members of a national community' (2003, 635). What happened in the Italian case? Instead of extending the experimental programme originally introduced by Prodi to the whole country, the centre-right Cabinet cancelled it altogether.

Yet, one should not too easily jump to conclusions: as the results of the 2004 European elections highlight, the reshaping of the Italian political system is still largely under way. This offers political actors on both sides of the political spectrum room for manoeuvre and – at least theoretically – the opportunity to question the implicit 'pension pact' which so far has prevented any substantial shift of resources in favour of younger generations and emerging social risks – primarily child poverty, youth and female unemployment and underemployment. Such a shift would obviously affect the current territorial distribution of benefits and services.

Leaving aside future prospects, the evidence on the Italian case suggests territorial movements represent a challenge for both Left and Right. In the former case, their demands clash with the universal solidaristic principles typical of the social democratic tradition, but at the same time can build on the Left's support for local democracy and grassroots participation. On the opposite side of the political spectrum, the same demands and aspirations conflict with the symbols and values of nationhood, traditionally rooted in the right-wing electorate. Accommodating the pressures which territorial movements are increasingly able to exert in a globalized world appears to be a demanding task for parties on both sides of the left-right continuum, and almost inevitably results in shaky alliances. Further, the Italian case suggests that the existence of deeply-entrenched socio-economic and political disparities can produce disruptive effects similar to the ones produced by sub-state national identities.

REFERENCES

- Bull, A. (1994) 'Regionalism in Italy', *Europa*, vol.1, no. 2/3: 69-83.
- Cartocci, R. (1994) 'Il deficit di integrazione in Italia: una lettura culturale della crisi di oggi', in Caciagli, Cazzola, Morlino, Passigli (eds.) *L'Italia tra crisi e transizione*, Bari, Laterza, pp.45-67.
- Centro Interdipartimentale di Ricerca sul Cambiamento Politico (2004) *Rapporto sul Governo. Seconda edizione*, Giugno.
- Diamanti, I. (1996) *Il male del nord. Lega, localismo, secessione*, Roma, Donzelli.

-
- Fargion, V. (1992) 'Aspetti politici ed istituzionali della esperienza italiana in materia di distribuzione territoriale della spesa pubblica, in FORMEZ, *La distribuzione Regionale della spesa pubblica. Esperienze internazionali*, Napoli, pp.119-134.
- Fargion, V. (1996) 'Social assistance and the North-South cleavage in Italy', *South European Society and Politics*, vol. 1, no. 3: 135-155.
- Fargion, V. (1997) *Geografia della cittadinanza sociale in Italia. Regioni e politiche assistenziali dagli anni settanta agli anni novanta*, Bologna, Il Mulino.
- Farneti, P. (1983) *Il sistema dei partiti in Italia. 1946-1979*, Bologna, Il Mulino.
- Ferrera, M. (1984) *Il welfare state in Italia. Sviluppo e crisi in prospettiva comparata*. Bologna, Il Mulino.
- Ferrera, M. (1996) 'The 'Southern model' of welfare in social Europe', *Journal of European Social Policy*, vol. 6, no. 1: 17-37.
- Ferrera, M. (1997) 'The uncertain future of the Italian welfare state', *West European Politics*, vol.20, no.1: 231-248.
- Ferrera, M. (2003) 'European Integration and National Social Citizenship', *Comparative Political Studies*, vol.36, no.6: 611-652.
- Falcitelli, N., Trabucchi, M. and Vanara, F. (2003) *Rapporto sanità 2003*, Bologna, Il Mulino.
- France, G. (2001) 'Compatibilità tra il federalismo e gli standard sanitari nazionali' in Buglione, E. France, G. and Liberati, P. (eds.) *Federalismo, Regionalismo e standard sanitari nazionali*, Milano: Giuffrè, pp.169-197.
- Graziano, L. (1980) *Clientelismo e sistema politico. Il caso dell'Italia*, Milano, Franco Angeli.
- La Spina, A. (2003) *La politica per il Mezzogiorno*, Bologna, Il Mulino.
- Levy, C. (2002) 'Italian Regionalism 1992-2002' <http://www.psa.ac.uk/cps/2002/levy2.pdf>
- Maino, F. (2001) *La politica sanitaria*, Bologna, Il Mulino.
- March, J. and Olsen, J. P. (1989) *Rediscovering Institutions. The Organizational Basis of Politics*, New York, The Free Press.
- Miller, D. (1995) *On Nationality*, Oxford, Clarendon Press.
- Rokkan, S. and Urwin, D. W. (1983) *Economy, Territory, Identity. Politics of West European Peripheries*, London, Sage.
- Rusconi, G. E. (1993) 'Will Italy remain a nation?' *Archives Européennes de Sociologie*, vol. 34, pp.309-21.
- Trigilia, C. (1992) *Sviluppo senza autonomia*, Bologna, Il Mulino.
- Vandelli, L. (2002) *Devolution e altre storie. Paradossi, ambiguità e rischi di un progetto politico*, Bologna, Il Mulino.

Table 6.1: *Old Age and Seniority Pension Benefits in the Private Sector, by region, 1985*

Region	Number of pension benefits	Pensions as % of old age population	Pension expenditure (in millions of lira)
Piedmont	579,498	54	4,323,410
Valle d'Aosta	9,838	38	76,456
Lombardy	1,175,764	63	9,007,276
Trentino	76,297	42	490,678
Veneto	436,397	47	2,781,783
Friuli	138,076	43	945,275
Liguria	215,783	41	1,646,841
E.Romagna	510,986	49	3,345,665
<i>North</i>	3,142,639	53	22,617,384
Tuscany	352,964	37	2,390,906
Umbria	51,079	24	342,221
Marche	87,971	25	505,588
Lazio	249,004	24	1,890,461
<i>Centre</i>	741,018	29	5,129,176
Abruzzi	49,879	17	278,823
Molise	10,066	13	50,043
Campania	174,810	19	1,170,271
Puglia	224,346	32	1,392,191
Basilicata	22,634	18	124,329
Calabria	77,467	19	431,279
Sicily	191,060	19	1,178,570
Sardinia	55,820	19	189,089
<i>South</i>	806,082	21	5,005,560
<i>Italy</i>	4,689,739	38	32,752,120

Source: Derived from ISTAT and INPS data.

Chapter 7

The Preservation of Social Security as a National Function in the Belgian Federal State

Régis Dandoy and Pierre Baudewyns

INTRODUCTION

In this chapter, we will mainly focus on one of the most important aspects of the current Belgian political debate: social security. Besides the basic importance of such social programmes for wealth redistribution and socio-economic equality, the issue of social security in Belgium is closely related to territorial and ethno-linguistic politics. Social security has been linked to the unification and centralization of the different social regimes throughout the whole country (section 1). The economic crisis exacerbated the first decentralization claims and social security became a central element of inter-regional relations in Belgium, in both economic and political terms, through the issue of fiscal transfers and Flemish demands for the regionalization of competences and institutional reforms (section 2). In the final section, we consider the impact of territorial identity and public opinion on the social security debate, drawing conclusions on the role of social security in shaping the institutional future of Belgium.

The decentralization process in Belgium has been incremental and is ongoing. The transformation of Belgium from a unitary to a federal state began in 1970. This

federalization led to the Belgian state transferring certain competencies, among which some directly connected with welfare matters, to the federated entities. There are two different kinds of federated entities: three communities (French, Flemish and German-speaking), which are responsible for cultural, social and education matters; and three regions (Wallonia, Flanders and Brussels-Capital) governing matters concerning economic and regional development, environment protection, public transportation and housing. Consequently, public budgets were attributed to federal entities and dispersed through a complex distribution scheme^{iv}.

This institutional system is a result of the compromise reached between two contradictory but complementary concepts: culture and economy (Van Dam and Nizet, 2002). Flemish nationalists defended the idea of a federal structure with two cultural components - Flemish and Walloon - based on the existence of two distinct cultural communities or even nations. The Walloon movements in favour of autonomy supported the idea of delegating economic matters to three regions (Flanders, Wallonia, Brussels-Capital) which would then manage their own economic development.

The complexity of the new federal state structure is evident in four respects. First of all, the structure is *asymmetrical*: the Flemish region and community have been merged since 1980, while the Walloon region and the French community remain distinct. The Brussels-Capital region is an urban entity composed of 19 districts (*communes*) which, although 85% of the region's population is French-speaking, is enclosed within a Flemish-speaking area. The structure is also *bipolar*: two main communities (Flemish and French-speaking) coexist in Brussels; and three Community Commissions (French, Flemish and a joint commission) represent the cultural communities in the Brussels-Capital region.^{iv} Thirdly, there is *no hierarchy* in legal norms: a regional or community decree concerning matters over which these political entities have authority is equivalent to a federal law. In that sense, the federal state has no legal authority over regions and communities. The only power the federal state can exercise over the regions and communities is its fiscal power. Indeed, the federal state, as the main collector of taxes in Belgium, has the power to influence the resources available for the regions and communities through the allocation of federal finance. Finally, the system is characterized by the principle of '*competencies sharing*'. Until 1993, institutional reforms were focused on the decentralization of competencies to the regions and communities. This process focused attention on competencies transferred to the regions and communities, leaving the residual power in the hands of the federal state. However, in the constitutional reform of 1993, this residual power was formally attributed to the federated entities, but, in practice, this has yet to be effected, for two main reasons. First of all, the competencies of the federal state have yet to be clarified. Secondly, the question of which entity would receive this residual power remains unanswered. Would it be a shared power – shared between regions and communities – or entirely attributed to one of them? Thus, the Belgian federal system remains unsettled, and is still awaiting the inclusion of a new article in the Constitution which would clarify the exclusive competencies of the federal entities.

Discussions of the welfare state in the Belgian context revolve around issues of social security.^{iv} A Parliamentary Commission set up by the National Parliament in 1980, with the aim of codifying and harmonising the concept of social security, pleaded in its final report for a large definition of the concept to include family allowances, social insurance systems for employees, self-employed and civil servants, provisions for disabled persons and the minimum guaranteed income. Until 1993, 'social security' was not mentioned explicitly in the Belgian Constitution. However, the renewed 1993 Constitution established (in article 23) that everyone has a right to social security, health protection and social, medical and legal aid, but the concept of 'social security' remained quite vague.

The national Constituting Assembly of 1993 reserved the application of article 23 rights to the legislative power, but did not specify whether this competence was to rest with the federal state, the communities or the regions. Competence ownership in the field of social security was partly established by a Special Law (modified) in 1980, which noted that 'only the national authority is competent for social security' (Special Law of Institutional Reforms, 8 August 1980, art.6, §1, VI). In 1998, the State Council also gave a restrictive definition of the concept and concluded that competences reserved to the federal level in terms of social security only concern those regimes of social protection financed by employers/workers contributions and covering the active population and the family (Advice of the State Council, 17 Dec 1998, no L.28.583/3). Communities, which since 1980 had competence for domains related to 'persons'^{iv}, would therefore be competent for the organization of social insurance programmes covering their resident population, but this interpretation of the legislation by the State Council remained without consequences.

Thus, only the national (federal) entities are competent for *social insurance* (health care, pensions, family allowances, unemployment allowances and occupational accidents and invalidity allowances). As far as *social aid* is concerned, the laws that grant minimum revenues remain federal while the communities are competent for granting complementary aids. Finally, the competences not belonging to the strict sense of social security as defined in 1980 are completely scattered between the different levels of decision-making, such as family policy, disable persons policy, elderly policy, etc.

TERRITORY AND WELFARE EXPANSION

Since 1993, the right to be protected by social security has been enshrined in article 23 of the Belgian Constitution. This represented a formal recognition of rights which had been granted within the Belgian welfare system for decades. Before the Second World War, Belgium already had a fairly well-developed system of social protection^{iv}. After the 'Liberation', the political and social elite argued for the implementation of a more universalistic conception of solidarity^{iv}, equal for everyone, without any distinction of language or socio-economic status. During the decades following the war, the Belgian

system of social security was reformed, with new social and welfare programmes having an impact on the territorial organization of the welfare state.

Unity and Universality

After the Second World War, the main idea promoted by Belgian political and social elites was that of a unitary social security system, identical throughout the different regions of the country. The 'Project of Agreement on Social Security' and the 'Report to the Regent' included in the *Arrêté-Loi* of 28 December 1944 reflected this new universalistic conception. No mention was made of distinctive regimes based on geographical criteria or even of a territorially decentralized organization. Instead, both texts insisted on a conception of social security as a universal construction relying on a centralized organization and on the development of a system of social protection based upon national solidarity.

The establishment of a new social protection system was therefore a crucial issue in 1944, but a sense of urgency *pushed* the decision-makers to set up a provisional scheme, partly founded upon the pre-existing system. In the event, this 'provisional' regime became the definitive one. While a consensus existed among Belgian parties on the necessity to take urgent measures, there was no agreement on the shape such measures should assume. The *Arrêté-Loi* of 28 December 1944 created a more structured system of social security in Belgian law. It introduced a compulsory social insurance scheme protecting citizens against unemployment and occupational accidents.

The period between 1944 and 1975 was characterized by a gradual extension of the mechanisms of social protection in favour of persons excluded by the system of contributions linked to work. This period witnessed an extension of the general regime, bringing together employee regimes and the development of social security for independent workers. There was a clear tendency towards 'universalization', with the different branches of social security now covering almost the entire Belgian population, alongside a unification of the distinctive social protection regimes applied to employees, independent workers and civil officers.

The *Arrêté-Loi* of 1944, and its 'application arrest' of 21 March 1945, recognized the compulsory character of occupational accidents insurance but only the employees and the members of their family could benefit from health care insurance. The Law of August 1963 allowed an extension of health care insurance to other sections of the population, including independent workers and civil servants (1964), people with disabilities (1967-8), servants and people in service (1969), and members of religious communities (1969), while the Law of June 1969 extended illness-invalidity insurance to those groups as yet unprotected. The main objective in the latter case was to generalize the application of health insurance to the totality of the population, to ensure all Belgians had access to health care.

Besides this tendency towards universalization or an inclusion of the whole Belgian population in the social security scheme, the idea of having a unique social protection regime originated in the political sphere. Between 1965 and 1975, there were several propositions for grouping the three different social security regimes in a single scheme. For example, in 1965, the three main Belgian parties – *Parti Social-Chrétien* (PSC), *Parti Libéral Populaire* (PLP) and *Parti Socialiste Belge* (PSB) – called for a progressive harmonization of the regimes covering employees and independent workers. More remarkably, the regionalist parties – *Volksunie* (VU), *Front des Francophones* (FDF) and *Rassemblement Wallon* (RW) – also wanted complete social equality between employees and independent workers and a fusion of the three regimes. They therefore argued for a unique social security system by affirming that their conception of social security relied upon the so-called ‘solidarity principle’ (a principle that, a few years later, would be ‘forgotten’ due to the dispute around the North-South transfers). The very last proposals date from 1978 and, thereafter, as a result of the economic crisis and linguistic disputes, the legislative projects and dispositions confirmed the existence of three separate regimes of social security and buried the unification projects.

The maintenance of a separation between social regimes and the evident difficulties in unifying them is not independent of territorial issues. The creation of a social security system relying on three pillars was linked with the process of regionalization. For example, there is a risk of seeing the financing of the system by taxes – which may produce financial transfers between regimes – leading to claims for attributing health care and family allowances to the communities in the framework of homogenous blocs of competences. This incited some political and social actors to withdraw their claims for a generalization and a unification of these sectors (Arcq and Blaise, 1998: 545).

First Traces of Decentralization

The drift towards the universalization and unification of the social security system downplayed the role of the geographic elements in the Belgian welfare system. Nevertheless, this period of welfare expansion – the ‘progress phase’ towards a more efficient social security system and better social protection – was also characterized by marginal but still significant debates around the decentralization of the welfare organization itself.

If some argued before the Second World War that the social security scheme should be implemented at the provincial level (Trocllet, 1939: 82-83), the ‘Project of Agreement on Social Security’ and the ‘Report to the Regent’ both considered a relative decentralization of the insurance illness-invalidity programme. This decentralization would have consisted of regional administrative units and only concerned the application of the regulation, but not the regulations and services themselves, which were to stay at the national level. The issue of regional decentralization was also present in 1948 in the debate around the General Parity Council and in the discourses of H. Fuss, State Secretary, who called in 1951 for a regionalization of family allowances and of a regional collection of contributions. By the end of the 1950s, there were also ministerial proposals for a

decentralization to the regions of the occupational accidents insurance programme, but this had to be renounced because of the opposition of the Walloon partners. Finally, in 1969, the Christian-Democrat labour union called for 'urgency in humanising social security'. They wanted to ensure that social security would be closer to those persons it was intended to protect and, therefore, they called for a significant decentralization of social security legislation to the regional level.

Counter-arguments can be found at the national level which reveal a will to prevent the decentralization of social security. Some argued that decentralization would not be efficient and would increase the complexity of the social protection system. Furthermore, concerns were raised that contributions would vary between regions and the resulting advantages would be unequal. Finally, the regions would only have a limited role, and institutional pluralism in the case of separate schemes would be threatened (Trocllet, 1961). The prevailing view at the time was that central and national administrations should be primarily responsible for social security programmes, and to dismember or decentralize the social institutions was neither necessary nor desirable. Where territorial decentralization was favoured, it was from a functional point of view, and paid little heed to questions of community or cultural identity.

However, the issue of inter-regional transfers was significant after the Second World War. In a chapter entitled 'Compensation and the Walloon-Flemish Problem', Trocllet (1949) highlighted the problem of the financial flows between Wallonia and Flanders. He noted that compensation was less favourable to Wallonia, as it had to pay the unemployment and family allowances and health insurance of the Flemish population without any counterpart^{iv}. This, it was argued, disadvantaged Walloon industry and employment by encouraging the relocation of a lot of companies to Flanders. This so-called 'community dualism' had a considerable influence on the reform of the social security system. The economic and geographic variables introduced a political element into the debate and the problem of financial transfers revealed for the first time in Belgium a clear link between the welfare state and the politics of territorial identity.

While the emergence of the issue of a territorialized social security system only occurred in the 1990s among the traditional Belgian parties, it should be noted that this theme is evident within the political discourse of regionalist parties much earlier, before contextual changes resulting from the economic crisis of 1975. Both the manifestos of the Volksunie and the cartel RW-FDF in 1968 supported the maintenance of a unique and national system of social protection and denied the need for a decentralization of social security. However, by 1971, the VU manifesto demanded a regionalization of welfare that would benefit Flanders, while the RW and FDF asserted a social policy adapted to the demographic and economic characteristics of Wallonia, proposing a decentralization of family allowances and health care, but a unique and national regime for pensions and unemployment allowances.

In conclusion, Belgium saw an important development of its social security scheme between 1944 and the economic crisis of 1975. This period was characterized by a

process of welfare expansion which sought to extend social protection to almost the entire Belgian population, and was dominated by debates promoting the unification of the different social security regimes. Social protection and solidarity significantly increased during this period. This 'progress phase' was not realized in a linear way because of, among other reasons, budgetary problems, but social protection was more or less expanded to the whole population without regional or territorial distinction, and organized on a centralized and national basis.

Social security was clearly the preserve of the national level, with support for the universalization and unification of the different aspects of social policy. At that time, the territorial configuration of the welfare system was a consequence of debates over the most convenient level at which to organize the social protection regime. Some traces of the regional welfare claims raised the problem of the relationships between the two main linguistic groups that compose the Belgian political landscape.

TERRITORY AND WELFARE RETRENCHMENT

1975 is considered by many Belgian scientists as a 'border year' between two periods: the extension or progress phase of welfare (1944-75) and a phase marked by economic crisis. This economic situation can be defined as a structural transition and mutation crisis that had effects on the social protection scheme. For example, there were greater demands upon social security because of increased unemployment and a budgetary deficit in the health care sector. More globally, the crisis limited social protection and even questioned its foundations. The trend towards unification of the social security regimes was rapidly forgotten. The different political parties turned towards a conception of social security where some sectors – the professional risk sectors and the so-called sectors with a 'universal vocation' – had to remain separate from or even impermeable to each other.

If the improvement of social services was the dominant issue in the period 1944-75, after 1975 Belgium entered a 'regression' or retrenchment phase. This second period nevertheless witnessed some improvements within social sectors, but these remained limited in scope and were over-shadowed by the debate around the limitations of social security. These debates took place in a sociological and institutional context that transformed demographic and economic problems into a highly political issues.

Transfers

Social security is the pillar of the welfare state that generates solidarity between individuals and classes (interpersonal solidarity). Schematically, it distributes the income of healthy active adults to children, patients, the unemployed or pensioners. However, when the different categories of persons are not evenly represented in a homogeneous national territory, but where the fiscal model and the criteria of attribution are uniform, social security contributes in an implicit way to the development and maintenance of

inter-regional solidarity. It distributes the income of the richest regions to the regions containing more children, more patients, more unemployed and more pensioners (Pagano, 2002; Cattoir and Docquier, 1999).

The analysis of implicit transfers between territorial entities may be interesting for detecting abnormalities or for discovering important differences in the interpretation of norms. The problem of the interpretation of social security legislation is essential because a viable solidarity requires its homogeneous application on the entire territory (Roland, Vandeveld and Van Parijs, 1999). By definition, the existence of important implicit transfers does not mean a dysfunction of the system of solidarity but is, in itself, an indicator of its utility. Indeed, the concept of 'solidarity' naturally implies transfers of wealth.

Before 1990, accurate and reliable statistics relating to inter-regional differences did not exist. Decision-makers could only speculate on their existence and on the direction of the financial flows. Moreover, the administrative data themselves were not distributed by region. At the end of the 1980s, the scientific community began to examine the financial transfers between Belgian communities. The analyses made by the 'Club van Leuven' in 1989 were the first of many (see also Van Rompuy and Bilsen, 1988; 1993; Leblanc, 1990; Dethée, 1991; Defeyt, 1991; Dottermans, 1997; De Boeck and Van Gompel, 1998; Docquier, 1999; Caruso *et al.*, 2002). They all demonstrated more or less the existence of such explicit or implicit transfers between regions. Unsurprisingly, financial support between regions or communities were found to be largely in favour of the Walloon and Brussels regions, and consisted of transfers from Flanders to Wallonia and Brussels.^{iv}

As far as welfare expenditures were concerned, 33% of the 1999 budget was allocated to the Walloon region, 57% to Flanders and 10% to Brussels. These figures broadly corresponded to the distribution of the population in Belgium: 32.7%, 58.1% and 9.2%, respectively. However, concerning social protection revenues, each region's share was appreciably different: 29% for Wallonia, 63% for Flanders and 8% for Brussels. Thus, in demographic terms, Flanders' contribution to global revenues was greater than its share of the population.

TABLE 7.1 NEAR HERE

Table 7.1 represents interregional implicit transfers distributed for each sector of social security in 1999. In total, implicit transfers from Flanders to the Walloon and Brussels region reached 92.1 billion Belgian francs (Bef) in 1999, or 0.98% of Belgian GDP. These implicit transfers were distributed with 25.2% for Brussels and 74.8% for the Walloon region. Social security expenditures contributed poorly to the total amount of transfers – they represented only 15.1 billion Bef out of a total budget of 92.1 billion Bef, that is, 16.4% – and were equally distributed between Wallonia and Brussels. But, the bigger difference in the domain of the revenues explained the biggest part of the implicit

transfers: 83.6%, or 76.9 billion Bef, resulted from the different contributory capacity of the three regions, in particular the revenues made by the Walloon region (61.2 B Bef or 79.5% of the 76.9 B Bef).

We can also analyse the distribution of the implicit transfers for each of the sectors of social security. In general, we can summarize the directions of the transfers as below:

- (vii) From Flanders and Brussels to Wallonia: invalidity allowances, occupational accidents and diseases, and unemployment;
- (viii) From Flanders and Wallonia to Brussels: health care;
- (ix) From Flanders to Wallonia and Brussels: pensions and family allowances ;
- (x) From Wallonia and Brussels to Flanders: pre-pensions.

National and Regional Debates

At a national and institutionally formal level, the decentralization debate never emerged in official documents or in the political arena. During the first steps of the reform of the state (1970 and 1980), social security remained an exclusively federal competence, without much debate or even a clear definition of what exactly social security entailed. Whereas in 1980, we can identify a consensus on the principle that the social protection scheme should remain federal, by 1988, this consensus began to disappear. This explains why the main political parties felt the need to explicitly mention that the federal state held an exclusive competence in social security (Poirier and Vansteenkiste, 2000: 347). The same occurred during debates around the state reforms of 1993, when federal competence in the field of the social security was reaffirmed.

The agreement reached between coalition partners following an election - the government agreement - sets the priorities for that government's term in office. As government agreements are one of the products (together with the allocation of ministerial portfolios) of negotiations between delegations of the parties of the coalition, they are supposed to reflect the programmatic stances of the parties that are entering the coalition. Between 1944 and 2003, all 41 government agreements dealt more or less with the theme of social security, but none of them pleaded for social security decentralization (Leblanc, 1990: 3; Arcq, 1995; Poirier and Vansteenkiste, 2000: 351). In fact, the terms used describing this domain of policy have remained somewhat vague because government agreements must, by definition, win the approval of all coalition partners.

Since the disappearance of the Flemish nationalist party, *Volksunie*, from the political landscape^{iv}, almost all other Flemish parties have tried to recover the votes of the Flemish nationalist electorate. In their manifestos for the Belgian federal elections of May 2003, and especially for the regional elections of June 2004, we can identify greater demand for social security decentralization in favour of Flanders. But, this still does not affect the federal level and no steps or concrete decisions have been taken in the direction of the partial regionalization of social security. During the formation of the federal cabinet's

coalition in 2003 and the drafting of the government agreement, the future of the social security system barely entered the debate.

At the national or federal level of decision-making, the issue of social security has arguably remained a sort of 'taboo' subject. The uniform and quasi unanimous position of the French-speaking parties on this theme forms an impermeable barrier to Flemish claims. For example, in 1998-9, the Commission for Institutional Affairs of the (federal) Senate met to consider the issue of social security but, despite the remarks of the Ministry of the Flemish region in support of the regionalization of social security – with strong pressure for such a regionalization from the Flemish authorities and the Flemish political elite – there was not a single word about the regionalization of social security in the Commission's 120 page-report.

Debates over the territorial structure of the social security system arrived on the public and media agenda around 1991 (Arcq and Blaise, 1998), and some Flemish actors had engaged in debates over the regionalization of social security since 1980. These debates emerged within the Flemish Economic Union (*Vlaams Economisch Verbond*) and the Flemish Christian Mutual Insurance Company (*Caritas Catholica Vlaanderen*), but were rapidly taken up by Flemish nationalist parties (*Volkspartij* and *Vlaams Blok*) (Leblanc, 1990: 22).

On the Flemish side, a working group was launched by the Flemish Parliament in 1993, the so-called 'Flemish Research Group on Social Security 2002', to study the geographical repartition of competences on social security (*Vlaamse Onderzoeksgroep Sociale Zekerheid 2002*). In February 1996, the Flemish Government released a memorandum in which it called for new constitutional settings on, among other issues, social security. In March 1997, the Commission on the Reform of the State of the Flemish Parliament made public a report in which they asked for new transfers of competences in the field of family allowances and health care, and in 1999, the Flemish Parliament itself released a resolution where it affirmed its will for a new reform of the state that would include negotiations around the most adequate level of decision-making on social security.

As far as political parties are concerned, none of the main French-speaking parties wanted to see a regionalization of the social security regime. They were almost unanimous in their claims for the maintenance of a national system which could be applied to everybody, regardless of where in Belgium they live. On the other side of the linguistic border, no consensus existed among the Flemish parties. Some wanted a total regionalization of the social security system (VB, ex-VU parties), while others wanted only a partial regionalization (CD&V, VLD, SP.A), and some wanted to maintain a national welfare scheme (Groen!). Socio-economic actors, including trades union and employers organizations, were almost all against a regionalization of social security (the labour unions CSC, FGVB, CGSLB and the employers union FEB, UWE), with the exception of the Flemish Employers Union (VEV), who sought a regionalization of some parts of the whole social protection system.

The Belgian political landscape is therefore clearly divided between the opponents and the partisans of a regionalization of social security competences. In general, Flemish political parties and political institutions are in favour of reforms that will share the competencies in the domains of the social security between the federal and the federated levels. Most call for a solution somewhere between a total regionalization of social security and the maintenance of the existing system. But, because of the unilateral and unanimous opposition of the French-speaking actors, this issue never gets through the complexity of the Belgian system and never reaches the national arena.

Main Arguments

The main political argument for the de-federalization or regionalization of social security is an argument of coherence.^{iv} The desire to consolidate 'split' competencies can lead to a better homogeneity of the blocs of transferred competencies and to more efficient and coherent social policies. The Flemish parties also stress structural differences that exist between regions and the need for differentiated policies that could lead to a more efficient management of social security. The federal character of the social protection scheme is also considered to represent an obstacle to innovative policies.

The reference to the principle of subsidiarity is also present in the Flemish parties' manifestos. This principle, defended European Union discourse, is exploited in Flanders to advocate that decisions should be taken at the most adequate level as far as efficiency is concerned. Social security would be, it is argued, closer to the people and have a greater social impact if it was implemented at the regional than at the national level.

In Flemish discourses, the problem of fiscal transfers is central. Disparities between regional revenues and transfers can be explained by objective reasons, such as demographic or economic variables, but some new sociological arguments have appeared. For some Flemish political actors, French-speaking inhabitants are accused of profiting from the national welfare system, and are viewed as lazy people that misuse Flemish money and solidarity.

The problem of which federated entity would inherit the competence – the region or the community – reappeared recently in the Belgian debate. The proposal of the Flemish Parliament argued for a transfer to the communities, with the inhabitants of Brussels given an option to choose between the Flemish or the French-speaking model of social security, creating social disparities inside the same region. However, a regionalization of social security seems currently unaffordable because it would require that the Flemish political world 'abandon' Brussels.^{iv} This is in contradiction with the discourses of all Flemish parties and with the thesis espoused by the Flemish movement for decades.

In addition to the question of Brussels, French-speaking parties and supporters of a unitary social security claim that the question of financial transfers can be moderated. They argue that the unjustified character of such fluxes is exaggerated because the

perceived variations between regions are overestimated and are in decline. Moreover, some suggest that these transfers may reverse in the longer term, with Wallonia being a net contributor rather than a net beneficiary (Spinnewyn, 1998: 125, Beine and Docquier, 2000). Indeed, it should also be conceded that socio-economic studies have indicated that intra-regional disparities are more important than disparities between regions (Pagano, 2002).

In spite of the fact that the three regions share the same social tradition inspired by Bismarck, a disintegration of the social security system would increase the poverty of the Walloon and Brussels population in both relative and absolute terms (Delhaussé and Perelman, 1999). In addition, these regions could ill afford such a change because of the poor substitute that a 'social Europe' can offer. As long as Europe is not yet able to help regions in a significant way in the field of social security, regions will face great difficulties if they have to fight poverty and economic inequality with only their own limited capacities.

CONCLUSION

As discussed above, Flemish political elites frequently try to put the issue of social security on to the political agenda. By contrast, Walloon politicians fear the regionalization of the social security system would disadvantage Wallonia, and may herald the end of the Belgian state. The objective of this final section is to determine the link between political and territorial identity and the institutional claims of Belgians, especially of Flemish citizens, as regards social security.

Drawing upon the election study of 2003^{iv}, we have sought to identify the characteristics of those in favour of a regionalization of social security, using the latter as the dependent variable. Respondents were asked to agree or disagree with the prospect of the decentralization of the social security system. Table 7.2 illustrates the differences among the population, by region.

TABLE 7.2 NEAR HERE

The results are as we might expect. Just over 40% of Flemish respondents supported splitting social security in Belgium between regions. In the Walloon case, 60% of respondents were opposed.

When linking this position to feelings of national identity, the difference remains between the regions. Research carried out by De Winter (2003) has shown that most Flemish people tend to feel 'only Flemish or more Flemish than Belgian'. By contrast, Walloons tend to feel 'only Belgian or more Belgian than Walloon'. We would hypothesize that those feeling an exclusive or stronger Flemish/Walloon identity will be more likely to

favour the decentralization of the social security system than those who express an exclusive or stronger Belgian identity.

TABLE 7.3 NEAR HERE

Around 50% of the Flemish population feeling ‘only Flemish or more Flemish than Belgian’ favours the regionalization of social security. Although a similar trend is evident among Walloons, with those feeling exclusively or more Walloon than Belgian more favourable to regionalization than those whose primary identity is Belgian, overall, Walloons are much less inclined to support splitting social security between levels of government.

Support for more autonomy from Flemish respondents is reinforced when we consider the question regarding the decentralization of social security alongside the institutional preferences for Belgium. Respondents could choose between transferring competences to the central state (unitary state), passing more competences to communities, keeping the current division of competencies, or some other solution.

TABLE 7.4 NEAR HERE

Table 7.4 indicates that those who agree with the splitting of the social security system are inclined to generally support a transfer of competences to regions, and particularly to Flanders. Once again, similar trends can be seen in Wallonia, but the overall picture is of opposition to social security regionalization.

Solidarity and mutual aid constitute a real factor of cohesion (Spinnewyn, 1998: 124). The solidarity inside a state gives rise to feelings of identity and of proximity to our compatriots, and therefore impinges upon our definition of the ‘we’. This conception of a people benefiting from the rights and obligations of solidarity can be easily related to the level where this mutual assistance has to be implemented. As Poirier and Vansteenkiste observed:

The construction of the modern state is no longer based on the building of big monuments or on the development of a colonial empire. Today, the modern state is being constructed via social programmes. It is a concrete and symbolic way to be present in the daily life of the people, to remain essential and to remind the electorate. Therefore, it is not surprising that Flanders, which wants to become a state, wishes to get the greatest possible number of competencies in terms of social security (Poirier and Vansteenkiste, 2000:362, our translation).

On the one hand, social security represents an important part of the link that exists among Belgians and constitutes a factor of common identity. Today in Belgium, social security is translated into a form of solidarity between all Belgians, independent of their 'membership' of one region or one community. A unique and identical social protection scheme throughout the country represents an important symbol of the 'Belgian nation'. The nation is in this perspective defined as 'a space of accepted solidarity' (Poirier and Vansteenkiste, 2000: 365). Moreover, it is argued that social security constitutes one of the main instruments of economic and monetary union and therefore of the unity of the country.

In other words, a decentralization of the welfare state may constitute a threat to the unity of the country. But, some authors go beyond that and consider that it would lead to the disappearance of the state itself. Social security is considered as the *cement* of Belgium (Poirier and Vansteenkiste, 2000: 365), as the underlying basis for the institutional and territorial unity of the whole country. A split of the social scheme would lead, as a consequence, to the deconstruction of a state patiently built over more than 150 years.

On the other hand, if keeping a country together partly demands a unique and centralized social protection scheme, creating a new state necessitates the development of a new regional-based social security or, at least, specific social policies. It has been argued that the increase of competencies in the social field may foster the legitimacy of a territorialized entity and, in this case, may increase the political legitimacy of Flemish institutions (Spinnewyn, 1998: 124). The large scope in Flemish claims, going from a unitary to a completely separate social protection scheme, is largely dependent upon their vision of the future of Flanders. Indeed, some Flemish political actors are aware that possessing their own social security system may be very helpful in the creation of a new independent Flemish state.

In conclusion, the opposing visions concerning the most adequate level for the implementation of the Belgian social security are using the same argumentation. A centralized and uniform social security system represents the foundations of Belgian unity, while a territorially decentralized system would help to develop a new Flemish state. In other words, the regionalization of a part, or of the totality, of the system of social welfare may reinforce Flemish identity and further weaken Belgian identity. In the current context of a gradual disappearance of a Belgian identity in the North of the country and a strengthening Flemish identity, debates around the future of the territorial scope of social security may be a determining factor influencing the acceleration or deceleration of these trends.

We do not have to consider the risk of regionalization as inevitable. The current institutional context in Belgium makes it quite difficult to envisage a negotiation around the regionalization of social security. First of all, the status of Brussels renders the decentralization of social security very difficult, as it would create sub-nationalities^{iv} and effectively lead to the 'abandonment' of this historic and symbolic Flemish city. Secondly, social security decentralization would require constitutional change at the

federal level. Given the rigidity of the Belgian Constitution, this could only be achieved in the unlikely scenario of a majority of French-speaking parties joining a majority of Flemish parties in support of such a measure. The strong unanimity of the French-speaking parties on the subject remains for the moment the guarantee of the maintenance of a national-based welfare state.

REFERENCES

- Arcq, E. (1995) 'La sécurité sociale dans les déclarations gouvernementales', in *Les politiques: de l'opinion à la décision*, Brussels, Bruylant: 9-25.
- Arcq, E. and Blaise, P. (1998) 'Histoire politique de la sécurité sociale en Belgique', *Revue Belge de Sécurité Sociale*, no.3: 481-714.
- Arcq, E., Chatelain, E., Michel, E., Palsterman, P., Reman, P. and Ska, M. H. (1994) *Pour un nouveau pacte social: Emploi, compétitivité, sécurité sociale*, Brussels, Ed. Vie Ouvrière.
- Beine, M. and Docquier, F. (eds.) (2000) *La croissance et convergence économiques des régions: Théorie, faits et déterminants*, Brussels, De Boeck Université.
- Caruso, F., Mathot, F., Mignolet, M., Mulquin, M. E. and Vieslet, L. (2002) 'Les transferts entre les régions: réalités contemporaines et recul historique', in Institut Belge des Finances Publiques, *La fin du déficit budgétaire: analyse de l'évolution récente des finances publiques belges*, Brussels, De Boeck Université, pp.273-85.
- Cattoir, P. and Docquier, F. (1999) 'Sécurité sociale et solidarité interrégionale', in Docquier F., *La solidarité entre les régions: bilans et perspectives*, Brussels, De Boeck Université, pp.227-53.
- Coudenberg (Groupe), (1996) *Cost of non-Belgium: La valeur ajoutée de la Belgique fédérale*, Brussels, Vif Editions.
- De Boeck, E. and Van Gompel, J. (1998) 'Financiële stromen tussen de Belgische gewesten opnieuw bekeken', in Vanderveeren, Ch. and Vuchelen, J. (eds.), *Een vlaamse fiscaliteit binnen een economische en monetaire unie*, Preparatory Report for the Vlaams Symposium of 4 and 5 December, 1998, s.l., Interscientia Rechtswetenschappen.
- Defeyt, Ph. (1991) 'De la régionalisation de la sécurité sociale à la communautarisation des soins de santé', *Bulletin de l'IREs*, no. 154, Louvain-la-Neuve, s.e.
- Delhaussé, B. and Perelman, S. (1999) 'Inégalités et pauvreté', in Docquier F., *La solidarité entre les régions: bilans et perspectives*, Brussels, De Boeck Université, pp.149-67.
- Dethée, M., De Lathouwer, L., Hermesse, J. and Deleeck, M. (eds.) (1991) *Sociale zekerheid en federalisme*, Brugge, Die Keure.
- Dethée, M. (1991) 'De interregionale transferten inzake sociale zekerheid in België in 1985 en 1989', *Economische en Sociaal Tijdschrift*, no. 1: 105-125.
- De Winter, L. (2003) 'Sire, il y a encore des Belges ...', in Frognier, A. P. and Aish, A. M., *Elections. La rupture?*, Brussels, De Boeck Université, pp.110-33.
- Docquier, F. (1999) *La solidarité entre les régions: bilans et perspectives*, Brussels, De Boeck Université.

Wallonia	-18361	-6533	-25223	-6780	-1157	-10837	101	-80	-68870
Flanders	32723	5800	32472	9537	1027	11986	-1574	102	92073
Brussels	-14362	733	-7249	-2757	130	-1149	1473	-22	-23203
Belgium	0	0	0	0	0	0	0	0	0
Transfers: Total in % of the GDP									
Wallonia	-0.2	-0.07	-0.27	-0.07	-0.01	-0.12	0	0	-0.74
Flanders	0.35	0.06	0.35	0.1	0.01	0.13	-0.02	0	0.98
Brussels	-0.15	0.01	-0.08	-0.03	0	-0.01	0.02	0	-0.24
Belgium	0	0	0	0	0	0	0	0	0

Source: Adapted from Docquier (1999: 235).

Note: A negative sign means a received implicit transfer; a positive sign means a paid transfer.

Table 7.2: *Regional Differences in Attitudes towards the Decentralization of Social Security*

	<i>Strongly agree/agree</i>	<i>Neither agree/nor disagree</i>	<i>Disagree/Strongly disagree</i>	<i>Total</i>
	%	%	%	%
Flanders	40.53	25.10	34.37	100.00
Brussels	19.44	12.96	67.60	100.00
Wallonia	27.05	12.30	60.65	100.00
<i>Total</i>	<i>30.78</i>	<i>17.75</i>	<i>51.47</i>	<i>100.00</i>
<i>N</i>	<i>685</i>	<i>395</i>	<i>955</i>	<i>2033</i>

Source: ISPO - PIOP, 2003

Table 7.3: *Territorial Identity and Attitudes towards the Decentralization of Social Security*

	<i>Strongly agree/agree</i>	<i>Neither agree/nor disagree</i>	<i>Disagree/Strongly disagree</i>	<i>Total</i>
<i>Flanders</i>				
	%	%	%	%
Flemish/ more Flemish than Belgian	55.40	24.55	20.05	100.00
Equally	39.11	28.75	32.14	100.00
more Belgian than Flemish/Belgian	27.12	19.93	52.95	100.00
Total	40.70	25.07	34.23	100.00
N	453	279	381	1113

<i>Brussels</i>	<i>Strongly agree/agree</i>	<i>Neither agree/nor disagree</i>	<i>Disagree/Strongly disagree</i>	<i>Total</i>
	%	%	%	%
Walloon/ more Walloon than Belgian	20.00	0.00	80.00	100.00
Equally	7.00	13.95	79.05	100.00
more Belgian than Walloon/Belgian	22.30	13.37	64.33	100.00
Total	19.04	12.86	68.10	100.00
N	40	27	143	210
<i>Wallonia</i>	<i>Strongly agree/agree</i>	<i>Neither agree/nor disagree</i>	<i>Disagree/Strongly disagree</i>	<i>Total</i>
	%	%	%	%
Walloon/ more Walloon than Belgian	36.84	14.47	48.69	100.00
Equally	28.33	14.68	57.00	100.00
more Belgian than Walloon/Belgian	23.38	9.54	67,08	100.00
Total	26.95	12.25	60.81	100.00
N	187	85	422	694

Source: ISPO - PIOP, 2003

Table 7.4: *Regional Differences between Institutional Preferences and Opinion concerning the Decentralization of Social Security*

<i>Flanders</i>	<i>Strongly agree/agree</i>	<i>Neither agree nor disagree</i>	<i>Disagree/Strongly disagree</i>	<i>Total</i>
	%	%	%	%
Unitary Belgium	26.92	22.65	50.43	100.00
More competencies to regions	52.15	22.22	25.63	100.00
Keeping current competencies	26.90	31.32	41.78	100.00
Another solution	48.15	25.93	25.92	100,00
Don't know	38.46	36.54	25.00	100,00
Total	40.54	25.09	34.37	100.00
N	454	281	385	1120

<i>Brussels</i>	<i>Strongly agree/agree</i>	<i>Neither agree nor disagree</i>	<i>Disagree/Strongly disagree</i>	<i>Total</i>
	%	%	%	%
Unitary Belgium	17.55	9.92	72.53	100.00
More competencies to regions	29.41	14.70	55.89	100.00
Keeping current competencies	17.50	15.00	67.50	100.00
Another solution	33.33	0.00	66.67	100.00
Don't know	12.50	50.00	37.50	100.00
Total	19.44	12.96	67.60	100.00
N	42	28	146	216
<i>Wallonia</i>	<i>Strongly agree/agree</i>	<i>Neither agree nor disagree</i>	<i>Disagree/Strongly disagree</i>	<i>Total</i>
	%	%	%	%
Unitary Belgium	21.31	9.29	69.40	100.00
More competencies to regions	35.00	15.00	50.00	100.00
Keeping current competencies	18.35	9.17	72.48	100.00
Another solution	9.09	0.00	90.91	100.00
Don't know	30.19	33.96	35.86	100.00
	27.04	12.30	60.66	100.00
N	189	86	424	699

Source: ISPO - PIOP, 2003

Chapter 8

Changing Political Contexts in the Nordic Welfare States:

The central-local relationship in the 1990s and beyond^{iv}

Kaisa Lähteenmäki-Smith

INTRODUCTION

The Nordic countries have traditionally been seen as the champions of universal welfare policies in the post-war era. This is well known from a range of comparative studies on European welfare states (for example, Esping-Andersen, 1990; 1996; 1999; and 2002; Pierson, 2001), where the traditional Nordic model is known for combining an extensive social insurance system with labour market policies that promote full employment, equal opportunities, and a balanced and equitable distribution of wealth. The role of the public sector is deemed important here in that it provides the basis for functioning of labour markets where the public sector has an active role, and where the share of public employment in the social and health sectors is an important economic, as well as social, factor. The social insurance system plays a role by widening the tax base and limiting the need for direct intervention by the social authorities, while the equalization system provides the basis for the territorial justice dimension. It is acknowledged, however, that due to internationalization and globalization, the Nordic welfare systems cannot - and indeed have not - remained unaltered. These transformations have taken place within the sphere of social welfare and health care, and are seen as being connected to geography and territory. As such, they become a question of planning and state intervention more broadly

(see Öhman, 2003). The changes also reflect the more universal trend towards a more active welfare policy mix (Powell and Barrientos, 2004: 87) and thus can be seen as being easily differentiated from the rather more passive 'old politics of the welfare state'.

Though the Nordic countries^{iv} are often discussed as a coherent and relatively uniform group, we should always bear in mind that there are significant differences between them. The similarities are most often found in the levels and distribution of welfare, while the policy solutions and the actual delivery of welfare policies (territorial or otherwise) usually reflect national differences (Kautto and Kvist, 2002: 198). Their shared characteristics include a high degree of active governmental involvement in welfare policy, and active support for a universal social insurance system that covers the entire population rather than being restricted to those participating in the labour market (with full employment concurrently also being a central policy goal). Other shared characteristics include a broad reliance on the public sector for the provision of social and welfare services and a greater emphasis on service provision than in some other European countries, where direct income transfers have been more common. As described in the introductory chapter of this book by Moreno and McEwen, the 'Nordic model' was based on the social-democratic ideal premised on the combination of 'solidaristic' ideas with growth and full employment. In addition, the minimization of familial dependence is sought, while the system as a whole is marked by the high taxation levels required to finance this extensive welfare policy. Overarching all of this is the principle of universality and the favouring of public service provision rather than cash transfers. Moreover, as Moreno and McEwen also note, the Nordic ideal also embraces the aim of underwriting the equality and homogeneity of social groups within an all-embracing middle class, and as such this can be seen as one of the central 'ideological' aspects of welfare policy.

The basic pillars of the Nordic model, as set out above, did not, however, survive intact the socio-economic winds of change brought about by the supply side reforms introduced across Europe in the 1980s and 1990s, and as such, a more differentiated Nordic picture has gradually emerged (Palme, 1999). In some cases, it can be argued that such changes are directly related to fiscal pressures on the public purse which have entailed a significant level of cost containment and recalibration in the form of rationalization (Pierson, 2001; Nordlund, 2002: 34-35). This tendency has been particularly apparent since the economic recession of the early 1990s, and while the picture has necessarily become ever more differentiated, the traditional 'universalist' ideals upon which the Nordic model was based have come increasingly under pressure. The expansion of the welfare society in the Nordic countries over the past 50 years has to a large extent occurred through state support for the creation and implementation of basic services and welfare provision under the auspices of the local authorities and the regions. Thus, despite continued rhetorical observance of the maxims of universal welfare provision across the Nordic countries, there is now a perceptible territorial dimension to welfare policy.

Indeed, this territorial dimension has been fervently debated in recent years. The distribution of tasks and responsibilities between central government and the regional and local levels is clearly being transformed as the general pressure brought about by internationalization and negative population trends has become ever more pronounced. In the case of Norway, we can see this in terms of the transfer of responsibility for hospitals from the regions to the state level. In Sweden, it should be viewed in terms of the new experiments with regional co-operation bodies ('samverkansorgan'), with a transfer of responsibility for regional development issues which moves the locus of power in this area away from the state regional authorities (counties, 'länsstyrelsen') to the new administrative organs. Similarly, in Finland, the first regional self-government experiment on the mainland has been launched in Kainuu, while the Danish government recently proposed doing away with the regional level altogether. As such, it is plain to see that substantial and significant changes are taking place, though the final outcomes of such changes are, as yet, far from clear.

A brief overview of the territorial levels in the different Nordic countries is provided in Table 8.1. Iceland is not included in the table and is referred to less than the other four Nordic countries because of the different challenges it faces, both politically and in terms of scale, with its miniscule population (approximately 283,000), isolated location and extremely mono-centric spatial structure (almost two thirds of the population live in the capital region). Yet, this is not to imply that Iceland remains untouched by the pressures and challenges of internationalization felt in the other Nordic countries. It is worth noting here that whilst there are some common areas of public policy, where the division of responsibility follows the same pattern in all Nordic countries (for example, primary education being the responsibility of the local authorities and higher education being the responsibility of central government), there are also significant differences.

TABLE 8.1 ABOUT HERE

There are a number of major policy discussions and reform processes currently ongoing in this field, most of which are related to the division of responsibilities between the regional and central government level, as well as to the nature of the regions. While the legitimacy of the indirectly elected regional level in Finland is often debated, and the possibility of establishing a directly elected regional level entertained at least as a theoretical alternative (as in the Kainuu region experiment in regional autonomy, 2005), the Danish government recently proposed the abolition of the regional level altogether. The Norwegian decision to take the responsibility for hospitals from the regional to the state level is also an issue of some importance, though it is yet to be evaluated and assessed either as a service solution or as an element in a wider process of governance reform.

In addition, there are a number of broader ongoing policy processes and new initiatives of interest in the Nordic countries (as elsewhere) in this context. Basically, what the Nordic countries have in common is the shared view that the state system is now too complex to be 'managed' by top-down government. With this realization in mind, they seek to promote a movement from the central role of the official state apparatus in securing state-sponsored economic and social projects towards emphasizing partnerships - with government being only one actor, though often the 'first among equals' (Lähteenmäki-Smith, 2004). Partnership is, however, only one of the aspects of (regional) governance. But it is particularly symptomatic of the desire to find new policy solutions in the field of regional development, and in the Nordic context symptomatic also of a shift from the desire for centralized solutions towards, in some respects, more encompassing and 'bottom-up' approaches to policy implementation. The 1990s may have been a time of significant adjustment in the Nordic countries, given the economic recession and, in the cases of Sweden and Finland, entry into the European Union. Yet, it may be argued that the pressures for change and the perceived limitations of the Nordic administrative models have emerged with even greater force since the end of the 1990s and, thus, that the current processes may ultimately result in even more drastic changes in, for instance, Sweden's unitary state model. Indeed we can make reference here to numerous governmental committees or commissions investigating the possibility of administrative reform and the consequences of a new division of responsibilities in Norway, Sweden and Denmark throughout 2004.^{iv} They address the problems and limitations of current governance models, many of which reflect distant historical circumstances rather than the current policy needs of governments, or indeed the expressed desires of Nordic citizens.

The pressures that the Nordic welfare states are facing are of course far from unique. Rather, they are reflections of the broader policy pressures brought about by increased internationalization – in the European context sometimes mislabelled as Europeanization – and population trends (ageing workforce, low birth rates etc.). Even here, however, the picture is not uniform, and important territorial and regional differences remain (Hanell, Aalbu and Neubauer, 2002). Such trends have put the traditional Nordic welfare state model under increasing pressure, and while the solutions sought are to be regarded in a broader international context, many of the specificities of the Nordic countries have led them to share and compare experiences and policy ideas, many of which carry the *imprimatur* of Nordic 'pragmatism'. The relationship between the central government and the decentralized layers of governance is one of the areas of such common concern.

As such, this chapter seeks to address some of the main challenges and policy processes currently under discussion in the context of mapping the future of the Nordic welfare states. The main processes currently taking place with regard to the territorial structure of the state will be briefly examined. The ways in which territorial governance solutions have thus far aided or inhibited welfare development will be also discussed, as will the role the welfare state has played in the Nordic countries in relation to patterns and forms of sub-state diversity. Similarly, the question of what consequences state-wide systems of welfare have had for inter-regional solidarity will be dealt with throughout the various sections of this chapter.

THE TERRITORIAL DIMENSION IN NORDIC WELFARE STATES

Until the late 1990s, regional development in the Nordic countries was relatively balanced, with similar dynamics visible across much of the Nordic area. The main idea was that independent of whether welfare services were nationally, regionally or locally provided, all citizens were to receive the same standard of public services. The goal of 'regional balance' was elevated to the level of a spatial justice ideal. In recent years, however, a number of significant differences have emerged among and within the various Nordic countries, with contrasting tendencies of centralization and decentralization across the Nordic area as a whole. The specific focus point for considering the policy changes, as well as the gradual erosion of the Nordic welfare state ideal will be the relationship between the different levels of government, from local to regional to central government. The question will then be posed; who bears the final responsibility for the delivery of welfare to the citizens, with the working hypothesis being that the various Nordic political elites' attempts to answer this question have, particularly since the 1990s, become less coherent and increasingly contested.

Of all the OECD countries, the Nordic states have traditionally devoted the highest levels of public expenditure, as a percentage of GDP, to the task of welfare provision in its widest sense. The expansion of the public sector, and the parallel growth of the welfare state from the 1980s to the mid-1990s, is thus reflected in the figures presented in Table 8.2, while also being compared to those of the other EU countries.

TABLE 8.2 ABOUT HERE

The interesting shift in the 1990s has been the Europe-wide convergence on welfare expenditure and its distribution between the public and private sectors. In this respect, it has been argued that the Nordic countries have essentially moved towards private financing mechanisms and away from public ones. As Kautto shows in his comparative study of the Nordic welfare systems in a European context, this shift in the Nordic countries has seen the employer's share of social insurance financing decrease, while the share of the individual insured in the Nordic countries has increased, making this the most significant indicator of convergence (Kautto, 1999). At the same time, some of the areas within which the welfare state has taken on new responsibilities providing us with interesting insights into their rationale and mechanisms include regional policy, higher education policy, and social and health policies. It is argued here that while policy changes have not been indicative of the *total* erosion of the Nordic welfare model as such, there are nevertheless indications of a shift from the universal welfare model to one of a more diversified and multi-level nature, which is likely also to reflect the various aspects of change in the distribution of functions and responsibilities between the

different administrative levels. Thus, what emerges is a new regime or governance model for the Nordic welfare state, and one that is more in line with the ideas associated with New Public Management (NPM).

In the case of Sweden, territorial politics and public policy have largely been outlined in universal terms and have generally been pursued within a context of achieving 'regional balance' and individual equality within the broader framework of social justice. The main goal was that of providing reasonably equal material living conditions for all citizens independently of where they live and of their income capacities. Until the beginning of the 1990s, this goal was implemented within the context of a person-centred general welfare policy which itself was constructed during the post-war years. The Swedish welfare policy model could best be described as being comprised of four different parts: (i), publicly provided services in the form of, for example, health care, compulsory schooling, care for the elderly and child care services, together with a regulated and subsidized housing policy; (ii) a compulsory social insurance system linked to levels of employment earnings; (iii) a universal support system, which included provision for national pensions and family allowance (child support) mechanisms; and (iv) a system of means-tested assistance, both in the form of monetary support and direct measures. This was basically also the outline of the wider 'Nordic welfare state model', with questions of financing and funding being traditionally based on the various nationally defined territorial equalization models.

In the Nordic unitary states, a key element of welfare policy and territorial solidarity is the equalization system that, together with the taxation system, must be seen as the cornerstones of the welfare model used across the Nordic countries. The system was developed to distribute state appropriations (the municipal income system), which together with user payments and the local authorities' taxation income have placed the local authorities in a position to comply with national standards within their own areas of responsibility. This system is comprised of an income compensation contribution, which ensures that the municipalities and counties with a weak taxation base retain a specific minimum taxation income *per resident*. Furthermore, it also includes an equalization component, designed to compensate for the extra costs of various structural factors (such as the demographic and the social situation) beyond the control of the municipalities themselves. However, we should note here that there are important differences between the Nordic countries in this regard, both in terms of how large a share of such local level costs is covered by taxation and in terms of the equalization component.

In the Icelandic case, for example, the local taxation component is the highest, with nearly 80% being covered, while the lowest share of tax in this regard is in Norway (approximately 40%), with the Danish and Swedish systems covering approximately 60% by taxation (both income and other types of tax are included here). The state thus covers a considerable share of local level income through the equalization system and with 'ear-marked' forms of transfers, though here differences between the countries are even greater: in the case of Norway, 40% of local level financing comes from the state, while in Iceland only 14% does so. In the other three countries, the figure is around 20% (Nordic Council of Ministers, 2001: 11). Thus, while the territorial 'solidarity' tenet continues to be the

backbone of the Nordic welfare systems, it is now implemented from a number of different perspectives. Ongoing debates concern the need to find better solutions to the question of the distribution of responsibility between the local, regional and central levels. Views have been expressed that rather than relying predominantly upon central government, the regional and local levels should increasingly be encouraged to find new (and more economically efficient) solutions for service provision, as the central government has gradually transferred responsibility for service provision to the local authorities which have been free to choose the methods of arranging their services within the block-grant system of financing. Needless to say, the various regions and localities have very different capabilities in this regard largely dependent on their taxation base and, by extension, on their population structure, while the ageing population and out-migration in the more peripheral regions, and the growth of the large urban centres (and capital regions in particular), have each in their own way presented major service provision challenges for the local level (on these challenges, see Kautto and Kvist, 2002: 192-195).

Although in regional development terms, the Nordic countries have never been entirely uniform, national welfare provision has generally pursued common standards and methods set with regard to service provision. However, as a result of increasing differences in population trends and the centralization of economic activity that evident since the 1990s, there are now serious concerns over whether there are enough people working to maintain service provision levels for those not in work, or indeed for those who are no longer in the labour market. In a number of cases, this is a particular problem for peripheral regions with a significant number of retired persons, though in some cases, particularly in Finland with its persistently high unemployment levels, it also affects regions suffering from long-term unemployment.

TERRITORY AND WELFARE RETRENCHMENT

At present, many of the changes influencing the Nordic welfare states reflect transformations in political ideology and working methods, which are themselves reflective of broader European trends and gradual policy changes. This can best be seen in the changes that have taken place and in the way in which the role of the regions and other territorial levels are perceived. The work done in the broader Nordic comparative study referred to above serves best to illustrate this (Lähtenmäki-Smith and Persson, 2002). It is important to note that many of the questions addressed here are related to traditional notions of democracy and to the prevailing ideas of accountability and subsidiarity. But in terms of the most important strategic choices and/or politically high profile decisions, it is public service provision that receives the most attention. Here, the 'partnership' approach has paved the way for new forms of co-operation and interaction, though such interventions are likely to be viewed only as insufficient compromises in the long term, particularly with respect to the need to tackle the question of democratic accountability and participation.

Moreover, it seems clear that the role and legitimacy of the nation-state is coming under intense pressure in all Nordic states. One particularly interesting facet of this development is that the more prosperous regions are gaining in self-confidence and are now better able to establish both cooperative and competitive positions with regard to regions in other countries. On the other hand, the less prosperous and more peripheral regions continue to emphasize the need for state intervention and public transfers to secure national standards in service provision and infrastructure. As a consequence, one can envisage a future hierarchy, where the most prosperous and dynamic metropolitan areas focus on international competitiveness, while smaller medium-sized centres measure themselves against their nearest metropolitan areas (or against other similar centres outside the national context, with an ever increasing interest developing in respect of benchmarking exercises). Undoubtedly, however, it is the periphery that risks losing out in this new environment of vibrant competition as in this socio-economic climate, it is not clear what their competitive advantage is, or indeed, could ever be. At the same time, the ongoing process of increased marketization redistributes some control over local services in the periphery into the hands of private firms, which in itself may raise questions of service quality and provision in the context of the overarching need to compete (the 'race to the bottom' argument).

In regional policy terms, but also in terms of shifts in a variety of policy sectors with an explicit or implicit territorial impact, we can identify significant changes in policy principles and ideology that have had an important impact on the territorial aspects of the Nordic welfare state. One of the most important changes here has been the move *from* perceiving regional policy in terms of the provision of special support mechanisms to 'problem zones' or to 'localities with special needs' *to* embracing the mantra of 'help to enable self-help' for functional regions all across the board. Functional regions refer to regions that are not first and foremost administrative or political in nature, but rather are based on commuting patterns within labour markets.^{iv} While such regions are indeed shifting entities and as such cannot be delineated on a permanent basis, they do provide us with a clearer 'bottom-up' picture of territories in the making, based on commuting patterns and every-day experiences of people living in a particular territory. The role of these functional regions is also politically determined, as one of the key policy objectives of regional policy across the board in the Nordic countries over the last decade has been that of 'enlarging the functional regions'. For instance, in the Swedish context, regional enlargement, or *regionförstoring*, was set as one of the main goals of regional policy (Government proposition 2001/02:4, *En politik för tillväxt och livskraft i hela landet*).

The move from a regional policy designed to address the needs of 'problem regions,' to a policy designed to engage all regions is most apparent in the governmental proposition referred to above. Three strands of regional policy were outlined: (i) growth and structural policy; (ii) stimulation policy; and (iii) welfare policy. The first aims at creating the preconditions for economic growth and employment across all regions, and develops (as well as enlarges) the functional regions into well-functioning labour market areas. The regional structural policy, on the other hand, has the specific focus of targeting co-ordination between different sectoral policies with a territorial impact (that is, higher

education, infrastructure etc.). The second strand, stimulation policy, seeks to promote entrepreneurship and the creation of a healthy business climate, supporting local growth dynamics, innovation policy, etc. Finally, regional welfare policy has the specific aim of developing new models of service provision through regional experiments and the promotion of regional autonomy, aiming to promote new forms of governance that could be both efficient and democratic.

Table 8.3 reflects Swedish thinking on the different territorial levels (LLA stands for local labour market areas). The notion of cluster regions may be seen here as a reference to the new regional constellations that seek to promote new forms of co-operation between municipalities and counties.

TABLE 8.3 ABOUT HERE

The public sector employment patterns reflect some of the changes that have been referred to in connection with the retrenchment of universal welfare policies. If we look at public sector employment as a whole in Finland for instance, we can see that it diminished during the 1990s (1991-1997) by about 91 000 employees, of which 79,000 were from the state sector and 12,000 from the municipalities. Employment in the municipal sector was lowest in 1993, though it gradually increased thereafter. This increase has taken place only in Southern and Western Finland, while in Lapland and in Eastern Finland, regions that have traditionally been more dependent on public sector jobs, employment has continued to decline.

The four main structural reform processes in the Finnish state sector which have had territorial impacts have been:

- (i) Privatization of previously state-run agencies and companies into private firms or corporations and the subsequent closure of state local and regional offices and/or the pairing down of services;
- (ii) Reform of the regional administration;
- (iii) Reform of the municipal equalization system, that is, the system of subsidies given to the municipalities, which has led to a diminishing level of financial support while also giving the municipalities more freedom to organize their service production profiles;
- (iv) Changes in regional policy – both in terms of its objectives and of its instruments (the move towards functional regions, increased emphasis on clustering^{iv} and the role of urban centres as ‘engines of growth’, etc.).

Despite some privatization activity in Finland the area of social services and health care remains predominately within the public sector. In 1999, approximately 301,000 persons, or 13.5% of the total labour force, were employed in health care and social services, with 232,000 of these people being employed within the public sector (municipalities, regions). Taxes cover 75% of total health financing, with central government covering about 20%, local authorities 40% and the Social Insurance Institution some 15% of the

total. In 1999, the total for social services, health care and social security expenditure amounted to some 72 billion FIM, (12 billion euros) or roughly 10% of Finnish GNP. While the expenditure and employment share of social and health services decreased significantly in the 1990s, since 1997, the prevailing trend has again seen increases, and this is likely to continue as the population profile continues to age in the coming decades.

Despite widespread political consensus on, and support for, this universal welfare policy there has been a steady increase in the proportion of needs-based welfare programmes, at the expense of the doctrine of 'universal provision' since the beginning of the 1980s. As such, the notion of a universal welfare policy has gradually been eroded in a number of areas, together with an erosion of public authority within many parts of the service sector. Partly on ideological grounds, and partly as a result of pressing economic circumstances, municipalities and county councils have thus, to a greater extent than before, begun looking for other (non-solidaristic, non-universal) solutions even in areas such as education, health and other care services.

In addition to the financial and employment changes in the public sector, one cannot leave aside the question of methodology and ideology within territorial policy, when the main policy trends and their territorial impacts are discussed. The increased focus on programme-based regional development, clustering and promotion of the most dynamic functional urban areas as engines of growth have been heralded essentially as placing more emphasis on endogenous growth and bottom-up initiative, while central government still remains central in steering the regional development activities on decentralized territorial levels. (The main objectives and instruments of regional development are outlined in the Regional Development Act 602/2002 as well as the Regional Development Decree 1224/2002 that entered into force on 1 January 2003 [Ministry of the Interior, 2002]).

The Finnish programme 'portfolio' in the regional development sphere has in recent years included clear cross-sectoral dimensions and ambitions, promoting policy innovation between policy sectors as a means of encouraging both regional development and welfare. There have been three concurrent programme processes, such as the Regional Centre Programme, based on the promotion of polycentric urban network patterns and new co-operative solutions for public service provision, the Centres of Expertise Programme, promoting clustering and regional specialization, and the 'SEUTU', the Sub-regional Units Support Programme, to name but a few.

The main aim of the Regional Centres programme introduced in 2001 has been the promotion of the strengths and specializations of regional centres and cooperation between them, so as to reinforce the network covering all of the regions. Regional centres comprise functionally homogeneous urban regions in terms of commuting, housing, service provision and demand, and are thus very strongly based on the functional region thinking described elsewhere in this chapter. The policy principles that the programmes are based on include sub-regionalism, partnerships, networking, (regional and local) commitment and participation, as well as the goals of socially-sustainable development.

The Centres of Expertise Programme is of slightly longer standing, established in 1994. Its main aim is to improve the preconditions for the establishment and development of internationally competitive business and research operations calling for a high level of expertise, while supporting regional specialization and the division of labour between centres of expertise (that is, between regions). The working methods are also based on networking and the 'partnership approach', which is also reflected in the co-financing patterns. Funding comes from a variety of sources, ranging from locally and regionally based businesses and the European Union (through technology financing such as the 6th Framework programme, and the Structural Funds, where the regions implementing the programme are eligible) to central government and the municipalities.

'SEUTU', the Sub-regional Units Support Programme, was implemented between 2002-2004, and aimed to promote co-operation between municipalities. The processes by which territorially differentiated and regionally specific programmes are developed provide an interesting example of Finnish policy in this regard in that it has a very strong 'top-down' component. The central government sets the selection criteria and takes the policy initiative to establish a programme through legislative means, which is rare in the Nordic context (only Finland has a law for regional development). It also appoints the regions selected for the programme, yet the programmes themselves are drafted and operationalized – and thus implemented – by the regions in accordance with partnership based working methods. This often provides interesting opportunities in the field of public service provision, as has been the case in some regions where cluster and innovation policies, and the need to co-operate and form partnerships, have meshed with the need to address the new welfare provision challenges.

In all Nordic countries, a recent trend has seen increased discussion and development of strategies for dynamic functional regions, often referred to as local labour markets. Localities within these regions are treated as interdependent in terms of housing, service and labour markets. The role of central government is regarded as a facilitator or enabler, or as a kind of provider of 'help to enable self-help' for each of these functional regions, rather than as the final guarantor for equalizing living conditions. The focus is articulated as one of 'mobilizing regional resources and capabilities' and releasing each region's economic growth potential. The approach emphasizes the need to concentrate more on the endogenous potentials and resources of a region as the key element to ensure welfare levels. An important ideological shift is noticeable as the previous focus on exogenous 'help' from the state level has been effectively, if not rhetorically, replaced.

It is argued that while the regions, whether they be administrative or functional in nature, cannot alone provide the necessary services and growth impulses in the territorial economies and welfare systems, neither can they simply continue to rely upon central government to provide them with the dynamism needed. Consequently, the focus has become one of supporting better functioning and more stable *co-operation* between administrative units that is municipalities and regions. This has particularly been the case with Finland, where the regional level is based on collaborative constellations of the local

authorities (regional councils as the main regional level being formed as 'statutory joint municipal authorities'), where the co-operation approach was reinforced for a time through the introduction of programme methodology in regional development, and increasingly also in areas of welfare and health service provision. The same also applies to Sweden, where inter-municipal co-operation has also been promoted, though via a more asymmetrical model providing for a number of experiments with regional autonomy and differentiated responsibility between the administrative levels (Swedish Association of Local Authorities, 2002; Antikainen and Lähteenmäki-Smith, 2003).

As was noted above, Swedish and Finnish accession to the EU brought about a change in working methods as regards regional development, with the principles of programming and partnerships being imported from other European policy contexts. Moreover, in those Nordic countries where EU membership did not take place, regional development and structural policy nevertheless became largely based on similar concepts and working methods, with the need to promote partnerships in particular being actively 'enforced' (Östhol and Svensson, 2002).

Important national differences do however persist. Evaluation exercises and general research have shown that policy programmes are important in the initial phase and in mobilizing regional partnerships. In implementing programmes, however, the project culture often follows its own logic – that is, with an emerging profession of project managers with their own criteria for success. The Finnish experience stands apart from the rest in this respect, with a more conscious governmental policy line designed to strengthen regional centres as 'growth poles'. Norwegian counties are supposed to draw up 'regional development programmes' in partnership with the state and with private enterprise. A similar process has also taken place in Denmark, where regional policy has been largely absent from the policy agenda since 1991, but where recent years have seen its return, albeit in a somewhat attenuated form, for instance, through the drafting of regional growth strategies.

In the Danish case, the partnership working method has been promoted within the context of the changing emphasis of regional policy, which now increasingly focuses on peripheral regions that need assistance in developing the conditions for growth and encouragement of the private business sector. Economic support for regional development is directed at the compensation of differences, by means of partnership-based regional growth co-operation initiatives aiming at regional growth and welfare (*vækstsamarbejden*; ØEM 2003). Here, the starting point is the perception that, although Denmark remains a country with a very high degree of regional balance in terms of international comparison, with economic growth not only concentrated in the metropolitan area, there are differences which nevertheless need to be addressed. Such differences persist in spite of the equalization system with general taxation, the redistribution mechanism and transfer payments, which have all contributed to the reduction of differences in consumption potentials between the regions. In some of the more peripheral Danish areas, industrial development has been slower than in the rest of

the country, with these areas finding it more difficult to retain and attract citizens, thus ensuring that the differences gradually become even more pronounced.

All things considered, however, the Nordic countries show a higher than average degree of 'territorial homogeneity'. As illustrated by recent OECD studies, the level of regional disparities in the Nordic countries is lowest in comparison with other European welfare regimes. Within the group of 25 OECD countries included in the OECD comparison, the four Nordic countries rank among the eight countries with the lowest regional disparities measured by the Gini coefficient. (OECD, 2002).

The metropolitan areas are the most dynamic regions in the Nordic countries, as elsewhere in Europe. While it has been widely accepted politically that there is a need to promote metropolitan areas, with this approach being one of the cornerstones of territorial policy in recent times, it is also clear that the more peripheral regions, and in particular their special challenges, also need to be addressed (thereby reflecting the need to find acceptable solutions for regional balance and regional growth, often in the Nordic context referred to as *sustainable growth*).

The Swedish case is particularly relevant here in that the previously uniform and centralized solutions of a historically unitary state have now given way to new, more asymmetrical solutions and experiments. The issue of relationships and of the distribution of tasks between the central government, the regions and the local authorities has also been studied and debated, not least within the context of a parliamentary commission of enquiry designed to investigate the division of labour and the distribution of responsibility between different levels of governance (central, regional, local).^{iv} The starting point for the commission was outlined in a manner very much reflecting the Swedish ideal of a welfare system, while also illustrating the need to address the changes in the broader policy environment and population trends so as to ensure that prospective governance changes could maintain a balance between welfare and growth.

Connected to this programme methodology changes in policy content also took place reflecting concerns that there was a need to strike a balance between central government and the regional and local level authorities. There has thus been a shift from 'support to firms' to 'the development of networks and the business environment', incorporating the regional economists' and economic geographers' ideas on clusters and industrial districts as the promoters of innovative and dynamic business environments. In Sweden, this has taken place within the context of the regional growth programmes, which were introduced with the aim of mobilising regional resources through partnerships to co-ordinate efforts towards the promotion of sustainable functional regions through support for regionally-based industrial policies. In some cases, the programmes are implemented within new regional constellations ('samverkansorgan', that is, Regional Development Councils (RDC) introduced by the Swedish government in 2002; *Law on the regional development organs in the counties 2002:34*), with regional responsibilities ranging from regional development and infrastructure to healthcare and social services (in most cases, the responsibility for taking care of the regional hospitals accounts for 90% of the

budget). In other cases, the regional growth programmes are implemented by the traditional state authorities at the regional levels (county governments). Asymmetry is further highlighted by the fact that some regions are directly elected, while others remain indirectly elected.

The model used in introducing these new regional development arenas is now a central part of Sweden's increasingly asymmetrical policy, where not all regions and localities need to follow the same organizational and institutional pattern, and where more tailored solutions are called for instead. However, as far as the establishment of the new co-operative bodies was concerned, one important element characteristic of the Swedish system has prevailed: all local authorities in the region in question need to agree in order to establish a new co-operative body. As a consequence, if only one local authority vetoes the proposal, the status quo situation remains. Currently, out of the 21 counties, most have already established a RDC, or are in the process of doing so. In seven counties, one or more municipalities have vetoed the establishment of a RDC (for example, the Stockholm county, where Stockholm city did not support the establishment of such a co-operative body).

Thus, it could be argued that the Nordic welfare state model remains intact in theory at least, if not in practice. Social services, health care and social security remain fundamental state responsibilities targeted at securing quality and equal distribution between individuals. This 'equality doctrine' as such remains an important part of the Nordic welfare state system. Indeed, this 'quality' aspect is probably emphasized more in current debates than are quantitative indicators. At the same time, however, it is true that the degree of political decentralization does not provide a uniform picture of the Nordic states. Despite the apparent ideal-type model of the 'Nordic welfare state', national differences became ever more pronounced throughout the 1990s, as well as being accompanied by new territorial solutions, which are likely to produce further impacts on the regional differentiation of welfare.

Another important aspect of the Nordic welfare system worth noting here is the high level of public sector employment in the economy as a whole, as an indication of the broad scope of the public sector. It has been shown elsewhere that changes in the levels of public sector employment across the Nordic countries have become increasingly differentiated, both in terms of national and regional differences (Lähteenmäki-Smith and Persson, 2002), thereby showing a less uniform and more territorially differentiated picture of the Nordic welfare states. At the same time, the interdependence of territorial policies and welfare has become even more pronounced. Here again, it may be more useful to note that territorial policies are not the only policy sector that has a territorial impact or territorial consequences. Thus, the territorial impact of public policy more broadly can be seen as ranging from inter- or intra-regional equalization systems to measures targeting regional (economic) growth and development. Such consequences may include:

-
- Basic standards of welfare
 - Employment in the public sector
 - Access to services for households
 - Business conditions, that is, growth opportunities for private enterprises
 - Degree of mobilization of regional resources, especially of human capital

Governmental responsibility for welfare can also be connected to the social security system, and to the authorities responsible for individual and national security (that is, the legal system and national defence). Measured in direct terms, employment in the state sector varies greatly between local labour markets. Some regional centres, for example, those with significant levels of activity within the defence sector, (in addition to the capital regions) have high concentrations of state sector employees, while many rural areas and small communities, usually dependent on small industries, have few state sector employees. However, where the economic basis has been eroded but public service levels maintained, one often finds very high or disproportionate levels of employment in the greater public (that is, in the municipal and state services) sector. This is also where important changes have taken place, accompanying the structural changes that were further exacerbated by the 1990s economic recession (particularly in Finland, but also Sweden).

CONCLUSION: TOWARDS A REGIONALIZATION OF WELFARE?

In all of the Nordic countries state policies across several sectors have increasingly adopted a more territorial focus. In most cases, such developments are not directly connected to territorial politics or to the creation of sub-state territorial identities, as such identities remain predominately locally (and nationally) based. However, there are trends towards more territorially sensitive policy solutions, even if the degree of regionalization or territorialization may seem modest in a pan-European context especially when compared to the federal or quasi-federal governance solutions used elsewhere. The reasons for regionalization are thus often outlined in terms of welfare provision, services and efficiency in policy delivery, while aspects of democratic renewal are also perceptible, though generally muted. It is assumed that the process of regionalization contributes to the more efficient adjustment of public intervention to regional preconditions. Moreover, despite ongoing deregulation and liberalization, the central state is still viewed as the ultimate 'saviour of last resort' in the Nordic context, where fragile regional economies are significantly affected by unforeseeable developments in the global economy. It should, however, be noted that in some sectors, the same processes contribute to the reinforcement of regional imbalances through a sharpening of existing centre-periphery relations.

From the national decision-makers' perspective, one of the more urgent questions linked to such policy issues concerns the role the central governments should play in the most

remote regions in order to safeguard basic services. In addition, we should note that globalization and European integration now penetrate most parts of society. This does not mean that the responsibilities of the nation-state can be reduced or withdrawn altogether. Rather, it entails that the more complex decision-making processes and management relations involved demand transparency concerning the limits to, and the role of, the nation-state's responsibility. This applies to both the regional and the national perspectives.

Indeed, state autonomy has increasingly come under pressure from two different directions, from both the EU level and the sub-state or regional level. With regard to the second, namely, pressure from the sub-state regional level, there are discernable trends across all of the Nordic countries towards the decentralization of the public provision of goods and services. However, the driving forces behind such adjustments are couched in the language of 'administrative reform' and 'sectoral efficiency', rather than in the heady rhetoric of political regionalism.

Nordic decentralization processes may take different forms such as (a) a transfer of authority from the national to the regional governance level, or (b) a furthering of privatization and the imitation of private management practices allowing for more influence to the market and less to the political sphere. In many cases, such changes have been encompassed within a wider policy package that has resulted in a process that can be referred to as the 'downsizing' of government and the promotion of new partnership-based service models. Another relevant trend here is noticeable in the move towards the centralization of policy instruments, not from a regional to a national level, but away from the national to the supranational level. This general European-wide trend has been visible since the 1940s, beginning in the economic sphere with the establishment of the institutional regime emerging from the Bretton-Woods conference in 1944, and the subsequent development of regional trading blocs. The process has gained momentum over the last decade, in particular through the creation of the single market and European economic and monetary union. Perhaps the most remarkable example of the loss of autonomy is the adoption of European legislation into national legislative systems, not only in the Nordic countries participating in the European Union, but also in the countries outside it – Iceland and Norway – through the agreement of the European Economic Area (EEA). As such, the ability to translate preferences into authoritative actions within domestic policy is increasingly dependent on the ability to foresee the effects of external developments internationally.

The issue of policy change, and that of welfare provision more generally, has of course been pervaded by the social justice discourse with the Nordic countries historically framing their policy priorities in this context. Without delving too deeply here into the debate on social justice, however, it can be argued, as indeed does Bo Rothstein (1998), that the future of the welfare state is largely dependent upon how it is organized and managed; citizens are likely to support the welfare state and its interventionist policies in so far as those policies have been designed in accordance with the principle of justice. If they are implemented in a way that is considered 'fair' by the citizens, and if they believe that the burden is shared evenly, then the system will continue to survive. This may not

be an easy task even in these circumstances, however it is likely to be the best available option as a return to a fully-funded, centralized and universal system is fiscally improbable, while the complete abandonment of the universalist model in the face of further privatization would be fundamentally unpopular politically.

In terms of policy innovation, two themes in particular should be referred to, namely, the new institutional and organizational solutions emerging with the new forms of territorial governance, providing for new solutions in service provision, and the cross-sectoral approach to territorial, as well as welfare policy, necessitating better co-ordination and new initiatives in distributing responsibility between the different territorial levels. The picture is varied in this respect and one cannot argue that there has been a uniform pattern in decentralization, rather the strong autonomy of the local level, as well as that of the regional level is in some cases undermined (as the example of Norwegian hospitals and the recent similar proposals from the Danish government have shown). The territorialization of welfare can in this respect then also be understood, in part, as an attempt to come to terms with the challenges of the concentration of population and economic activity. Moreover, we should note that the need to promote growth and welfare on the national level has not always implied decentralization, but should rather be seen as trying to meet the welfare challenges with a more diversified policy portfolio, seeking to address policies with territorial impacts as a policy mix, rather than perceiving territorial policy through separate policy lenses and within separate policy sectors (welfare policy, social policy, regional policy, industrial policy etc.). Thus, policy programmes and initiatives have been introduced where more economic growth oriented objectives, such as regional competitiveness, clustering and regional specialization, are combined with initiatives addressing social welfare and sustainability goals. In many cases, these have also entailed closer co-operation between administrative levels, thus involving local and regional authorities and central government, as well as a mix of private and public sector actors.

REFERENCES

- Antikainen, J. and Lähtenmäki-Smith, K. (2003), 'Former av regional samverkan i Sverige', *Regioncentraprogrammets översikt*, 2/2003, 3-5. ['Forms of regional collaboration in Sweden' in *the Regional centre Programme Review*.]
- Asheim, B. (1996) 'Industrial districts as learning regions: A Condition for Prosperity', *European Planning Studies*, vol. 4, no. 4: 379-400.

Asheim, B. (2003) 'On the new economic geography of post-fordist learning economies', in Öhman, J. and Simonsen, K. (eds.), *Voices from the North: New Trends in Nordic Human Geography*, Aldershot, Ashgate, pp. 29-43.

Asheim, B. and Cooke, P. (1999) 'Local learning and interactive innovation networks in a global economy', Malecki, E. and Oinas, P. (eds.), *Making Connections*, Aldershot, Ashgate, pp. 145-178.

Esping-Andersen, G. (1990) *The Three Worlds of Welfare Capitalism*. Cambridge, Polity.

Esping-Andersen, G. (1996) *Welfare states in transition: national adaptations in global economies*, London, Sage.

Esping-Andersen, G. (1999) *Welfare states in transition: national adaptations in global economies*, London, Sage.

Esping-Andersen, G. (2002) *Why we need a new welfare state*. Oxford, Oxford University Press.

Hanell, T., Aalbu, H. and Neubauer, J. (2002) *Regional Development in the Nordic Countries 2002*, Stockholm, Nordregio, Nordregio Report 2002: 2.

Kautto, M. (1999) *Is There a Nordic Model of Financing Social Protection?* Helsinki, Ministry of Social Affairs and Health. Publications, Report 1999, 21eng, 22 November. Electronic document accessed on the 12 June:

<http://www.vn.fi/vn/stm/english/tao/publicat/financing/kautto.htm>

Kautto, M. and Kvist, J. (2002) 'Parallel Trends, Persistent Diversity', *Global Social Policy*, vol. 2, no. 2: 189-208.

Lähtenmäki-Smith, K. (2004) 'Globalisation, regionalisation and the rest: Making sense of the conceptual chaos', in Brockett, S. and Dahlström, M. (eds.), *Trends in Modern Europe. Impacts on Planning and Development*, Stockholm, Nordregio, Nordregio Report (forthcoming).

Lähtenmäki-Smith, K. and Persson, L. O. (eds.) (2002) *Restructuring the State - Regional Impacts: A Comparative Nordic Perspective*, Stockholm, Nordregio, Report 2002.

Ministry of the Interior (2002) Regional Development Act 602/2002. [Laki alueiden kehittämisestä.]

Nordic Council of Ministers (2001) *Kommunala utjämningsystem i Norden*. Köpenhamn: Nordisk Ministerråd, Nord 2001: 2. [Municipal equalization systems in the Nordic countries.]

Nordlund, A. (2002) *Resilient Welfare States – Nordic Welfare State development in the Late 20th Century*, Doctoral theses at the Department of Sociology, No. 27, Umeå, Umeå University.

Näringsdepartement (2003) *Utvecklingskraft för hållbar välfärd* (SOU 2003:123) [Ministry of Trade and Industry: Governmental Report SOU 2003: 123 'Development force for sustainable welfare'].

OECD (2002) *Redefining territories: functional regions*. TA 11820.

OECD (2002) *Geographic concentration and territorial disparity in OECD countries*, Working Paper from OECD's Territorial Development Policy Committee.

Palme, J. (1999) *The Nordic Model and the Modernisation of Social Protection in Europe*, Copenhagen, The Nordic Council of Ministers.

Pierson, P. (2001) 'Coping with permanent austerity: welfare state restructuring in affluent democracies', in Pierson, P. (ed), *The New Politics of the Welfare State*, Oxford, Oxford University Press, pp. 410-456.

Powell, M. and Barrientos, A. (2004) 'Welfare regimes and welfare mix', *European Journal of Political Research*, vol. 43, no. 1: 83-105.

Rothstein, B. (1999) *Just Institutions Matter: the Moral and Political Logic of the Universal Welfare State*, Cambridge, Cambridge University Press.

Swedish Association for Local Authorities (2002) *Interkommunal samverkan – en undersökning av samverkan mellan kommuner och landsting i Sverige*. Stockholm: Landstingsförbundet and Kommunförbundet. [Inter-municipal collaboration – a study of collaboration between municipalities and county councils in Sweden].

ØEM (2003) *The Danish Regional Growth Strategy*. ['Den Regionale Vækststrategi'. First printed in Danish in April 2003 by the Ministry of Trade and Industry].

Öhman, J. (2003), 'Geography, local planning and the production of space: A Swedish context', in Öhman, J. and Simonsen, K. (eds.), *Voices from the North. New Trends in Nordic Human Geography*, Aldershot, Ashgate, pp. 103-116.

Östhol, A. and Svensson, B. (2002) *Partnerships Responses – Regional Governance in the Nordic States*, Stockholm, Nordregio, Nordregio R2002: 6.

Table 8.1: *Politico-administrative levels and the distribution of welfare functions in the Nordic States*

	<i>Sweden</i>	<i>Denmark</i>	<i>Norway</i>	<i>Finland</i>
Population (1.1.2001)	8 861 426	5 330 020	4 478 497	5 145 596
Number of municipalities (2001)	289	275	435	436
Number of elected regions	21	14	19	19+1
Number of state regions	21	14	18	5
Democratically accountable regional level	X	X	X	(indirectly elected)
Responsibility for secondary education on regional level		X	X	X
Responsibility for primary healthcare on regional level	X			X
Responsibility for hospitals on regional level	X	X		

Table 8.2: *Public expenditure as a percentage of GDP in the Nordic countries and the EU, 1980-1995*

	1980	1990	1995	% Change 1980-1995

Denmark	55.6	58.4	61.2	5.6
Finland	39.0	46.6	59.2	20.2
Norway	44.1	51.0	48.3	4.2
Sweden	61.1	60.8	66.9	5.8
Austria	47.2	47.9	51.3	4.1
Belgium	57.7	54.1	54.6	-3.1
France	45.7	49.4	53.7	8
Germany	46.8	44.7	49.1	2.3
Greece	33.1	52.7	54.5	21.4
Ireland	48.4	42.0	42.0	-6.4
Italy	41.2	51.9	51.5	10.3
Luxemburg	48.8	45.0	41.3	-7.5
Netherlands	57.1	56.1	53.9	-3.2
Portugal	35.6	41.4	44.4	8.8
Spain	31.7	42.2	45.2	13.5
United Kingdom	43.8	40.2	43.9	0.1

Source: Derived from OECD, Kautto, 1999.

Table 8.3: *Functional Regions and their Needs as a Basis for the Distribution of Responsibilities*

<i>Functional Region</i>	<i>Needs</i>
Local community	Healthcare, education and other basic services
LLA	Labour, housing, services
Cluster Region	Common activities, strategies
Nation-State	National legislation, taxation and monetary policy, defence
EU	Environment, trade, security policy

Source: adapted from NUTEK, 2000, Starka Regioner. Människoroch Företag, Stockholm, NUTEK, p.17

Chapter 9

Nationalism and Social Policy in Canada and Québec

Daniel Béland and André Lecours^{iv}

Canada is a vast federal and multinational state where ‘national unity’ seems problematic. Officially bilingual and multicultural since the late 1960s and early 1970s, Canada is a divided country in which native communities and provincial governments - especially the one in Québec - have continuously fought for more territorial autonomy. To add to an already complex political landscape, Western provinces such as Alberta have long expressed their dissatisfaction towards many policies enacted at the federal level. Considering that the country’s ‘inter-state federalism’ is characterized by direct bargaining between federal and provincial officials (Théret, 1999), governing Canada has proven a difficult task. The debates taking place in the social policy arena underline these territorial conflicts.

The territorial structure of the Canadian welfare state reflects the constitutional division of labour between the three orders of government - local, provincial, and federal - created by the British North American Act of 1867. From the beginning, provinces were given power over education, health care, and social welfare.^{iv} At the time, these governmental functions were regarded as modest, which explains why provinces received limited taxation powers by today's standards. In comparison, the federal government received

wide-ranging taxation powers that would later be translated into spending power. Although the federal government now provides funding in the three above-mentioned policy areas, the level of provincial autonomy remains high, at least from an international perspective. For example, federal government expenditure accounts for only 41% of total expenditure in Canada (*ibid.*: 53). This is much less than other federations, with the exception of Switzerland. From a revenue perspective, the federal government's percentage is only 48% of the overall total, which leaves most of the rest to the provinces (*ibid.*: 52).^{iv} This means that the fiscal basis of Canadian provinces is much greater than U.S. States, German Landers, and Spanish Autonomous Communities. Moreover, transfers from the federal government are mostly unconditional (*ibid.*: 56). Canada features far fewer conditional transfers than federations such as Australia, Germany, Switzerland, and the United States. Like education and social assistance, the public health care system is financed through general revenues of the state, not payroll taxes.

In spite of provincial prerogatives in these domains, the federal government has increased its role considerably in the Canadian social policy system since the 1940s. First, the unemployment insurance programme created in 1940 - now labelled 'employment insurance' - is a purely federal measure that explicitly redistributes income from prosperous regions to those facing high unemployment.^{iv} Second, with one notable exception, the Canadian public pension system operates at the federal level. This system is divided into two tiers: (i) Old Age Security (OAS), a universal, flat-rate pension supplemented by the Guaranteed Income Supplement (GIS) for low-income seniors, both of which are federal programmes financed from general revenue; (ii) the Canada Pension Plan (CPP) and the Québec Pension Plan (QPP), which provide a second tier of earnings-related public pensions financed from payroll contributions. Third, through the 'equalization programme,' the Canadian fiscal system transfers resources from wealthier to poorer provinces. Such an explicitly redistributive system is depicted as a tool of 'national unity' that reduces fiscal disparities between the provinces. Finally, the federal government financially supports the provinces in some crucial policy areas officially falling under provincial jurisdiction, such as health care and social assistance.

This chapter explores the relationship between social policy and territorial politics in the context of the Canadian federation. It will demonstrate that the emergence of the federal government as a key player in social policy during the postwar era triggered much resistance in the province of Québec from the mid-1940s to the late 1950s. This resistance slowed down welfare state development, which was promoted by the federal state and left-wing provincial governments, especially the one in power in Saskatchewan between 1944 and 1964. During the 1960s, however, economic and political modernization in Québec created a dynamic that favoured the consolidation of Canada's relatively decentralized welfare state. Here, the role of Québec nationalism proved crucial as a now increasingly progressive French-speaking elite adopted a more positive attitude towards modern social policy, as long as it respected 'provincial autonomy.' Although the centralizing efforts of the 1940s and 1950s certainly reinforced Canadian 'national unity,' the enactment of the Québec Pension Plan (QPP) in 1965, as well as the advent of a decentralized health insurance system, showed that decentralization and comprehensive

social programmes were compatible realities. Still, as demonstrated in the second part of the chapter, welfare retrenchment taking place during the 1980s and 1990s exacerbated regional discontent as the federal government implemented cuts in fiscal transfers to the provinces. These decisions have shaped the Canadian debates over social policy and 'national unity' since the 1990s. On the one hand, unilateral retrenchment affecting federal transfers to provinces encouraged all provincial premiers —with the exception of Québec—to sign a 'Social Union' agreement to better coordinate their efforts in the social policy domain (Gagnon and Segal, 2000). On the other hand, these cutbacks exacerbated regional discontent (notably in the Maritimes and the Western provinces) while reinforcing Québec nationalism's attempt to distinguish the provincial ethos and policies from those prevailing in the rest of Canada. The concluding part of the chapter takes a broader and more prospective look at the relationship between nationalism and social policy in Canada and Québec.

TERRITORIAL POLITICS AND WELFARE STATE EXPANSION

Until the Second World War, the federal government played a limited role in Canada's then modest welfare state. In 1935, the Conservative government enacted the Unemployment Insurance Act, a law that would create a federal unemployment insurance scheme aimed at fighting poverty in the midst of the Great Depression. Two years later, the Supreme Court of Canada and the British Privy Council struck down this centralizing legislation arguing that, according to the British North America Act, only the provinces could enact such a social programme. A Constitutional amendment was thus necessary to pass a new bill. Facing pressure from new Liberal Prime Minister William Lyon Mackenzie King, all provinces finally supported this amendment, including the province of Québec. While Québec's nationalist *Union Nationale* party opposed this amendment, its electoral defeat in 1939 paved the way for the province's decision to back the amendment and the new federal unemployment insurance legislation was enacted in 1940. As the first federal social insurance scheme ever enacted in Canada, unemployment insurance became a symbol of the centralization process in Canadian public policy. In the context of the Second World War, this logic of state expansion favoured a movement towards policy centralization that extended beyond employment insurance *per se*. Following the publication of the Beveridge report, the federal government framed a similar post-war reform agenda characterized by welfare expansion. Unveiled in 1943, the Marsh Report was actually more ambitious than its British equivalent since it dealt with various socio-economic policies, not only social insurance. Like its British counterpart, however, the Marsh Report was grounded in a centralist, Keynesian creed that would later dominate post-war Canadian political economy and public policy (Marsh, 1943).

A year after the publication of this report, the federal government enacted the Family Allowance Act, a law instituting a federal family allowance programme aimed at distributing benefits to 'all children up to the age of sixteen, provided they were

attending school or unable to do so on medical grounds, on a graduated scale depending upon the ages and numbers of children.’ (Guest, 1980: 130) At least as much as the unemployment insurance programme enacted four years before, universal family allowances represented a step towards welfare state centralization, another direct intervention of the federal government in the everyday life of Canadian families.^{iv} This federal provision came under attack in Québec, where French Canadian politicians charged that large families were unfairly penalized under this new federal legislation. The fact that the federal government enacted this new social legislation without consulting the provinces prompted the emergence of a widespread opposition movement in Québec. Elected in August 1944, the *Union Nationale* government launched an aggressive campaign against the new federal legislation while enacting its own provincial family allowance bill. In the name of provincial autonomy and existing constitutional jurisdictions, this new law stated ‘that it is preferable to establish a family allowance system with the cooperation of federal authorities and without violating provincial constitutional rights’ (Statuts du Québec, 1945, chapitre 6, préambule). More a political and ideological statement concerning provincial autonomy than a genuine policy move, this vague legislation appeared to be an ‘empty shell’ in terms of concrete social benefits.

Opposition from Québec did not prevent the federal government from increasing its role in the social policy domain. A key element of the Canadian nation-building project, social policy remained a significant political issue during the rest of the 1940s and the 1950s. The federal government enacted the *Old Age Security Act* (OAS) in 1951, eliminating the means test and extending the then current basic public pension benefit of \$40 per month to all Canadians aged 70 and over. Simultaneously, the *Old Age Assistance Act* (OAA) extended means-tested benefits to those aged 65-69. Such a measure remained in place until 1970, when the age of eligibility for the universal pension (OAS) was reduced to 65. Also, left-wing governments elected in some provinces moved the issue of public health care on to the Canadian policy agenda. In the western province of Saskatchewan, the left-wing Co-operative Commonwealth Federation (CCF) government (1944-1961) initiated some major social reforms immediately after the Second World War. Among these reforms, the implementation of the first public hospitalisation insurance in Canada (1946) proved especially crucial. In 1948 and 1950, British Columbia and Alberta imitated Saskatchewan. Gradually, these three provinces and others mobilized in favour of a significant federal participation in health care financing. During the 1950s, a bargaining process typical of ‘inter-state federalism’ took place between the federal government and the ten provinces. Many provinces wanted to bring federal funding into this provincial policy domain without renouncing their institutional autonomy. In 1957, the federal government enacted the Hospital Insurance and Diagnostic Services Act, a measure that put together a structure aimed at favouring the emergence of a country-wide, yet decentralized, hospital insurance system. Instead of creating a federal hospitalisation insurance scheme, the 1957 Act meant that the federal government would share the costs of hospital insurance programmes operated at the provincial level.^{iv} Canadian decision-makers may not have specifically intended for health policy to serve a nation-building function but it certainly

had this effect. Canada's publicly-funded health care system is a central element in expressing the distinctiveness of the country vis-à-vis the United States. This is evident in the great danger for politicians to suggest any reform to the health care system that would extend private sector involvement; for Canadians, it is not only the structure of a system which is at stake but also their very national identity and the values that underpin it.

From 1944 to his death in 1959, *Union Nationale* Premier Maurice Duplessis and his political allies fought centralist welfare state development to protect provincial autonomy in the name of a conservative creed integrating economic liberalism, Catholic 'family values,' and reactive nationalism (Bourque et al., 1994). The issue of provincial autonomy and the nationalist crusade against federal centralization and welfare state building represented perhaps the most central electoral issue in Québec during the second half of the 1940s and the 1950s (Angers, 1997: 239). Opposing the expansion of the federal welfare state, Duplessis promoted a form of 'protective nationalism' aimed at fighting federal policy initiatives that could conflict with provincial autonomy. Against the functionalist federal discourse grounded in the idea that centralization is necessary to social and economic progress, this conservative leader framed a political discourse in which nationalism and a respect for the original constitutional pact turned against federal expansionism. Promoting economic liberalism and defending traditional family values, Duplessis and his allies succeeded in retarding the implementation of specific federally-sponsored policies, and their nationalist project in the field of education and social policy appeared as a reactive attempt to stop post-war state expansion at large. *Union Nationale* policies thus represented more an attempt to prevent policy change than an effort to shape welfare expansion in a nationalist-friendly manner. While the growing popularity of the left-wing CCF in Western Canada favoured an expansion of federal interventionism, Québec's conservative and nationalist stance before 1960, reflective of the overall traditionalism of its society, slowed the enactment of reforms supported by some English-speaking provinces (see Maioni, 1998).

After the death of Duplessis and the victory of the *Parti libéral du Québec* (PLQ) in 1960, the new type of Québécois nationalism that emerged during the so-called Quiet Revolution affected territorial politics and welfare state development in Canada. The transition from a traditional form of nationalism based on religion to a modern one resting on language had little to do with the emergence of the welfare state in Canada, but was the product of a change in Québec's elite structure (McRoberts, 1993). Nonetheless, it certainly affected how nationalist leaders in Québec viewed the central state's social role and how they situated social policy in their discourse.

A key aspect of the re-definition of nationalism in Québec was a switch to a territorial definition of the nation. The 'old' French-Canadian nationalism did not have a clear territorial anchoring in the sense that French-speaking Catholics were considered French-Canadians independently of the province they inhabited. With the 'new' Québécois nationalism, nationhood was determined by language, but also by territory,

which meant French-speaking Catholics in Manitoba or Ontario were no longer part of the nation. This territorialization of nationalism naturally highlighted provincial political institutions, and the 'Québec state' was said to have the special responsibility of looking after the only French-speaking political community in North America. This new context explains the subsequent questioning of the legitimacy of the Canadian state in dominating social protection because this state was not congruent with the re-designed nation. Hence, the 1960s and 1970s saw Québec governments battle Ottawa for the administration of many social programmes.^{iv} These governments would opt out of federal social programmes and request financial compensation, but often would end up implementing very similar initiatives to the ones planned by the federal government (McRoberts, 1993: 121). This twist reveals the high level of symbolism attached to Québec's control over social policy.

Another aspect of Québec politics in the 1960s, which is crucial for understanding contemporary claims for the decentralization of social policy, is the major socio-economic transformations engineered by successive Québec governments to modernize the province. To achieve modernization, these governments sought to gain power over different policy sectors. In doing so, they built a momentum for decentralization and established a political tradition whereby Québec leaders were seen as the best to defend the interests of the community when they claim new powers from Ottawa. In this context, the drive to gain control over social policy was part of a more general pattern of challenging the overall power of the federal government which had peaked in the 1950s.

Although the politics of Québécois nationalism during the 1960s and 1970s seldom revolved around the articulation of distinctive social policies or policy preferences in the strictest sense, it was strongly penetrated by the idea of improving the socio-economic status of Francophones through bold state intervention. In this context, nationalism in Québec appeared as a mixture of language claims, class mobilization, and social democratic ideology. It defined its struggle as the social, political, and economic emancipation of Francophones whose position in Québec society had been made difficult by more than a century of conservative-traditionalist rule. In practical terms, this meant using the state to create opportunities for Francophones to gain access to the highest levels of the economy that were disproportionately occupied by Anglophones. This involved the creation of public companies and the launching of governmental agencies that supported Francophone business.

At the intergovernmental level, Québec's Liberal government embraced welfare expansionism while forcing the federal government and the nine other provinces to recognize and enhance provincial autonomy. During the 1960s, a logic of 'competitive state-building' between the federal and the provincial governments favoured the greatest expansion of the welfare state (seen, for example, in the creation of income-related public pensions and federally-subsidized provincial health insurance schemes)

and the most radical push for decentralisation in Canadian history (expansion of equalisation, transfer of tax points to the provinces, reduction of federal norms in some shared programmes). Such an outcome was directly related to provincial and social democratic mobilization in the context of inter-state federalism. While the left-wing New Democratic Party (NDP) and the province of Saskatchewan pressured the federal government to enact bold social measures, Québec pushed for a decentralized vision of welfare expansionism.

In 1965, legislation to introduce a second tier of earnings-related pensions - the Canada and Québec Pension Plans - was adopted after a long bargaining process between the federal government and the ten provinces. As a result of Québec's campaign for greater provincial autonomy and nationalist economic policies, two separate, yet highly coordinated, earnings-related schemes were created. Benefits from either scheme were based on pension credits accumulated under both as if only one scheme existed.^{iv} Financed through contributions from employees, employers, and self-employed persons, these social insurance schemes protect the contributors and their families against the loss of income due to retirement, disability, and death. Interestingly enough, the idea of establishing a specific pension scheme in Québec is related to economic nationalism. In a report published on June 21, 1963, for example, a report of the *Conseil d'Orientation économique du Québec* had recommended the creation of a contributory pension scheme that would favour the 'accumulation of a retirement fund [that] could serve as a reservoir of capital in conformity with the Government's economy expansion policy' (Dupont Report, vol. 1, p.29, cited in Brooks and Tanguay, 1985: 102). This sentence illustrates the explicit link between pension reform and economic nationalism in the 1960s: through a newly created provincial investment board (*Caisse de dépôt et placement du Québec*), the province would support French-Canadian entrepreneurship and, more generally, economic modernization in the province.

In the field of health care reform, Québec's more conciliatory attitude as well as pressures from other provinces, favoured the emergence of universal but decentralized health insurance in Canada. In 1962, Saskatchewan created Canada's first health insurance scheme, once again shaping an expansionist social policy agenda. After another round of bargaining between Ottawa and the ten provinces (*Royal Commission on Health Services*, 1961), the federal government enacted the *Medical Care Act* in 1966. The federal government and the provinces equally financed this universal health insurance system. Despite the imposition of general norms tied to federal match funding, provinces officially remained in charge of the health care system. Canadians thus gained universal health insurance coverage through the creation of a decentralized system managed at the provincial level (Maioni, 1998).

Paradoxically, universal health insurance operated at the provincial level gradually emerged as one of the most crucial symbols of Canadian identity. More than

previously enacted policies such as unemployment insurance, health insurance favoured the crystallisation of a sense of common citizenship that had been lacking in Canada since the Confederation of 1867. As noted by Brodie, because Canada lacks “a foundational myth, a story which locates the origins of a nation, successive Canadian governments have tried to create one.” (Brodie, 2002: 381) Social policy was a key aspect of this nation-building process that has frequently been associated with the growing involvement of the federal government in provincial jurisdictions. Because the state emerged before a unified Canadian nation, the expansion of the federal government related to the advent of modern welfare programmes and the deepening of social citizenship appeared as a source of national unity, at least in English-speaking Canada. Moreover, considering that this type of social programme does not exist in the United States, universal health insurance constituted a distinctive feature of Canadian society capable of marking a clear difference between the two countries. Because Canadian cultural identity seems both frail and fragmented, health care and, more generally, the welfare state have been constructed as symbols of national unity (McEwen, 2001).

In Québec, nationalist leaders have attempted to increase the apparent distinctiveness of provincial social programmes in order to reinforce the perception that inhabitants of the province have a distinctive, *progressive* ethos that justifies political independence. Between 1976 and 1985, the secessionist *Parti québécois* (PQ) presented itself as a social democratic party, and its governments (1976-1985) enacted several progressive public policies: they raised minimum wage to make it the highest in North America; they introduced specific income-maintenance programmes; and they adjusted taxation rates to benefit lower income earners (McRoberts, 1993: 267). Present since the Quiet Revolution, the relationship between nationalism and progressive social policy was thus made more concrete. Resisting centralizing efforts under the rule of federal Prime Minister Pierre-Elliot Trudeau, Québec nationalist leaders used social and labour market policies as nation-building devices in the same way as policy-makers in the rest of the country mobilized universal health insurance as a symbol of Canadian distinctiveness in North America. As elsewhere, a dialogical relationship between Québec and English-speaking Canada nationalisms took place in the field of social policy. Made more complex by the direct involvement of the other nine provinces in the social policy domain, such a ‘competitive state building’ process coloured post-war welfare state development in Canada. Although one can argue that this country emerged as more centralized and united than before, welfare state development appeared as a contentious phenomenon that resulted in a comprehensive, yet relatively decentralized, system in which Québec and the other provinces played a crucial administrative and *political* role (Théret, 1999).

The connection between nationalism and social democracy was apparent in the 1980 referendum on sovereignty-association. There were two central, and indeed related, arguments formulated to convince Quebecers to support sovereignty-association. The first concerned language and involved the idea of empowering, if not liberating, the

province's Francophone majority. This is hardly surprising since language was considered the key marker of nationhood. The second argument was about socio-economic status: in 1980, Francophones still felt economically disadvantaged, and political sovereignty was presented as the ultimate means to improve their condition within Québec society. This involved the conceptualization of a strongly interventionist state; sovereignty would allow Québec to develop the type of elaborate welfare state required by its specific socio-economic structure and social and political values. Interestingly, while sovereignty was promoted by the PQ as an opportunity to deliver real social democracy to Quebecers, the federal government countered with the argument that it would be detrimental to the economy and threatened many aspect of social protection such as pensions.

RETRENCHMENT, 'SOCIAL UNION' AND QUÉBEC NATIONALISM

As in most advanced industrial nations, stagflation (simultaneous recession and inflation) and the towering of public deficits favoured a decline in the political support of Keynesianism and welfare state expansion during the late 1970s and early 1980s. Although no Canadian Prime Minister ever embraced neo-liberalism in the manner of Ronald Reagan or Margaret Thatcher, the support for free-trade and the obsession with economic competitiveness, as well as the struggle against public deficits, significantly transformed the Canadian political landscape. As in other Western countries, neo-liberalism, even in its relatively moderate form, meant that austerity would prevail in social policy. In Canada, the first mandate of the conservative Mulroney government witnessed the explicit shift from welfare expansion to cost containment and retrenchment. Since that time, two dominant retrenchment strategies have been mobilized by Canadian federal officials: targeting, and what can be labeled as 'decentralisation for retrenchment' (Baker, 1997; Bashevkin, 2000).

The first strategy concerns universal, Beveridge-type programmes such as family allowances, which have been gradually transformed into a targeted tax credit scheme. Indirect attempts to reduce the scope of the basic pension (Old Age Security) have proved less successful in spite of the enactment of a tax device ('claw back') that takes away benefits from wealthier citizens.

During the first mandate of the Liberal government (1993-1997), a second retrenchment strategy became a source of tremendous provincial discontent and fuelled *Québécois* nationalism: decentralisation for retrenchment. Aimed at fighting the federal deficit, this strategy was about reducing the scope of federal support to provincial programmes through the replacement of matching funds by pre-determined 'block grants.' A dramatic example of this strategy was the creation of the Canada Health and Social Transfer in

1996. By terminating the Canada Assistance Plan, the Chrétien government accomplished a radical policy transformation relatively similar to the enactment of the 1996 Personal Responsibility and Work Opportunity Reconciliation Act in the United States.^{iv} Instead of equally sharing the costs of social assistance programmes between the federal and provincial government, Ottawa implemented a block grant strategy aimed at controlling - and reducing - federal welfare spending. In contrast to the US experience, however, this form of decentralisation for retrenchment was combined with a normative deregulation of social assistance. Instead of imposing US-style 'time limits', Ottawa granted the provinces almost full autonomy in the management of their welfare programmes (Bashevkin, 2000). The outcome has been the launching of a decentralised crusade to reduce welfare rolls in the ten provinces.

Since Canadian identity is closely related to social policy and federal state interventions in the socio-economic realm, cutbacks enacted during the first Chrétien government (1993-1997) could be perceived as a serious threat to 'national unity.' Aware of that reality, the federal government launched studies about 'social cohesion' in the second half of the 1990s (for example, see Canadian Council on Social Development, 2000). In general, 'these studies have pointed out that, unlike early periods, when Canadians were engaged in collective projects such as building the post-war safety net, there is now no commending project upon which to build a collective sense of identity' (Brodie, 2002: 389). As mentioned above, the Canadian identity seems fragile, and social policy has long constituted a potential source of 'national unity.' During the mid-1990s, welfare retrenchment had the opposite effect since cutbacks in transfers to the provinces^{iv} exacerbated regionalism, provincial discontent, and, in the case of Québec, sub-state nationalism.

In Québec, the PQ used discontent concerning federal retrenchment policies to promote sovereignty. The 1995 referendum featured arguments about doing things 'our way,' a clear reference to the so-called 'Québec model' of socio-economic development where the state plays an active role in both structuring the economy and developing social policy. The contrast between policy choices in Québec and elsewhere in Canada became starker after the referendum. In a period where the federal government and most other provinces were cutting social spending, Québec's PQ government was enacting new social programmes such as the publicly-funded drug insurance scheme and \$5-a-day day-care programme. This being said, the Québec government was also working towards eliminating the deficit, which led to great dissatisfaction concerning the health care system, where waiting lists for surgery and consultation with specialists increased. In this context, the PQ forcefully denounced federal government cutbacks in transfer payments to the provinces.

In other provinces, elected officials also voiced concerns about federal cutbacks. Cabinet ministers from the Liberal Party of Canada (LPC) in the Atlantic provinces, where unemployment is typically higher than the national average and seasonal work more

common, lost their seats in the 1997 elections over cuts to Employment Insurance. All the provinces criticised the federal government for undermining their financial resources in the face of rapidly rising health care costs. This dynamic strained inter-governmental relations in Canada. On the one hand, it led to many provincial governments adopting a more aggressive provincialist attitude than ever before. This was particularly the case for Ontario, traditionally a loyal ally to the federal government and broker in Canadian intergovernmental relations. Under the Conservative government of Mike Harris, Ontario withdrew from its brokerage role and adopted a mostly antagonistic attitude towards the federal government. In Québec, federal retrenchment gave added ammunition to the PQ in developing its argument that the continued incorporation of Québec within the Canadian federation endangered its socio-political distinctiveness, that is, its generous and progressive social policies. On the other hand, provincial governments also sought to cooperate in order to bring about change in the way social policy was made and implemented in the Canadian federation.

It was in this context that the Social Union Framework Agreement (SUFA) emerged (Gagnon and Segal 2000; Noël 2001; Thérét 2001). During the second half of the 1990s, the provinces fought back to force the federal government to 'collaborate' with them in the field of social policy in order to stop unilateral and discretionary retrenchment. By August 1998, even Bouchard's PQ government had joined a modified, bold, interprovincial consensus on this issue (Noël 2000: 5). This provincial crusade is typical of Canada's 'inter-state federalism': instead of lobbying informally to persuade the central government to limit its own power, the provinces forged a *front commun* aimed at forcing Ottawa to bargain and collaborate to establish new rules.

The final version of SUFA adopted in 1999 by Ottawa and nine of the ten provinces - Québec opted out - has not been able to fully restore confidence and 'collaboration' in the Canadian federal system, whose survival is still threatened by both centralization and regional discontent. According to Alain Noël, this final agreement reflects and exacerbates the recent concentration of power in Canadian intergovernmental relations:

Collaborative federalism is hierarchical. In fact, Canadian federalism has never been more centralised. Power is concentrated not only in Ottawa, but also at the top, in the prime minister's 'court'. Collaboration occurs, but it is the collaboration of rowing agents who follow the indications of a steering principal whose behaviour is difficult to understand, let alone to predict. (...) Collaboration, of course, also takes place without Québec, the only government that would challenge federal hegemony in a fundamental way (Noël 2000: 11).

This quotation reminds us that there is a clear link between SUFA and the debate on 'national unity.' According to the PQ's 2000 platform, SUFA 'allows the federal government to usurp Québec's power over education, health, the family, and social

security/welfare. The Social Union takes our social policies hostage and therefore directly threatens our social development' (*Programme du parti québécois*, 2000: 160).

In Québec, both the discursive connections of nationalism with progressive social protection and the struggles for the de-centralization of the Canadian welfare state have become more significant since the 1990s. On the discursive front, the PQ has increasingly emphasized social policy as a defining element of *Québécois* identity.^{iv} The PQ's core argument is that Québec has a different political culture from the rest of Canada, that it is more collectivist, egalitarian, compassionate, and caring for the poorest and most vulnerable elements of society. As proof, the PQ suggests that Québec resisted the neo-liberal turn taken elsewhere in Canada and in much of the Western world^{iv} by enacting its own progressive social policies, most notably the \$5-a-day day-care and the universal drug plan. More recently, the PQ government, in office until 2003, adopted an 'anti-poverty law' which forced the government to guarantee and boost income support for low income Quebecers (Lessard, 2002). Commenting on this policy, former Premier Bernard Landry said that the 'Québec model' concerned not only economic matters, but it was also about wealth redistribution.^{iv} These policies on income support, day-care and drug insurance have been integrated, alongside language, into the nationalist discourse as they are said to exemplify the distinctiveness of the Québec nation. For example, the PQ platform argues that 'unitary Canada is developing following a vision different than ours, and its decisions stand in the way of our (social) projects' (*Programme du parti québécois*, 2000: 160). Therefore, Québec is said to be distinct from the rest of Canada not only because it is primarily Francophone but also because it has its own set of social policies underpinned by different values and priorities.^{iv}

Social policy also features prominently in the struggle for independence (or decentralization) of *Québécois* nationalism. The PQ argues that the federal government is centralizing and domineering, that it threatens Québec's distinctively progressive social policies and, therefore, the very foundations and expression of the *Québécois* nation. In this context, the party suggests that independence is the best way of preserving these policies. 'Only Québec sovereignty will give us full control over our social development. Promoting greater equality, encouraging more meaningful participation and favouring a global approach to problems means that only one government, ours, should formulate policies' (*Programme du parti québécois*, 2000: 160). Short of independence, the PQ has attacked the federal government for 'fiscal imbalance,' the idea that although provinces are empowered to act in areas that are expensive to fund (health and education primarily), the greater taxation power is with the federal government. As we have already mentioned, most provinces have been critical of this imbalance; in Québec, however, the issue takes a special importance because it is argued that it threatens the province's distinctive social policies. In this context, Landry once considered holding a referendum on 'tax points' to enhance Quebec's revenue-raising capacity and fiscal autonomy.

Fiscal issues are not the only sources of tensions over social policy in Canadian federalism. A sense of alienation in the Western province of Alberta has been stimulated

by recent federal decisions about social issues. Western alienation is an old form of territorial politics in Canada that is generally attributed to the provinces of Manitoba, Saskatchewan, Alberta and British Columbia. Since the bulk of the country's population is in the 'central' provinces, political power essentially resides in Québec and Ontario, a fact that has led to feelings of frustration and resentment in the West. Moreover, federal policies are typically more at odds with policy preferences in the West, particularly Alberta, than in Québec. This divergence has led prominent intellectuals and politicians from Alberta, including Premier Ralph Klein and federal opposition leader Stephen Harper, to call for the erection of a firewall around the province.^{iv} Alienation, expressed through regionalism, has been especially strong in Alberta, in part because this wealthy province is a net contributor in the context of Canada's fiscal equalization programme. In the field of social policy, the province of Alberta has studied the possibility of a distinct public pension plan while taking a more neo-liberal approach to health care reform. In the past, members of the federal cabinet have criticized this approach and depicted themselves as the true guardians of universal health coverage.^{iv}

TOWARDS A REGIONALIZATION OF WELFARE IN CANADA?

Since the late 1990s, the era of budget surpluses at the federal level has significantly altered the dynamics of social policy reform in Canada. More money has been available for social programmes. At the federal level, this has translated into the launching of new initiatives to fight child poverty such as the National Child Benefit hailed by federal Liberal politicians as the most significant social programme in the last 30 years. These recent federal policy initiatives are grounded in a new policy paradigm that depicts social spending as a crucial investment in 'human capital' that may increase the country's long-term economic competitiveness (Jenson, forthcoming; Théret, 2001). In this context, the federal government - especially in 2003 during the last stretch of Jean Chrétien's tenure as Prime Minister - contemplated re-investing in social policy. At the same time, provincial governments were pushing Ottawa to increase money transfers for health care, the number one spending priority for Canadians, as surveys consistently demonstrate and politicians always acknowledge.^{iv} The federal government understands the political importance of health care but also seeks to develop social policies that can make its presence felt directly in the lives of Canadians. Social policy in Canada is a nation-building exercise. Health care does not allow the federal government to directly reach Canadians since it is administered by the provinces. The utilization of budget surpluses thus presents Ottawa with a dilemma, which is typically resolved by spreading the money across different sectors including, through financial transfers to the provinces, health care.

In 2003, two major political changes occurred in Canada. First, former Finance Minister Paul Martin replaced the retiring Jean Chrétien as Prime Minister. The impact of this change on social policy and federalism in Canada is still unclear. Martin is

known as more fiscally conservative than his predecessor and presumed by many provincial actors as having a more decentralist vision of Canada. If this is true, one could expect a disconnect between social spending and nation-building. Fiscal conservatism could lead to welfare retrenchment, especially now that surpluses seem to be getting slimmer, while a 'soft' or accommodating approach to inter-governmental relations could lead to greater financial transfers as opposed to federal policy-making. So far, however, the Martin government has shown little sign of rupturing the social policy/nation-building nexus. Despite having announced in early 2004 that all public spending would be re-examined and that greater attention would be paid to debt reduction, the federal government has also made child and family policy a legislative priority. For example, it has recently established a compassionate leave programme that allows workers with critically ill relatives to remain at home for six weeks while being compensated at 55% of the regular salary.

The second major political change of 2003 was the election in Québec of the PLQ, which campaigned on the vague theme of change; indeed, the Québec Liberals were careful not to seem to threaten Québec's social provisions. Liberal leader Jean Charest had adopted a clearer discourse in the 1998 election campaign where he proclaimed the end of the Quiet Revolution and the beginning of a new era in Québec politics only to have then PQ leader, Lucien Bouchard, brand him as someone who 'does not love Québec'. As the Québec identity has become strongly associated with the idea of a progressive and egalitarian people, which is best demonstrated, the argument goes, by the province's social policies, it is politically difficult to run a campaign that explicitly suggests the scaling back of welfare provisions. Charest did not make that mistake again in 2003, but, once elected, suggested that 'change' could be substantial. So far, actual policy redesign has been minimal: labour legislation has been amended to make sub-contracting easier and the original \$5-a-day day-care now costs \$7 per day. Social actors such as trade-unions and anti-poverty groups are worried by the new government and have taken to the streets to oppose any scaling back of Québec's welfare policies. The opposition to the government's discourse of change is very often framed in nationalist terms: from this angle, Premier Charest is defying the values and identity of the Québec nation. This is the clearest possible demonstration that social policy in Québec has a nation-building dynamic and consequence: undermining the 'social state' is viewed as an attack on the 'national state'. In other words, the current re-engineering of the Québec state by the Charest government, because it is considered threatening to a substantial part of what makes Québec different, is associated with the province's political marginalization. From this perspective, the Charest government is 'bringing Québec down' to the level of just another province (Saint-Martin, 2004). In this context, the PLQ needs to tread carefully when it comes to 'change' and social policy in the province. Party leaders understand this and attempt to compensate by adopting a feisty attitude towards the federal government. It has, for example, spearheaded the creation of the Council of the Federation: a forum for provincial governments to coordinate their positions for the purpose of developing stronger leverage in their relations with the federal government. Reacting to Ottawa's

compassionate leave programme, the PLQ has complained about another 'intrusion' into Québec's jurisdiction.

All indications are that, despite changes in leadership at both the federal and the Québec provincial levels, it is unlikely that the connection between social policy and nation- building will disappear in Canada. In the context of a fairly decentralized federal system permeated by regionalist and nationalist pressures, the federal government is unlikely to stop using social spending for the purpose of nation-building because it fears becoming irrelevant in the lives of Canadians. For the LPC, this would represent a path towards fragmentation since it believes that the visibility of the federal government is crucial to maintaining a bond with Quebecers. The Liberal Party's obsession with national unity provides a special incentive for the federal government to remain active in the social area. In Québec, the connection between progressive social policy and identity is deeply engrained in civil society, which limits what the Charest government can do without encountering serious social mobilization and electoral punishment. Similarly, a tough stance towards the federal government is expected. It is this political dynamic between Québec and the federal government that makes Canada such a relevant case for understanding the link between social policy and territorial politics.

REFERENCES

- Angers, F.-A. (1997) 'Les relations fédérales-provinciales sous le régime Duplessis' in *Duplessis: Entre la grande noirceur et la société libérale*, Montréal, Éditions Québec-Amériques, pp. 231-281.
- Baker, M. (1997) 'The Restructuring of the Canadian Welfare State: Ideology and Policy,' *Social Policy Research Centre Discussion Paper No. 77*, Sidney.
- Banting, K.G. (1982) *The Welfare State and Canadian Federalism*, Kingston, McGill-Queen's University Press.
- Bashevkin, S. (2000) 'Rethinking Retrenchment: North American Social Policy during the Early Clinton and Chrétien Years', *Canadian Journal of Political Science*, vol. 33, no. 1: 7-36.
- Bourque, G., Duchastel J. and Beauchemin, J. (1994) *La société libérale duplessiste, 1944-1960*. Montréal, Les Presses de l'Université de Montréal.
- Brodie, J. 'Citizenship and Solidarity: Reflections on the Canadian Way', *Citizenship Studies*, vol. 6, no. 4: 377-394.
- Brooks, S. and Tanguay A.B. (1985) 'Quebec's Caisse de Depot et Placement: Tool of Nationalism?', *Canadian Public Administration*, vol. 28, no. 1: 99-119 (102).
- Bryden, K. (1974) *Old Age Pensions and Policy-Making in Canada*, Toronto, University of Toronto Press.
- Canada, Royal Commission on Health Services (1965), *Report of the Royal Commission on Health Services*, Ottawa, R. Duhamel, Queen's Printer, 1964-1965. 2 v.

-
- Canadian Council on Social Development (2000) *Social Cohesion in Canada: Possible Indicators*, Ottawa, Department of Canadian Heritage.
- CCPA (2000) *Health Care, Limited: The Privatization of Medicare*, Ottawa, Canadian Centre For Policy Alternatives.
- Deussing, M.-A. (2003) *Federal Taxes and Transfers Across Canada: Impact on Families*, Ottawa, Department of Finance (Working Paper 2003 21).
- Dunfield, A. (2003), 'Health: Few Surprises' *Globe & Mail*, February 18. <http://www.globeandmail.com/servlet/story/RTGAM.20030218.wheal0218/BNStory/Budget/>
- Gagnon, A-G. and H. Segal (eds) (2000) *The Canadian Social Union without Québec: 8 Critical Analyses*. Montréal, IRPP.
- Guest, D. (1980) *The Emergence of Social Security in Canada*, Vancouver, UBC Press.
- Jenson, J. (Forthcoming) 'Changing the Paradigm: Family Responsibility or Investing in Children,' *Canadian Journal of Sociology*.
- Lessard, D. (2002). 'Québec dépose un projet de loi antipauvreté', *La Presse*, June 8, A1-A2.
- Maioni, A. (1998) *Parting at the Crossroads: The Emergence of Health Insurance in the United States and Canada*, Princeton, N.J., Princeton University Press.
- Marsh, L. (1943) *Report on Social Security for Canada*, Ottawa.
- McEwen, N. (2001) 'The Nation-Building Role of State Welfare in the United Kingdom and Canada' in Trevor C. Salmon and Michael Keating (ed.), *The Dynamics of Decentralization: Canadian Federalism and British Devolution*, Montreal, McGill-Queen's University Press, pp. 85-105.
- McRoberts, K. (1993) *Quebec: Social Change and Political Crisis*, Toronto, McClelland and Stewart.
- Noël, A. (2001) 'Power and Purpose in Intergovernmental Relations', paper presented at the Colloquium 'Back to the Table: A New Social Union for 2001?', Montreal, Institute for Research on Public Policy, March 22-23.
- Noël, A. (2000) *Without Quebec: Collaborative Federalism with a Footnote*, IRPP Working Paper, 1, 2, March.
- Parti Québécois (2000). *Programme du parti québécois*, Québec City: Parti Québécois.
- Saint-Martin, D. (2004) 'La réforme de l'État-providence: l'État social québécois n'a pas été producteur que de corporatismes mais aussi d'identité', *La Presse*, January, p.8.
- Simeon, R. (1972) *Federal-Provincial Diplomacy: The Making of Recent Policy in Canada*, Toronto, University of Toronto Press.
- Théret, B. (1999) 'Regionalism and Federalism: A Comparative Analysis of the Regulation of Economic Tensions between Regions by Canadian and American Federal Intergovernmental Transfer Programmes', *International Journal of Urban and Regional Research*, vol. 23, no. 3, pp. 479-512.
- Théret, B. (2001) 'La protection sociale dans le pacte fédéral canadien. Histoire d'une crise et de son dénouement', *Critique Internationale*, no. 11, April.
- Watts, R. (1997), *Comparing Political Systems*, Kingston: Queen's University, Institute, Institute of Intergovernmental Relations.

ENDNOTES

^{iv} The authors would like to thank Natasha Lecours for her help in editing this chapter.

^{iv} In 1867, most powers were assigned to one level of government but a few (cf. immigration and agriculture) were created as concurrent powers.

^{iv} Municipal governments would account for only a very small percentage.

^{iv} 'Higher-income provinces have higher employment rates, resulting in a greater number of EI contributors, which helps to attenuate variations across provinces in terms of average EI contributions relative to post-tax, post-transfer incomes' (Deussing, 2003:7).

^{iv} The federal government's decision to award family allowances on a scale decreasing in amount after the fourth child was perceived as a response to the argument 'that family allowances would increase the birth-rate of among French-Canadian Catholics and that the plan was a political manoeuvre to gain Liberal support in Québec' (Guest, 1980: 129).

^{iv} Four years later, all Canadian provinces managed a public hospitalisation insurance subsidized by the federal government.

^{iv} The Québec government also fought against the Catholic Church, which, prior the 1950s, offered education and health care services.

^{iv} On the federal/provincial bargaining process leading to the enactment of the C/QPP, see Simeon, 1972 and Bryden, 1974: 129-182.

^{iv} The 1996 reform enacted in the US transformed federal social assistance transfers to the states into capped 'block grants' while imposing strict 'time limits' that prevent most recipients to collect benefits for more than two years in a row.

^{iv} For example, the first Chrétien government reduced health care-related transfers to the provinces by more than 30% (CCPA 2000).

^{iv} This is partly because the PQ has had to defend itself on several occasions from charges of ethnic nationalism.

^{iv} This is debatable because, in the late 1990s, Québec's PQ government struggled to eliminate the deficit much like many other jurisdictions in the Western world.

^{iv} The 'Québec model' typically refers to a paradigm of economic organization that stresses state interventionism and corporatism.

^{iv} Overall, however, opinion surveys are rather inconclusive with respect to a fundamental value difference between Quebecers and other Canadians.

^{iv} Stephen Harper is the former leader of the Canadian Alliance. This was a federal party based in the West, but with national ambitions. In 2003, it merged with the Progressive-Conservative to form the Conservative Party of Canada.

^{iv} In 1984, the federal parliament unanimously passed the Canada Health Act, which affirms the federal government's commitment to preserve the five basic principles of the country's health insurance system: public administration, comprehensiveness, universality, portability, and accessibility.

^{iv} In a typical example, the Finance Minister John Manley stated after the 2003 budget: 'In building the country we want, Canadians have told us that our public health-care system is their number one priority' (Dunfield, 2003).

Chapter 10

European Social Policies and National Welfare Constituencies: Issues of Legitimacy and Public Support

Steffen Mau

INTRODUCTION

Debates about the future of the European Union often raise the question ‘What kind of animal is the European Union?’ This issue has attracted much interest, because it addresses the very nature of the integration process and thereby may give some hints as to what the final outlook of the joint efforts will be. However, neither politicians nor social scientists have been fully able to determine the character of the European Union and much of the debate can be considered as enlightened speculation rather than established knowledge. There is nevertheless common agreement that with the creation of supranational institutions and the Economic and Monetary Union, European member states have embarked upon far-reaching policy reforms and started to undergo a serious transformation that ties the member states more closely together. These transformations entail challenges to established modes of political regulation and a shift of sovereignty

from national governments to a multi-level system of European governance. With regard to collective welfare provision, it is claimed that member states have lost control over national welfare policies and that social policy is increasingly situated in a complex, multi-tiered web of political decision-making (Leibfried and Pierson, 1995).

These challenges call into question one of the central political functions that have evolved within the context of the state, namely the responsibility for citizens' welfare. From a historical perspective it is apparent that it was the responsibility of the state to grant social rights and to arrange social support for its members. Citizenship status not only confers duties of tax-payment, but also the rights of social citizenship (Preuß, 1998: 403; Marshall, 1964). However, the claim members can make on societal resources is grounded on the unifying feeling of national identity. The emotional force of nationhood and the feelings of belonging and mutuality it engenders contribute greatly to the collectivization of social risks and the democratization of the burdens of negative outcomes. It was the state that could impose obligations of solidarity and create a union within which the strong and the weak are connected and within which collective schemes of provision could develop. Welfare transactions, therefore, can be seen as expressions of the prevailing self-concept of society that is backed by a sense of community while, at the same time, strengthening the legitimacy of the state and its institutions (Mau, 2003a). This portrayal of the state as the bearer and guarantor of solidarity has led many observers to the conclusion that only states can be welfare states in the proper sense (Lepsius, 2000). Not only is the capacity for political intervention comparatively less developed, the supranational level also lacks motivational resources that could give legitimacy to interventionist strategies.

Based on such accounts, it has been suggested that the establishment of extensive European welfare policies is a rather difficult undertaking.^{iv} Scharpf (1999), for example, has suggested that European integration has taken place mainly as a 'negative integration' that removes parts of the national regulatory arrangements restricting the free competition of goods and services and the free movement of capital. Measures of 'positive integration' such as setting new standards, providing security and offering protection against the contingencies of the market have been lacking.^{iv} However, though the states still occupy the central place in the provision of welfare benefits and the organization of collective schemes, there are also signs of a growing shift of responsibility to the European level that makes it increasingly difficult for the member states to preserve autonomy and to act independently of each other. The emergence of a single social area entails that 'individual member state control is slipping or being given away, mostly in favour of pooled sovereignty' (Threlfall, 2003: 135). Especially the principle of territorial sovereignty – the exclusive say in determining insiders and outsiders and restricting access and consumption to nationals – has been seriously undermined (Leibfried and Pierson, 2000: 279). The innovative jurisprudence of the European Court of Justice has led to an erosion of the state's ability to contain transfers by territory and to delimit beneficiaries. Regulations have also been set up in the areas of health, education, vocational training mobility, and work safety. Not unimportant have

been the efforts to combat poverty and social exclusion, with a number of pilot programmes targeted at migrants, single parent families, youth unemployment and urban poverty. Another example are the Structural and Cohesion Funds, though they cannot be regarded as social policy measures in a strict sense.

With the establishment of European institutions and the shift of welfare responsibility to the European level, new and delicate problems arise, because these processes partly dissolve the tight relationship between the nation-state community and state-organized welfare provision. The construction of Europe entails a gradual shift from 'uncoordinated social sovereignties to co-ordinated semi-sovereignties that are increasingly subject to the constraints and the *Eigendynamik* of supranational governance' (Ferrera, 2003: 647). However, it remains a critical undertaking to seek a political mandate for a greater pooling of sovereignty in social policy matters. In so far as joint decision-making causes a loss of power and regulatory capacity at the state level, it restricts what the state can do in addressing social demands. This article seeks to address the problem of Europeanization by looking at the issue of public support for a transfer of responsibility from the member state government to the European. The major issue is whether 'national welfare constituencies' are ready to accept that their governments gradually lose their exclusive welfare responsibility, whereas joint European decision-making becomes more important.

SUPRANATIONALIZATION OF SOCIAL POLICY?

In the literature concerning the social dimension of Europe, there is some controversy about the issue as to whether the establishment of pan-European welfare regulation is politically feasible and whether member states and their populations are willing to submit themselves to a supranational sovereign engaged in social security matters. There are basically two opposing positions here. The first could be called the *optimistic paradigm*. It claims that the social welfare institutions are no longer an essential component of national autonomy, and that the member states are increasingly engaged in pooling and sharing sovereignty. The *pessimistic paradigm*, in contrast, identifies severe obstacles that make a successful institutionalization of European welfare policies or even greater achievements of joint policy coordination rather unlikely. Though both consider a European welfare state as an improbable outcome of the integration process, they differ in their assessment of the degree to which the member states of the European Union will communalize or coordinate their social policies.

The optimistic scenario can be traced back to the functionalist writings of Ernst B. Haas (1964) who took the position that joint policy-making in some policy areas will necessarily promote integration in other policy areas as well. Accordingly, there is some spill-over from the process of integration that affects the whole range of governmental

policies. In this way, integration feeds upon itself. On the level of policy framing, European integration is regarded as a process of international interaction whereby national actors also alter their preferences and shift from national frameworks of interpretation and action to a common European framework (Carter and Scott, 1998). Thus, the intense communication between the member states is said to have socializing effects on the participants, giving rise to a greater acceptance of EU-coordinated action (Falkner, 1998). An even more pronounced position claims that an accountable, legitimate and supranational regime such as the European Union cannot withhold social entitlements from its citizens (or must at least guarantee their provision) without losing political support and legitimacy (Leibfried, 1992). It is believed that under the conditions of market-conveyed risks people will demand more engagement from European institutions in order to counter the arising risks and to meet the security interests of the electorates. The hypothesis is that the effect of social democratic interests and counter-interests will make themselves felt at the European level, forcing the European institutions to adopt more features of 'positive integration' (see Rieger and Leibfried, 2001: 67ff.).

Challenging this view are a number of prominent authors who point out that greater European welfare responsibility faces numerous difficulties related to the social preconditions of supranationalization (Offe, 1998; Scharpf 1999, 2000; Streeck, 1995, 1998). In the first place, they highlight institutional reasons which render the establishment of more extensive policies at the European level doubtful. Since the European government has only a weak popular base in itself, institutional development is mainly determined by the interests of governments which are duty-bound to represent what they and their constituencies consider as being the national interest. In so far as European decision-making poses a threat to national interests, national governments might be rather unwilling to relinquish rights of sovereignty and thus undermine opportunities to guard domestic interests (Scharpf, 1997). A second aspect which is often mentioned emphasizes the cultural and social preconditions of a joint welfare policy. Welfare states draw upon a shared identity among their citizens which facilitates the communal provision of goods and services. It is claimed that European welfare measures would require 'a collectivity in which the identification of members with the group is sufficiently strong to override the decisive interests of subgroups in cases of conflict' (Scharpf, 2000: 12). This argument casts doubt on whether there will be enough shared understanding and commitment to common objectives to buttress a transfer of policy-making competences from the member states to Europe. However, from the perspective of these authors, the possibility that welfare policies themselves can contribute to the evolution of such a collective identity is hardly discussed.

In response to this discussion, the following analysis will scrutinize the social preferences of the wider citizenry with regard to the pooling of sovereignty at the European level by using public opinion data derived from the Eurobarometer (for more information see appendix). In the questionnaire, people were asked about their preferred allocation of competences between their governments and the European Union. The relevant question

wording for the issue at stake runs as follows: 'For each of the following areas, do you think that decisions should be made by the (nationality) government, or made jointly within the European Union?' The answer categories list a number of policy areas, amongst them social policy-related areas such as health and social welfare, the fight against poverty and exclusion, the fight against unemployment, and support to regions which are experiencing economic difficulties.

TABLE 10.1 ABOUT HERE

By and large, the responses indicate that people differentiate between different policy areas (Table 10.1). As the results show, in some policy areas, such as the fight against poverty and social exclusion and regional aid given to less developed regions, there is majority support for joint European action. It seems that the very nature of the problem of exclusion, especially in its relation to economic development and societal prosperity, demands joint action. Lesser support is expressed for the fight against unemployment, where the respondents are split into equal parts between those who prefer that responsibility should remain in the hands of the national government and those who back joint policy decision-making. People are least in favour of European responsibility for health and social welfare. These findings can be linked to the different degrees of policy integration in the respective areas.^{iv}

In its strategic objectives for the period 2000-2005, the European Commission underlined the importance of the fight against social exclusion. To support co-operation between the member states and to enhance the effectiveness and efficiency of policies to combat social exclusion, the European Union has organized exchanges on policies to enable mutual learning and to promote innovative approaches. This has been facilitated, in particular, through networking at the European level and by promoting dialogue with all those involved at the member state and the regional level. Also, the European Union has engaged in generating understanding of social exclusion and poverty, especially in its development of comparable indicators. As far as need-related forms of provision are concerned, joint policies have not developed this far:

It is not surprising that member states wanted to reserve these rights to their own citizens. The sphere of asymmetrical solidarity (i.e., public support purely based on need considerations) presupposes, in fact, those ties of 'we-ness' that typically bind members of a national community – and them only (Ferrera, 2003: 635).

As already pointed out, there are no benefits that accrue to individuals in need coming from the Brussels budget. With regard to the question response, it is likely that people are thinking of an overall responsibility rather than to transfer schemes when they prefer joint European decision-making. The material well-being of the poor might still be

conceived of as a national concern, but surely not the political efforts to reduce poverty and to promote employment.

The Structural Funds give the least advanced regions and countries financial assistance for infrastructural development, productive investments and the development of human resources so that their economic and social position within the European Union can be strengthened. Regions with less than 75 per cent of the European Union's average GDP per capita are eligible for this aid regardless of national performance. The Cohesion Funds are targeted at those countries below the 90 per cent GDP per capita threshold. During the period 1993 to 1999, around 200 billion euros were made available for structural support to the less advanced regions (Mau, 2004). From a social policy perspective, the structural funds can be seen as transfer schemes that are targeted at regions which face difficulties in terms of income, employment and economic development rather than at individuals dealing with a lack of resources. Although the basic aim of these transfers is to foster economic productivity in order to improve overall welfare, they also serve as side-payments that help to make EU-membership more agreeable and to compensate presumptive losers in the integration process, especially in regions with outdated regimes of economic production (Prisching, 1996: 291). It is interesting to note that though these policies entail cross-state resource transfers, they attract a good deal of support. Two features may be important for the political backing of regional aid. In the first place, it can be seen as compensation to the least favoured members for agreeing to the Single Market and Economic and Monetary Union. Secondly, all members receive some transfers from the structural funds (even though there are apparent net receivers and net payers). The latter feature, especially, makes the structural funds less open to opposition and distributional conflicts (Mau, 2004). However, from the perspective of territorial politics, this support of inter-regional aid indicates that people have adopted some sense of community at the European level which can be drawn on to support a degree of redistribution.

Comparatively less has been achieved in the core fields of health and social welfare. Due to the limited resources at its disposal it has been argued that the European Union has failed to develop a social policy that rivals the most basic of West European social policy regimes (Geyer 2000: 211). Indeed, as far as health and social security is concerned, no legislation was adopted that 'involves actual social transfers to the citizen of the EU, and such transfers after all constitute the core of social policy' (de Swaan, 1994: 568). However, there has been a gradual opening of the welfare systems, with entitlements accumulated in one system able to be exported or converted into other systems, and with the legal stipulation of equal treatment of all EU citizens. Impulses have come from the European Court with regard to anti-discrimination that has engendered a 'rights-based homogenisation' (Leibfried and Pierson, 1995) of social policies. This has led some observers to argue that 'the monopolistic control of the state over both the membership and the territorial boundaries of social sharing started to be undermined from within and without' (Ferrera, 2003: 631). However, as the public opinion data suggest, such a transfer of responsibility for health and social welfare from

the member state to Europe is widely viewed with scepticism. A majority of people tend to prefer their governments being in charge of health and social welfare issues rather than agreeing on a transfer of responsibility. Along these lines, it has been suggested that populations might be rather unwilling to relinquish their governments' sovereignty in the social policy realm, because this could endanger those state services and benefits to which they have become accustomed (Streeck, 1998).

DETERMINANTS OF THE SUPPORT FOR JOINT SOCIAL POLICY-MAKING

Although advancing prosperity and general welfare might be the main concerns of European policy-making, the process of integration has also given rise to specific patterns of winners and losers (Vobruba, 2001: 58). Employees with low mobility and poor qualifications, and the elderly, for example, are likely to belong to the losers in this process, while highly qualified, well-educated and flexible people might benefit from a more flexible and liberalized market. Further, in the social policy arena, one can assume that higher status groups have fewer reservations about the shift of welfare responsibility from the member state to the European level. First, overall, they have a more positive view on European integration and, second, they are less dependent on the welfare state and its security-guaranteeing functions. They also have better and more marketable resources for private and occupational provision and might feel tempted to use the process of Europeanization to discharge themselves from the binding duties of the state security schemes. On the other hand, we have the socially weaker groups who might see themselves at risk if the capacity of the member states to impose and institutionalize bonds of solidarity becomes undermined. Since they are in need of a strong state apparatus that is able to enforce a system of collective welfare in order to improve and stabilize their life prospects, they might be rather reluctant to support the Europeanization of welfare responsibility (Streeck, 1998: 38).

This hypothesis can be tested empirically using the response to the issue of whether one's member state government should be responsible for decision-making or whether these decisions should be made jointly within the European Union as the dependent variable, and age, sex and occupational position as independent variables (Table 10.2). Although there are a number of significant coefficients, the group-specific effects of attitudes toward joint European decision-making are not great and there is little evidence of deep-seated cleavages between lower status groups and higher status groups. The effects on the dependent variable are weakest in the case of health and social welfare and strongest in the case of aid for less developed regions. Apparently, manual workers are less likely to support the transfer of competences to the European level than white collar employees. For three out of four questions we observe a similar effect for the unemployed, who also tend to stick more to the member state as the pivot of welfare relevant decision-making. Age and gender also have an effect, with women and elderly

people being more cautious in their support for the supranationalization of social policy decision-making.

TABLE 10.2 ABOUT HERE

Apart from status-related cleavages, one can expect the state dimension to play an important part in structuring attitudes towards a common European welfare policy. Because the rise of the state as guarantor of material security and well-being has also contributed to forging individual attachment to the state, the shifting of welfare responsibility to the supranational level is likely to evoke reactions from the national electorates in accordance with their vested interests. Support for Europeanization is probably easier to attain if electorates expect – due to their relative position or the institutional features of their welfare systems – an upward harmonization or even redistributive gains rather than losses of social benefits due to European integration. To examine these issues more closely, it is worth consulting the regime typology proposed by Bonoli (1997), which rests on the distinction between Beveridge-type welfare states and Bismarck-type welfare states on the one hand, and the level of welfare provision or, more precisely, the level of social expenditure, on the other. The Beveridge versus Bismarck distinction marks the difference between tax-financed state provision and contributory social insurance provision. Both set out different social policy objectives: the former focuses on the prevention of poverty for all citizens and the latter on status maintenance policies for employees. To distinguish between the two types, Bonoli refers to the proportion of contribution-financing and of tax-financing in the total social expenditure.^{iv} However, both types can accompany high or low levels of provision. This is where the second dimension comes into play, distinguishing between countries with high social expenditure and countries with low social expenditure. By crossing the two dimensions, Bonoli yields four types of welfare regimes that are capable of encompassing the two aspects discussed before. The four types are (i) the Scandinavian countries (Denmark, Sweden, Finland) – characterized by high social expenditure and a high proportion of tax-financing, (ii) the Anglo-Saxon welfare states (Ireland, United Kingdom) – characterized by low social expenditure and a high share of tax-financing, (iii) the continental welfare states (Germany, Austria, France, Belgium, Netherlands, Luxembourg), which are high-spenders and mainly contribution-financed, and (iv) the southern European welfare states (Italy, Portugal, Spain, Greece) which are low spenders, but contribution-based (see also Moreno and McEwen in this volume).

Regime effects of this typology can be expected as follows: the insurance-based entitlement logic of the Bismarck-type welfare regimes is morally undemanding since it is tailored towards protecting the contributors' interests. It does so by limiting interpersonal redistribution and promising the maintenance of the relative status position of its clientele in case of a loss of income. The insurance organization safeguards the fact that redistribution takes place mainly within the insurance constituencies and over the life-span of the insured. The Beveridge-type of policy arrangement, in contrast, is financed mainly out of general taxation and links citizenship rights to welfare. As a corollary, Europeanization may entail that those rights to welfare that are currently

granted to fellow-citizens will (potentially) also be accessible by other EU citizens, whereas the Bismarck-style of welfare provision seems to be rather resilient to such challenges. As Leibfried and Pierson (1995: 57) point out:

National control over social policy is limited by the need to accommodate the coordination doctrine. Welfare state benefits that can be construed as 'earned' rights can be more easily coordinated without massive leakage to other Member States. Coordination requirements work best with individualized, earned rights of the employed, and worst with collective provision of services to all citizens.

Hence, one can assume that the more comprehensive and advanced the social security systems are, the less people will support the shift of welfare responsibility to the European level. In addition, one can hypothesize that in countries with universal and citizen-based systems people are more prone to reservations about European social policies than in countries with employment-centred and insurance-based security systems. However, we may assume that the first question that refers to joint social policy decisions within the area of health and social welfare is most likely to relate to specific welfare regimes. Here, levels of provision and benefit are salient issues. The questions on poverty/exclusion and unemployment ask more explicitly how the fight against these 'social diseases' should be organized. Therefore, the decision-making preferences are most likely expressions of ideas people hold about policy competencies or how they view the EU in general (Schmitt and Scheuer, 1996). With regard to regional policy, it seems reasonable to assume that the respondents from those countries which are net-receivers - the southern European countries - are most positive about such European responsibility, whereas the net-payers are more sceptical.

TABLE 10.3 ABOUT HERE

Table 10.3 displays the results of a logistic regression analysis including regime type as an independent categorical variable. Taking the continental welfare states as a reference category, it can be shown that support for joint European decision-making in the area of health and social welfare is supported far less in the Nordic countries such as Denmark, Sweden and Finland (0.293) and far more strongly in the Mediterranean welfare states (1.529). However, there are no significant differences between the reference group and the liberal cluster containing the United Kingdom and Ireland. This can be attributed to the fact that the continental and the liberal groups are different in the two dimensions which might be offsetting each other. What is striking, however, is the reluctance of the Scandinavians to declare themselves in favour of European welfare responsibility and the comparatively strong support in Southern Europe. For the Scandinavian countries, this effect is probably due to the level of welfare their citizens are accustomed to, and the belief that European integration would lead to a lowering of social benefits. That the southern Europeans express such strong support for the Europeanization of social policies relates to their relative backwardness and the positive experiences associated

with catching up with the other member states since joining the European Union (Rhodes, 1997). By the same token, one can assume that populations in the less advanced countries compare their own systems with the systems of other European countries, so that the issue of improving welfare provision moves up on the agenda. Thus they seem to have fewer problems with the social dimension of Europe, since it is not expected that a European system will fall short of their current level of security benefits.

However, while the first question displays marked differences between the regimes, this pattern does not repeat itself with regard to the other questions. Looking at the poverty and unemployment questions, the responses from the continental and the Mediterranean clusters do not differ significantly, whereas less support comes from the Scandinavian and Anglo-Saxon countries. The latter do not seem to expect much improvement from European social policy action. Surprisingly, regional aid seems not to be a contested issue. Whereas the regional aid question has been viewed differently by the status groups, the regime variable shows no significant effect. This finding contradicts the assumptions, suggesting major distributional conflicts between the recipients of aid and those countries carrying the burdens. At the level of individual attitudes, status characteristics are more significant than regime clusters.

DISCUSSION

The results indicate that, though there is a good deal of support especially for regional aid and a joint European strategy to fight poverty and exclusion, increasing transnational social policy action is not unanimously welcomed. Since the European Union is composed of rather heterogeneous members with different interests and aspirations, cleavages linked to the different welfare regime types are apparent. Looking at the support for joint social policy decision-making in the area of health and social welfare it could be corroborated that the type of social security organization and the level of social provision affect people's stance towards a common European social policy. The results for group differences in attitudes, by contrast, were less striking. Since there are some grounds for expecting a levelling out of social security standards, the citizenry of the most advanced welfare states, in Scandinavia for example, tend to oppose the Europeanization of social policies most strongly, while people in Southern European welfare states are less attached to their state policies. A second effect shown demonstrates that people in Beveridge-type tax-financed systems are more prone to reservations about European welfare policies than people in Bismarck-style contribution-based insurance systems. The results for the other questions were less clear-cut. The Anglo-Saxons and the Scandinavians tended to be more opposed to European decision-making as far as the fight against poverty and unemployment is concerned. There were a number of effects of socio-economic status, with groups like the manual workers and the unemployed being less in favour of supra-national responsibility compared to managers and white-collar employees. It is worth noting that the regime effects identified are independent of all the other variables. The last question at stake, however, the support for regional aid

organized at the European level, is more related to social class than to the welfare regimes.

Taking up the political intricacies of the Europeanization process, one can conclude that the democratization of the European Union does not automatically lead to more demand for supranational social policy engagement. On the contrary, since European constitutional reforms give the citizenries a greater stake in the process of policy-making, it is not unlikely that some of them will use their electoral power to constrain transnational policy solutions. One of the most pressing dilemmas for the implementation of European social policies is that the welfare states are already fully developed and that people might use their political participation rights to defend their interests against wider European commitments. Within this process, deep-seated cleavages between regions and member states might set in, and may act as a barrier to effective European policy-making. It seems that the democratization of Europe does not necessarily trigger a greater demand for a social Europe.

It has also been noted that there is a tight link between issues of identity and belonging, on the one hand, and welfare systems on the other (McEwen, 2002). Ultimately, support for a welfare system rests on the idea of a community 'sharing a common past and a collective future, including notions of closure and strict demarcation between members and non-members' (Tamir, 1993: 147). Historically, the nation-state can be considered as the biggest social unit that could impose the duties of citizenship and organize large-scale redistribution, and it is certainly true that this capability does not exist independently of cognitive and cultural preconditions that motivate people to take responsibility for each other (Offe, 1998: 133). Accordingly, it has been emphasized that political actors are restrained from intensifying supranational social policies not only by the difficulties in harmonizing different welfare systems, but also by the absence of a European identity. Empirical results tackling this issue show that the weaker the national identity and the stronger the European identity, the more people are in favour of joint European social policy decision-making (Mau, 2003b). On a more general level, it has been demonstrated that national identity reduces the support for European integration (Carey, 2002).

These findings raise the question of how the relationship between people's socio-economic concerns, their sense of identity and the process of European policy making will develop in the long run. Policy makers at the European level have hoped for a long time that a European identity will develop as a by-product of integration. According to such reasoning, the process of integration itself will weaken people's member state attachments and thereby set in motion a mutually-reinforcing process of political integration and Europeanization of identity. Indeed, the European Union can be conceived of as a polity with many functions, which has a significant impact on the lives of those who live within the member states. It engages the territorial identities of citizens, but the evolution of a European identity is by no means an automatic process.

Nevertheless, there are some signs that national and European identities are not mutually exclusive, as often suggested. Recent research suggests that there is a growing compatibility between national and European attachment such that national identities, rather than being antithetical to European identity, can be considered as embedded, or nested, within it (Marks and Hooghe, 2003).

It remains an open question whether European social policies may impact positively on people's attachment to Europe. The vision of a social Europe is most likely to appeal to people when greater social policy cooperation at the European level visibly helps the member state welfare systems to fulfil their welfare functions and protect citizens' socio-economic interests. Under this condition, the shift of competencies to the European level is less likely to be perceived as a threat and might also be able to facilitate a greater legitimacy of the European Union and its polity. While it is unrealistic to expect that a European welfare state will develop and that the very diverse welfare systems of the member states will merge, the evolution of European social policy may nonetheless be able to accommodate peoples' expectations and values. Ultimately, part of this process can be a common understanding of the distinctive features of the 'European social model' and a greater commitment to joint European policy solutions.

APPENDIX

This article presents the results of statistical models that have been carried out with Eurobarometer data (Eurobarometer 54.1, autumn 2000). The survey contains data which comes from the 15 member states of the year 2000 (Belgium, Netherlands, Germany, France, Luxemburg, Austria, United Kingdom, Ireland, Italy, Spain, Greece, Portugal, Denmark, Sweden and Finland). The standard sample size is around 1000 respondents (Luxemburg 609 cases). For Northern Ireland and East Germany, special samples were drawn with 313 and 1014 cases respectively. The respondents were aged 15 and above. The data are used as pooled data, i.e. all country samples are part of one data set (N=16067). A weight has been used that adjusts the samples proportionally to the size of the country within the European Union. For more information see: http://europa.eu.int/comm/public_opinion).

Logistic regression models

Logistic regression permits the estimation on the dependent variable of the effect of a change in the independent variable. It calculates changes in the log odds of the dependent, not changes in the dependent itself, as in OLS regression does. The logit can be converted into a statement about the odds ratio of the dependent, rather than log odds, simply by using the exponential function (raising the natural log e to the b_1 power). Exp (B) are displayed, since using standardized logit coefficients involves discussion of the relative importance of the independent variables in terms of their effect on the dependent

variable's logged odds. For logistic regressions which include macro-variables as independent predictors the robust standard errors have been calculated in order to counter possible distortions of the results (see Moulton, 1990).

Dependent variable

For each of the following areas, do you think that decisions should be made by the (national) government, or made jointly within the European Union? Areas: health and social welfare, the fight against poverty/social exclusion, fight against unemployment, supporting regions which are experiencing economic difficulties (1) national government (2) jointly within the European Union (3) don't know. Recoded: (1) jointly within the European Union (0) else.

Socio-demographic variables

Age: in years

Sex: (0) male (1) female

Occupation: (1) manager/white-collar (2) workers (3) self-employed (4) unemployed (5) house-persons (6) pensioners (7) students; reference category (1)

Welfare regimes: (1) *continental welfare states* (2) *Anglo-Saxon welfare states* (3) *Scandinavian welfare states* (3) *southern European welfare states*; reference category (1).

REFERENCES

- Bonoli, G. (1997) 'Classifying welfare states: a two-dimension approach', *Journal of Social Policy*, vol. 26, no. 3: 351-72.
- Carey, S. (2002) 'Undivided loyalties: is national identity an obstacle to European integration?', *European Union Politics*, no. 3: 387-413.
- Carter, C. and Scott A. (1998) 'Legitimacy and governance beyond the European nation state: conceptualizing governance in the European Union', *European Law Journal*, vol. 4, no. 4: 429-45.
- Commission of the European Community (1994) *European Social Policy: a way forward for the Union - A White Paper*, Brussels.
- Ferrera, M. (2003) 'European Integration and National Social Citizenship. Changing Boundaries, New Structuring?', *Comparative Political Studies*, vol. 36, no. 6: 611-52.
- Ferrera, M., Hemerijck A. and Rhodes M. (2000) *The Future of Social Europe. Recasting Work and Welfare in the New Economy*, Oeiras, Celta Editora. Report prepared for the Portuguese Presidency of the EU.
- Geyer, R. R. (2000) *Exploring European Social Policy*, Cambridge, Polity Press.
- Haas, E. B. (1964) *Beyond the Nation-State. Functionalism and International Organization*, Stanford, Stanford University Press.

-
- Leibfried, S. (1992) 'Wohlfahrtsstaatliche Entwicklungspotentiale. Die EG nach Maastricht', *NDV*, Jg. 72, no. 4: 107-19.
- Leibfried, S. and Pierson P. (1995) 'Semisovereign welfare states: Social policy in a multitiered Europe', in Leibfried, S. and Pierson P. (eds.), *European Social Policy*, Washington, D.C., The Brookings Institution, pp. 43-77.
- Leibfried, S. and Pierson P. (2000) 'Social policy. Left to courts and markets?' in Wallace, H. and Wallace W. (eds.), *Policy-making in the European Union*, Oxford, Oxford University Press, pp. 267-92.
- Lepsius, R. M. (2000) 'The European Union as a Sovereignty Association of a Special Nature', in Joerges, C., Meny Y. and Weiler J. H. (eds.), *What Kind of Constitution for What Kind of Polity? Responses to Joschka Fischer*, European University Institute Florence, pp. 213-21.
- McEwen, N. (2002) *State Welfare Nationalism. A Perspective on Nation-Building in Multinational States*, Paper presented at the Political Studies Association Annual Conference, University of Aberdeen 5-7 April 2002.
- Majone, G. (1996) *Regulating Europe*, London, Routledge.
- Marks, G. and Hooghe, L. (2003) *National Identity and Support for European Integration*, Discussion Paper SP IV 2003-202, Wissenschaftszentrum Berlin für Sozialforschung (WZB).
- Marshall, T. H. (1964) *Class, Citizenship and Social Development*, New York, Doubleday.
- Mau, S. (2003a) *The Moral Economy of Welfare States. Britain and Germany Compared*, London, Routledge.
- Mau, S. (2003b) 'Wohlfahrtspolitischer Verantwortungstransfer nach Europa? Präferenzstrukturen und ihre Determinanten in der europäischen Bevölkerung', *Zeitschrift für Soziologie*, vol. 4, no. 32: 302-24.
- Mau, S. (2004) 'Transnationale Transfers der EU-Strukturpolitik. Die institutionelle Lösung eines verteilungspolitischen Problems', in Liebig, S., Lengfeld H. and Mau S. (eds.), *Gerechtigkeit und Verteilungsprobleme in modernen Gesellschaften*, Frankfurt am Main, Campus, pp. 333-62.
- Moulton, B. R. (1990) 'An illustration of a pitfall in estimating the effects of aggregate variables in micro units', *The Review of Economics and Statistics*, no. 72: 334-38.
- Offe, C. (1998) 'Demokratie und Wohlfahrtsstaat: Eine europäische Regimeform unter dem Stress der europäischen Integration', in Streeck, W. (ed.), *Internationale Wirtschaft, nationale Demokratie. Herausforderungen für die Demokratietheorie*, Frankfurt am Main, Campus, pp. 99-136.
- Pierson, P. and Leibfried S. (1995) 'Multitiered institutions and the making of social policy', in Leibfried, S. and Pierson P. (eds.), *European Social Policy*, Washington D.C., The Brookings Institution, pp. 1-40.
- Preuß, U. K. (1998) 'Nationale, supranationale und internationale Solidarität', in Bayertz, K. (ed.), *Solidarität. Begriff und Problem*, Frankfurt am Main, Suhrkamp, pp. 399-410.
- Prisching, M. (1996) *Bilder des Wohlfahrtsstaates*, Marburg, Metropolis.
- Rhodes, M. (1997) *Southern European Welfare States: Between crisis and reform*, London, Frank Cass & Co.

- Rieger, E. and Leibfried S. (2002) *Grundlagen der Globalisierung. Perspektiven des Wohlfahrtsstaates*, Frankfurt am Main, Suhrkamp.
- Scharpf, F. W. (2000) *Democratic Legitimacy under Conditions of Regulatory Competition. Why Europe Differs from the United States*, Working Paper 2000/145, Juan March Institute, Madrid.
- Scharpf, F. W. (1999) *Governing in Europe. Effective and Democratic?*, Oxford, Oxford University Press.
- Scharpf, F. W. (1997) 'Economic integration, democracy and the welfare state', *Journal of European Public Policy*, vol. 4, no. 1: 239-62.
- Schmitt, H. and Scheuer A. (1996) 'Region – Nation – Europa. Drei Ebenen politischer Gestaltung und Steuerung in der Wahrnehmung der Bürger', in König, T., Rieger E. and Schmitt H. (eds.), *Das europäische Mehrebenensystem*, Frankfurt am Main, Campus, pp. 160-79.
- Streeck, W. (1995) 'From market making to state building? Reflections on the political economy of European social policy', in Leibfried, S. and Pierson P. (eds.), *European Social Policy*, Washington D.C., The Brookings Institution, pp. 389-431.
- Streeck, W. (1998) 'Einleitung: Internationale Wirtschaft, nationale Demokratie?' in Streeck, W. (ed.), *Internationale Wirtschaft, nationale Demokratie. Herausforderungen für die Demokratietheorie*, Frankfurt am Main, Campus, pp. 11-58.
- Tamir, Y. (1993) *National Liberalism*, Princeton, Princeton University Press.
- Threlfall, M. (2003) 'European Social Integration: harmonization, convergence and single social areas', *Journal of European Social Policy*, vol. 13, no. 2, 121-140.
- Vobruba, G. (2001) *Integration + Erweiterung. Europa im Globalisierungsdilemma*, Wien, Passagen Verlag.

Table 10.1: *National or European Responsibility*

In per cent	European Union	National Government	Don't know
Fight against poverty and social exclusion	63.0	33.0	4.0
Support to regions experiencing economic difficulties	60.1	34.2	5.7
Fight against unemployment	51.1	45.3	3.6
Health and social welfare	32.3	63.8	3.9

N=15900

Question wording: For each of the following areas, do you think that decisions should be made by the (nationality) government, or jointly within the European Union?

Source: Eurobarometer 54.1 (autumn 2000).

Table 10.2: *European Decision-Making in Welfare Issues, Logistic Regression*

Health and Social Welfare		Poverty and Exclusion		Unemployment		Regional Aid	
exp (β)	z	exp (β)	z	exp (β)	z	exp (β)	z

Age (in years)	0.992*	-5.18	0.992*	-5.31	0.996*	-2.54	0.993*	-4.32
	*		*				*	
Women (ref. cat. men)	0.799*	-6.03	0.895*	-3.22	0.840*	-5.16	0.718*	-9.50
	*		*		*		*	
Occupation (Ref. cat. managers/white collars)								
Manual workers	0.861*	-2.78	0.736*	-6.08	0.726*	-6.54	0.701*	-6.94
	*		*		*		*	
Self-employed	1.274*	3.49	0.878	-1.93	0.970	-0.46	0.834*	-2.62
	*						*	
Unemployed	0.926	-0.89	0.695*	-4.61	0.748*	-3.74	0.667*	-5.08
			*		*		*	
House persons	1.247*	3.27	0.734*	-4.88	0.851*	-2.59	0.826*	-2.98
	*		*				*	
Retired	1.076	1.07	0.762*	-4.30	0.795*	-3.68	0.731*	-4.88
			*		*		*	
Students	0.883	-1.73	0.865*	-2.08	0.863*	-2.20	0.787*	-3.39
							*	
McFaddens Pseudo R ²	0.005	-	0.008	-	0.005	-	0.010	-

For each of the following areas, do you think that decisions should be made by the (national) government, or jointly within the European Union? Areas: Health and social welfare, fight against poverty and social exclusion, fight against unemployment, supporting regions which are experiencing economic difficulties (1) national government (2) jointly within the European Union (3) don't know. Recoded: (1) jointly within the European Union (0) else.

N=16067

Data: Eurobarometer 54.1 (autumn 2000).

Table 10.3: European Decision-Making in Welfare Issues, Logistic Regression

	Health and Social Welfare		Poverty Exclusion		and Unemployment		Regional Aid	
	exp (ß)	z	exp (ß)	z	exp (ß)	z	exp (ß)	z
Age (in years)	0.993*	-2.17	0.992**	-3.13	0.996	-1.13	0.994*	-2.61
							*	
Women (ref. cat. men)	0.815**	-4.77	0.899**	-3.37	0.841*	-4.93	0.722*	-9.38
					*		*	
Occupation (Ref. cat. managers/white collars)								
Manual workers	0.858*	-2.24	0.739**	-3.93	0.728*	-4.32	0.701*	-4.43
					*		*	

Self-employed	1.084	0.76	0.835**	-2.76	0.898	-1.13	0.824*	-2.23
Unemployed	0.935	-0.66	0.701**	-3.14	0.757*	-2.62	0.668*	-3.65
					*		*	
House persons	1.001	0.02	0.693**	-3.92	0.792*	-3.03	0.796*	-2.82
					*		*	
Retired	1.034	0.27	0.752*	-2.52	0.779*	-2.80	0.728*	-3.07
					*		*	
Students	0.900	-1.23	0.875**	-2.74	0.871	-1.54	0.798*	-2.65
							*	

Welfare regime (ref. cat. continental reg.)								
Anglo-saxon	0.960	-0.34	0.733*	-2.58	0.589*	-2.89	1.050	0.14
					*			
Scandinavian	0.293**	-7.25	0.654**	-6.84	0.552*	-6.35	0.839	-1.19
					*			
Mediterranean	1.529**	2.63	1.061	0.25	1.123	0.63	0.986	-0.07
McFaddens Pseudo R ²	0.044	-	0.014	-	0.020	-	0.012	-

*p<0.05, **p<0.01

For each of the following areas, do you think that decisions should be made by the (national) government, or jointly within the European Union? Areas: Health and social welfare, fight against poverty and social exclusion, fight against unemployment, supporting regions which are experiencing economic difficulties (1) national government (2) jointly within the European Union (3) don't know. Recoded: (1) jointly within the European Union (0) else.

N=16067

Data: Eurobarometer 54.1 (autumn 2000).

Chapter 11

Beyond National Social Rights?

Maurizio Ferrera

The aim of this chapter is to discuss the changing spatial architecture of social citizenship in contemporary Europe, in the wake of both supranational integration and endogenous developments towards a relatively new, 'multi-layered' form of welfare state.^{iv} The first section will offer a brief sketch of the historical journey from local assistance to national social insurance schemes. The second section will summarize the impact of European integration on the boundaries of such schemes and introduce the challenge of 'semi-sovereignty'. The third section will present a map illustrating the new spatial coordinates of social citizenship in the EU and the extent to which they affect the territorial and the membership dimensions of rights. The final section will discuss some institutional dilemmas arising from this new configuration and some possible future perspectives.

FROM LOCAL ASSISTANCE TO NATIONAL WELFARE

The welfare state emerged in Europe as a result of a slow process of policy experimentation, which began with the 'liberal break' from conservative paternalism around the middle of the nineteenth century and ended with the establishment of mass social insurance in most countries by the end of 1920s (Briggs, 1961; Rimlinger, 1971).

Social insurance was a real institutional breakthrough in the history of the European nation-state (Alber, 1982; Ewald, 1986; Hecló, 1981; Perrin, 1969). Its new objective was to provide standardized benefits, in an impartial and automatic form, based on

precisely defined rights and obligations, according to highly specialized procedures and *with a national scope*: all citizens possessing certain requirements were subject to the new rights and duties. The institutionalization of solidarity through the pooling of certain risks (old age, disability, sickness, work injuries and unemployment – to name the most important) served in this way to strengthen that link between territories, cultural identities and participatory institutions on which the European nation-state ultimately rests.

One of the core features of social insurance was its *compulsory* nature. It was precisely the obligatory inclusion of wide categories of workers that allowed the new social insurance institution to affirm itself as a powerful redistributive machine, capable of affecting the life chances of millions of citizens. Obligatory inclusion meant that risks could be shared across wide populations, with three big advantages: (i) a less costly protection per insured; (ii) the possibility of charging 'contributions' (that is, flat rate or proportional payments) rather than 'premiums' (that is, payments differentiated on the basis of individual risk profiles, as in policies offered by private companies); and (iii) the possibility of granting special treatment (for example, lower or credited contributions, or minimum benefits) to categories of disadvantaged members. In contrast to private and/or voluntary insurance, compulsory social insurance could thus produce not only horizontal redistributions – flowing from the 'non-damaged' to the 'damaged'- but also vertical ones, from higher to lower income groups (Alber, 1982).

The new compulsory insurance schemes can be seen as very concrete manifestations of that process of institutional demarcation vis-à-vis foreign spaces and parallel internal structuration that characterized the European state system between the end of the nineteenth century and the beginning of the twentieth century.

In the first place, the introduction of nationally differentiated systems of insurance added one extra substantive dimension to the *external boundaries* of the nation-state. From 'Westphalia' (1648) to 'Vienna' (1815), external boundaries were essentially of a military nature and had only a vague administrative-regulatory component; within state territories, there remained numerous internal barriers (for example, in terms of labour and even physical mobility) as well as a high degree of legal differentiation (Bartolini, 2000). The removal of barriers to free circulation as well as regulatory standardization proceeded at an increasingly rapid speed during the nineteenth century and the establishment of social insurance schemes with a national scope constituted a sort of quantum leap for certain countries in this respect. The first country to ever introduce compulsory insurance was Germany: in 1883 against sickness, in 1884 against work injuries and in 1889 against old age. The German reforms had a vast international echo. Austria-Hungary was the first country to follow suit (in 1887 as regards work injuries and in 1888 as regards sickness). Prior to the turn of the century came Denmark (means-tested national pensions in 1891), Norway (work injuries in 1894), Finland (work injuries in 1895) and Italy (work injuries in 1898). The other countries took off with subsidized voluntary insurance, but shifted to compulsory schemes in the first two decades of the new century. At the outbreak of the First World War, only Belgium was missing from the list: compulsory pension insurance arrived in this country in 1924^{iv}.

Secondly, social insurance schemes created new *membership spaces* within the territory of each nation-state. As brilliantly underlined by Marshall (1950), the extension of social rights was no less significant for the development of modern citizenship than the extension of civil and political rights. In contrast to the latter, insurance membership was typically extended upwards rather than downwards through the social structure, that is, from lower to higher incomes and from manual to non-manual occupations (Flora and Alber, 1981). At their origins, compulsory schemes only covered employees, and typically only industrial employees earning up to a certain wage. Only Sweden introduced from the beginning (1913) old age insurance covering the whole population regardless of income or occupational status. From the end of the First World War, all countries began a rapid process of coverage extension. In Britain and Scandinavia, this process developed with just a few big waves of inclusion. In the Continental countries, the Bismarckian tradition prevailed, leading to a sequence of differentiated inclusions typically flowing from industrial employees to agricultural workers, then to the self-employed and finally to other marginal or inactive categories. It is important to stress that even if occupationally fragmented, the continental schemes rested on a *nation-wide* pooling of risks and standardized rules. Only the more traditional forms of social assistance remained localized and discretionary, but their salience gradually declined.

The creation of the new membership spaces via social insurance served to re-configure (and generally speaking, to strengthen) the sovereignty of the European nation-state. Not only did it enlarge the functional scope of centralized authority, but it offered new means for governing both exit/entry and voice dynamics within its territory^{iv}.

In the wake of their structural consolidation in the inter-war period, but especially after the Second World War, public insurance schemes turned into relatively autonomous channels for the shaping of social and political interests – channels that were moved and maintained through their own laws of inertia. The new membership communities created by welfare schemes had to safeguard those chains of redistribution activated by the original institutional choices. For a given insurance scheme, structural consolidation did not only mean an organizational strengthening and in some cases a growing political interest in self-expansion, but also the gradual achievement of 'actuarial maturation', that is, a self-sustaining equilibrium between contributions and benefits, given the risk profile of the target population.

The *Trentes Glorieuses* (1945-1975) were the apex of the *national* welfare state. The coverage of its schemes reached its 'natural' limits (that is, virtually the whole citizenry, at least *de jure*). Sophisticated techniques were invented and deployed in order to improve and rationalize the extraction of taxes and contributions, govern redistributive flows from the centre, and deliver benefits and services to the various clienteles. Of particular importance in this respect was the adoption of the 'pay-go' system of pension financing, whereby the contributions paid by the active generations are immediately used to finance the benefits paid to the inactive. This new technique greatly expanded the scope for inter-generational redistribution. Finally, alongside the various insurance

schemes for standard risks, new non-contributory programmes of general social assistance were created, as well as increasingly articulated health care systems providing a wide array of medical services. The new programmes of social assistance distinguished themselves from traditional public charity to the extent that they were based on rights (for example, the right to a guaranteed minimum income in case of lack of resources) rather than bureaucratic discretion. Health care systems shifted, in turn, towards an emphasis upon social sharing, from the provision of cash transfers to the provision of benefits in kind (pharmaceuticals, medical treatments, etc.). This shift made the institutional articulation of the welfare state more complex, because of the new role gained by service providers as relevant actors. It also made the welfare state more popular in general, and the European welfare state more distinct from its US counterpart, which remained much leaner in terms of public health cover.

Thus in these three decades, the 'social citizenship' attached to the institutions of the nation-state was in full bloom, and displayed its fullest degree of both external and internal closure. For non-nationals, it was not very easy to enter the insurance membership spaces of other states, especially when it came to deriving benefits out of them. Under certain conditions, legal foreign workers were admitted into the schemes and thus obliged to pay contributions, but 'vesting' rules concerning minimum contributory seniority often barred them from the actual fruition of benefits (typically pensions). The 'principle of territoriality' – a central tenet of international labour law – strictly reserved control over the most relevant aspects of social security to national governments, putting non-nationals in conditions of systematic disadvantage in dealing with issues of contribution cumulation, transferability, etc. (Cornelissen, 1996; Giubboni, 2003). On the other hand, nationals were virtually 'locked in' – being subject to the obligation to be members of public schemes. For nationals, exit options from redistributive arrangements were gradually foreclosed. Internally, the level of voice activity and political conflict around welfare policies tended to increase, but the expansion of these programmes also gave a big contribution to enhancing citizens' 'loyalty' towards their national variant of welfare state. Survey data show that public social protection is considered a 'fundamental achievement of modern society' by very vast majorities in all European countries; in most countries the majority of people think that decisions regarding this matter should remain the preserve of their own national government (Ferrera, 1993).

FROM SOVEREIGN TO *SEMI*-SOVEREIGN WELFARE STATES

Already during the *Trentes Glorieuses*, however, some first cracks started to emerge in these solid institutional compacts. Two main developments were responsible for this: one of exogenous and the other of endogenous origin.

The exogenous development emerged from European integration. The establishment of the Common market in 1958 began to weaken the external boundaries of national welfare states: not only because of the greater socio-economic interactions across national borders allowed by the four freedoms, but also because of the gradual emergence of a

supranational regime for the co-ordination of social security systems. This body of rules specified the conditions under which entitlements matured in a given national system could be exported or converted into the system of another member state. The regime made sure, in other words, that the new exit options opened by the Common Market were actually matched by corresponding entry options.

The elaboration of the coordination regime was a rather lengthy and controversial political process. France aimed at a gradual, but far reaching, harmonization of social provisions across the Community, while Germany was in favour of spontaneous mutual adjustments by means of a virtuous 'system competition'. The compromise was found in the Council Regulation 1408 of 1971 and rested on four basic principles: equal treatment for all EC nationals; the cumulation of insurance periods; the exportability of benefits; the applicability of a single piece of legislation – the *lex loci laboris* (Cornelissen, 1996; Schoukens, 1997). This Regulation provided a framework for communication between systems that not only suggested a solution to a growing host of practical problems for 'market citizens', but set also in motion a process of integrative fine tunings, via supranational jurisprudence, that gradually extended the scope of application of the Regulation itself (Giubboni, 2003; Sindbjerg Martinsen, 2004). Within the wider context of the four freedoms and of the increasingly stringent EC competition laws, the Regulation has gradually breached the very principle of territoriality, that is, the close link of social rights and national territory.

In the same period (1950-1975), other developments started in turn to weaken *from within* the closure of public social insurance, that is, its coercive monopoly regarding coverage and benefits. Starting, again, from the 1960s, a significant second pillar of supplementary insurance has emerged, offering additional benefits and coverage to selected occupational categories. Some countries have maintained the principle of compulsory membership and the pay-go method of financing also within the second pillar. Many countries have however adopted a softer approach regarding affiliation: membership rules (including obligatory cover) can be set by collective agreements, which may in turn be backed by national legislative provisions (for example, the Netherlands); in some cases, membership is instead voluntary, but encouraged and subsidized by the state (for example, Ireland or Denmark). The method of pre-funding has moreover been adopted in many countries for this second pillar, in lieu of pay-go. On top of second tier of provision, a third pillar has in its turn developed, essentially based on individual choice and market criteria. Here, there is no compulsion and the distance from solidarity principles is much higher; but also at this level public regulation plays a role on both efficiency and equity grounds.

In the background of the national apex of social citizenship, the issue of exit options from compulsory insurance was thus slowly but significantly re-opened. Exogenous and endogenous developments were starting to challenge the spatial sovereignty of welfare states, in both its territorial dimension (freedom of circulation and supranational coordination) and internal 'membership' dimension (weaker coercive boundaries of second pillar insurance and weaker redistribution).

The mid-1970s marked the beginning of a new phase for European nation-states, characterized by a rapidly increasing external 'vulnerability' in the wake of multiple dynamics of *boundary removal*, especially in the economic and monetary sphere. The *indirect* implications of these dynamics on the sovereignty of European welfare states have already been discussed at length by a vast literature, which does not need to be surveyed here^{iv}. For the purposes of this chapter, it is more important to focus on the *direct* implications connected to the deepening of European integration.

In a well known study on the EU and national social policy, Leibfried and Pierson (1995 and 2000) have identified several distinct impacts of the former on the latter. As a matter of fact, the gradual expansion of EU law on free movement and competition – including Court decisions – have gradually eroded:

1. *national control over beneficiaries*. In compliance with the freedom of movement, member states can no longer restrict welfare state access to their own citizens only. Workers of other EU countries must be automatically admitted too. In order to avoid controversies over the definition of 'worker', the Court of Justice has itself elaborated through various rulings a wide *notion communautaire* of this concept, extended not only to the self-employed, but also to part-time workers, *au pair* workers and even missionary priests (Giubboni, 2003; Sindbjerg Martinsen, 2004).
2. *spatial control over consumption*. On the one hand, benefits paid by each member states (for example, a pension or a child benefit) have become portable across the whole internal market. On the other hand, the insured of a given national system can increasingly shop around and consume services of other EU systems (for example, in the field of health care) – the so-called passive freedom of service.
3. *exclusivity of coverage* on their own territory as well as control over access to the status of benefit producer. On the one hand, member states are increasingly obliged to accept the 'infiltration' within their territory of other countries' regimes (for example, in the case of posted and seconded workers). On the other hand, in compliance with the active freedom of service, they must grant access to foreign providers into their national welfare system (for example, in the case of supplementary, 'second tier' insurance: see below).
4. *control over administrative case adjudication*. Member states must accept that the determination of beneficiary status (for example, of being 'sick' or 'disabled') may be carried out by bureaucratic agencies of other member states.

As a consequence of these processes, European welfare states have witnessed increasing erosion of their external boundaries and of their capacity to control them. On the demand side, exit options from national systems have expanded for all workers and their families, in parallel with new entry options in the systems of other countries. On the supply side, the jurisdiction of a national regime has been extended outside its borders in certain

cases, national providers can enter the membership spaces of other states and, more generally, national authorities have seen a restriction on their capacity to regulate and control.

According to Leibfried and Pierson, all these changes have essentially transformed European welfare states from sovereign to *semi*-sovereign entities, irreversibly embedded in an institutional framework characterized by a systematic pro-market bias and by the opacity of a Court led decision-making process. As these two authors have recently put it, 'What is emerging is a unique multi-tiered system of social policy, with three distinctive characteristics: a propensity towards "joint decision traps" and policy immobilism; a prominent role for courts in policy development; and an unusual tight coupling to market-making processes' (Leibfried and Pierson, 2000: 287).

THE NEW SPATIAL ARCHITECTURE OF SOCIAL CITIZENSHIP IN THE EU

It would be beyond the scope of this chapter to reconstruct in detail the challenges posed by EU law to the social sovereignty of domestic welfare states, and the tug of war that has engaged national governments and administrations on the one hand and supranational authorities on the other. What we can try to do, however, is offer a summary picture of the current state of the art by drawing a 'map' of the boundaries of social rights in the Union. This map is outlined in Figure 11.1, which is generated by the combination of two distinct dimensions:

- (i) a territorial dimension, on which geographical movements occur, physical borders between systems are located, and rules defining what can pass through such borders are of prime importance. On this dimension, the main novelty in respect of the past is the formation of a new space, the EU, alongside, or perhaps underlying, the traditional space occupied by national systems. Through the four freedoms and the coordination regime, the EU can now legitimately encroach into national social citizenships; this new space is in turn increasingly demarcated by its own external borders, set against foreign territorial units and 'third country nationals': the *extra-comunitari* (as this group is called in the Italian language);
- (ii) a membership dimension, on which 'movements' across the various layers or pillars of social sharing occur, institutional boundaries between schemes are defined and rules over who is eligible to what benefits, and who can provide such benefits, are of prime importance. On this dimension, as we shall see, the main novelty is the 'cap' posed on statutory, first pillar schemes and the emergence of an increasingly salient space occupied by supplementary (second pillar) and private (third pillar) schemes: a space which extends beyond the reach of obligatory affiliation and the public monopoly on provision.

FIGURE 11.1 ABOUT HERE

The intersection between the two dimensions and of their internal partitions generates a number of different sub-spaces, characterized by different kinds of boundaries. Space 'A' is the historical core of social sharing systems: it includes those compulsory and public insurance schemes which still constitute the fundamental pillars of national welfare - as well as a prime source of domestic legitimation for the member states. This space remains relatively protected from external encroachments. The EU regulatory framework (essentially, Regulation 1408/71) rests on the *lex loci laboris* principle: it is the social security law of the country of employment that applies to whoever works (and, more generally, legally resides) in that country. In a long series of 'social insurance cases' (Giubboni, 2003), the Court has so far upheld the principle of compulsory affiliation and public monopoly as a pre-requisite for social solidarity: national authorities remain 'sovereign' in setting affiliation and eligibility rules. The novelty of this particular space is the opening of a relatively wide gate, through which workers, some other social categories and certain providers from other EU member states can enter and exit, according to the rules set by the coordination regime, constantly monitored (and often re-interpreted) by the ECJ.

Space 'B' is the new area of second pillar schemes – particularly important in the field of pensions. In its take-off phase (1960s and 1970s) this space was characterized by a relatively high territorial closure. Regulation 1408/71 did not cover supplementary pensions and thus national authorities could discriminate vis-à-vis both non-national workers and nationals that left their domestic territory and moved abroad: benefits were not portable and contributions could not be cumulated. The degree of closure of second pillar schemes remained weaker from the very beginning along the membership dimension. As was said above, several countries opted for voluntary affiliations, even if encouraged and subsidized by the state. The more constraining approach (that is, compulsory affiliation) adopted by France and the Netherlands originated, however, a strand of litigation before the ECJ, which in this field took a much less protective orientation in respect of national prerogatives and domestic forms of closure than it had taken for first pillar schemes. The Luxembourg judges found that the predominance of funding as a system of financing and the delicate nature of investment decisions (on the side of both the insured and fund managers) bring this tier of provision closer to the market and thus make it partially liable to EC competition law.

Increased litigation, trans-national lobbying on the side of business and pension funds^{iv} and Commission activism prompted steps in the legislative arena for arriving at a common and coherent regulatory framework. In 1998, a directive (98/49) established basic criteria for safeguarding supplementary pension rights: acquired rights must be maintained in case of cross-border worker movements, all EU nationals must be equally treated, benefits are exportable to the territory of other member states^{iv}. In 2000, the Commission put forward a draft directive on pension funds which, after lengthy negotiations, was formally adopted in 2003 (Directive 2003/41/EC). This directive regulates the activities and supervision of all 'institutions for occupational retirement provisions' (IORP), including pension funds and superannuation schemes. The text contains detailed 'prudential' rules on both the operation and the investment strategies of

IORPs. It also sets a regulatory framework on cross-border activities aimed at liberalising the provision of second pillar benefits across the EU: paragraph 5 of the preamble explicitly states that the directive is 'a first step on the way to an internal market for occupational retirement provision organized on a European scale'.

The underlying rationale seems, in other words, that of reconciling national prerogatives and practices on compulsory affiliation and on scheme profiles with an EU market of competing providers, abiding by detailed prudential rules and subject to supervision (the IORPs). The Directive explicitly excludes from its scope of application both first pillar schemes ('social security schemes which are covered by Regulation no. 1408/71') and in general institutions which operate on a pay-as-you go basis. It also lists a number of specific national exceptions. Nevertheless this Directive opens up an enormous space for the 'Europeanization' of social protection: the institutions affected by the Directive cover about 25% of the EU labour force and manage assets worth 2,500 billion of euros, or ca. 29% of the EU GDP. The Directive's provisions on cross-border activities are very complex and envisage various national filters (authorizations, information, consultations, etc.). Based on past regulatory experiences of this kind at the EU level, we can expect that the emergence of pan-European pension funds will not be a rapid and uncontroversial process – and the legislative text appropriately speaks of 'a first step', as mentioned above. But there is no question that a novel institutional dynamic has been unleashed, which might lead to a significant reconfiguration of European pension systems in the years to come, along both the membership and the territorial dimension.

Space 'C' refers to third pillar schemes, offering private, voluntary and funded insurance. Here, an EU-wide market already exists, in the wake of the liberalization of the insurance sector. At this level, only fine tunings are needed (primarily in the field of taxation), to strike down the remaining impediments for a fully free circulation of customers and providers throughout the whole EU. Space 'D' is that of means-tested benefits and services. Here the external wall of national systems is still buffered by member state prerogatives on rules of residence. The gate opened in space 'A' does allow non-nationals to access social assistance benefits 'from above' (through the horizontal gate in the figure): a worker from another EU country can, for example, claim means-tested non-contributory benefits if he or she meets the requirements set by the host country for its own nationals. But 'lateral' accesses are still barred. In this respect, the EU is not (yet) like the US or other federal polities, whose citizens are free to settle where they choose^{iv}. Moreover, access is limited to a pre-defined list of benefits, set by Regulation 1247 of 1992; benefits are not portable and are paid only if the claimant is legally resident in the country. While the Treaties protect the free circulation of workers, member states have maintained important competencies regarding who can legally reside within their territory, especially if this person is not a worker. A number of directives have extended the right to free circulation to several categories other than workers (family dependents, students, pensioners, etc.) (Van Der Mei, 2003). But all such directives rest on the principle that those who aspire to reside in a member state different from that of nationality must have 'sufficient' economic resources, so as not to impose 'unreasonable burdens' on the public purse of the host country. In order to obtain the right of residence

in a member state other than one's own, one has in other words to pass a sort of reverse means-test (or affluence test), demonstrating economic self-sufficiency. Non-contributive social assistance is typically the realm of 'asymmetric' solidarity: the realm of those sharing ties that, being based on needs rather than contributions, presuppose high degrees of 'we-feelingness', a strong sense of membership to a community of equals. Thus, it is not surprising to find heavy resistance in this sector to the opening of borders and the admission of non-nationals.

In Figure 11.1, space 'D' and space 'B' are crossed by (incomplete) dotted lines that give rise to internal sub-spaces ('d' and 'b'). These lines are meant to signal the emergence, within many domestic systems, of some internal differentiations based on territory rather than (or on top of) categorical membership. As discussed in many of the chapters in this volume, regional and even municipal responsibilities in the area of social assistance and services are growing everywhere in Europe. In some countries (for example, Italy), regions may soon become the most active level of government for the regulation and even the creation of region-specific supplementary pension and health funds. Decentralization trends are (re)-creating infra-national boundaries (that is, boundaries within the nation-state) which – though much weaker than cross-national ones – could lead to new forms of fragmentation and may thus represent a threat *from within* to the maintenance of nationally-bounded (standardized and integrated) social rights. In a few countries (for example, Italy, Belgium or Spain) this trend is affecting health care systems as a whole. In these cases, the dotted line of boundary 'infra-nationalization' cuts across space 'A' as well – to the extent that the latter includes compulsory sickness insurance.

Space 'E' corresponds to the 'near abroad' of national welfare systems, that is, the EU space from which entries and exits are legitimized by either rights of free movement (especially of workers and services) or by portability rules. The figure visualizes this space at the same level as the national space. In reality, what we find next to the latter are all the other EU national spaces. The EU space as such should be considered as an underlying floor on which national spaces rest. The formation of this space has been primarily regarded in terms of 'market making' and therefore as a source of disturbance and erosion for national solidarity. The ability of the EU to engage in 'activist social policy' (that is, of affirming itself as a source of 'market braking' social rights) is limited by those inherent obstacles of 'positive' integration that have been identified and analysed by a vast literature.^{iv} In our perspective, however, in the midst of its negative and positive rule-making, the EU has slowly started to perform two tasks with at least some degree of 'structuring' potential. Along the membership axis, it has started to point towards the existence of possible pan-European solidarity publics. EC law has indeed attenuated or even eliminated many boundaries between the member states in the sphere of social protection, but in many cases it has done so by invoking the existence (at least in terms of normative desirability) of a new pan-European solidarity space. Especially in the field of social assistance (the *sancta sanctorum* of national welfare, under the symbolic profile), the orientation of the ECJ has been very clear. Its jurisprudence has tended to restrict the scope for discretion on the part of the member states, contrasting their 'closure' tactics by

appealing not only to the principle of non-discrimination, but often by referring also to the need to promote trans-national solidarity flows at the individual level (Van Der Mei, 2003).

In other words, the European Union has not only played a role in market making, but also a role in 'solidarity making'. Moreover, it has also started to perform another important function of spatial structuring: that of building a single (or at least more homogeneous) boundary vis-à-vis third countries and their nationals. For this reason, our map identifies a space 'F' (extra EU) in respect of which the EU is increasingly affirming itself as the legitimate authority for defining and guarding the borders of citizenship – and not only social citizenship. As is known, the Amsterdam Treaty has paved the way for a gradual communitarization of immigration and asylum policy within the EU (Geddes, 2000). If it is true that one of the main external objectives of communitarization is the containment/control of entry flows (and thus the construction of recognizable EU boundaries along both the territorial and membership dimension), among the internal objectives we find that of legal assimilation: that is, non discrimination of third country nationals in terms of rights, starting from social rights (European Commission, 2003). It is not by chance that the Charter of Fundamental Rights speaks of 'individuals' and not of EU citizens. The principle of non-discrimination on the grounds of social rights was eventually introduced for third country nationals in May 2003, through an amendment of Regulation 1408/71. Thus, as far as employment and social protection are concerned, the ca. 13 million third country nationals that find themselves within the EU now enjoy the same rights (and obligations, of course) which are recognized to EU nationals – as long as they are legally resident in one of the member states. It is to be noted, however, that third country nationals do not enjoy the right of free circulation: they cannot be discriminated against in their host country, but they cannot freely move for employment purposes from one member state to another, as can EU nationals. Member states are still in full control of the rules of residence on their own territory as regards third country nationals (as was said above, discretion on this ground still exists also as regards other EU nationals, but has been significantly limited by ECJ jurisprudence). Third country nationals remain in other words second-class 'denizens': the EU has become an important source of external boundary-building, but the nation-state still retains important prerogatives as to who can establish roots within its territory.

If our mapping is correct, it is plausible to conclude that the process of European integration has significantly altered the spatial architecture of social citizenship. We can say that this change has extended the scope of solidarity along the territorial dimension and along the membership dimension, has posed the basis for the formation of new sharing collectivities (especially at the level of supplementary pensions) and has transferred onto the EU certain important boundary-control prerogatives – with all the 'structuring' potential which such prerogatives always carry with them (Bartolini, 1998). Far from being a mere question of 'transnationalization' of rights (Sbragia, 2004), the construction of a new EU space for the exercise of social citizenship has rested on distinct and salient dynamics of supranationalization: not only the elaboration of common definitions of old and new rights, but also the codification of jurisdictional protection of

such rights. The European Union certainly does not have (and perhaps will never have) its own social protection budget, fed by autonomous taxing powers, through which direct interpersonal flows of redistributions can be financed. Nonetheless, it has gradually equipped itself with regulatory competences which are able to discipline the sharing spaces of the member states – and thus to orient their distributive outcomes.

How stable is the new spatial architecture mapped in figure 11.1? Are there symptoms of strain, signals of change, or margins for institutional fine tuning? These are the questions that will be addressed in the concluding section.

OPEN CITIZENSHIP: DILEMMAS AND PERSPECTIVES

The re-drawing of the boundaries for social citizenship, induced by European integration, works as a de-structuring factor in respect of traditional redistributive arrangements at the national level. At the same time, it tends to create incentives for forms of 'restructuring' at the supranational level, that is, the definition of institutional frameworks which are more coherent with the changed spatial coordinates.

Which forms can 'destructuring' take and which effects can it have in the sphere which interests us, that is, social protection? We can plausibly hypothesize that the ongoing trends towards an opening of social citizenship may have four main destructuring effects. The first is of a financial nature and concerns the balance of single national schemes and programmes. The production and maintenance of social rights are very demanding operations in terms of the symmetry between entitlements and obligations, benefits and contributions. The 1971 and 1992 Regulations were designed in order to contain as much as possible the disturbing effects inevitably connected with growing cross-border movements. But there are legal gaps and objective difficulties, which may transform the free circulation of workers and beneficiaries, the portability of benefits and the cumulability of contributions into a potentially de-stabilising factor for the final balance sheets of national programmes (Van der Mei, 2003) and, more generally, for the planning and rationing policies adopted by the member states with a view to containing the costs of their welfare states. So far, cross-border flows (of migrant workers, pensioners, patients, etc.) have remained relatively modest. But the deepening of economic integration is deemed to promote an acceleration of such flows, which have been constantly growing since the 1970s in any case. In addition, Eastern enlargement will add a potent engine to such growth starting from 2007, when the moratorium on the free circulation of workers envisaged by the accession Treaties will expire.

The second effect is also of an economic nature, but has far reaching socio-political implications. The process of opening up social citizenship does not only affect, as stated, the territorial dimension, but also the membership dimension, through a weakening of the public monopoly on social insurance. The legitimacy of such a monopoly in respect of first pillars has been confirmed in that strand of 'social insurance cases', discussed above. But the rulings of the ECJ on these issues rest upon a 'benevolent' interpretation of

Treaties which – as is well known – place a predominant emphasis on the internal market and competition rules. As was briefly illustrated, both EC law and jurisprudence have promoted the market and upheld competition rules at the level of second and third pillars, with a view to developing a big European space for occupational and private pensions. The destructuring effects of such developments are threefold: (i) weakening (or at least 'bounding') of the scope of operation of public monopolies in the field of solidarity and redistribution; (ii) possible erosion of the consensus around redistribution *qua* salient and legitimate functions of the state; and (iii) potential dualization of social protection, with a private/occupational channel catering to the aspirations of wealthier categories and a public channel destined to the more vulnerable social groups.

The other two effects connected with an opening of social citizenship are essentially of a politico-institutional nature and have to do with the survival of the nation-state both as a space and as an actor (source, guarantee) of redistribution. The map drawn in Figure 11.1 indicates the emergence of new sub-state, or sub-national spaces of solidarity, not only within area 'D' (social assistance), but also within area 'B' (supplementary pensions) and even within area 'A' (basic social insurance, especially health insurance). These developments are the product of complex dynamics, but may be at least partly interpreted as a direct or indirect consequence of European integration (Keating, 1998). A direct consequence, in that European integration has been promoting since the 1970s a greater role for regions and local authorities in the social policy sphere. An indirect consequence, in that economic integration, the deepening of the internal market (and of globalization) and the intensification of territorial competition encourages forms of particularistic contraction of solidarity, a scenario that Wolfgang Streeck has dubbed as the emergence of 'competitive solidarities' on a sub-state or sub-national basis (Streeck, 2000). But there is a second cluster of dynamics that can undermine the survival of the nation-state as the fulcrum of solidarity: the process of solidarity 'trans-nationalization', that is, the formation of redistributive collectivities that cut across traditional state borders. Let us think of the emergence of inter-regional associations (these, too, promoted and encouraged by specific EU policies), which often include among their objectives the strengthening of cooperation and exchanges in the field of social policy. Or let us think of the establishment of the new trans-national 'institutions of occupational retirement provision', made possible by the recently-approved EU pension fund directive mentioned above. Trans-nationalization dynamics are so far less pronounced than sub-nationalization dynamics. But to the extent that they will be able to develop their own institutional momentum, they too are likely to work in a destructuring direction in respect of the status quo, providing important social groups (or territorial units) with new, tangible and appealing exit options from the more traditional and national redistributive schemes.

The effects of boundary opening that we have just discussed are already something more than mere hypotheses. To a great extent, they are already observable in actual dynamics, which need to be carefully monitored and investigated in the near future in order to understand and interpret the evolution of European welfare states. But let us come to the

counter-trends, that is, to signs, options, and possible scenarios of restructuring within the new and wider spatial coordinates of the Union.

Despite the obstacles encountered by positive integration, the Union has already developed through time a distinctive social policy, essentially of a regulatory type. In many of the spheres identified in Figure 11.1, there exist regulations and directives that establish minimum standards, or that have harmonized national legislations based on common principles (Leibfried and Pierson, 2000). The Treaties of Maastricht and, especially, Amsterdam and Nice have in their turn strengthened the constitutional rank of social protection as a fundamental objective of the Union (Giubboni, 2003; Sciarra, 1999). Moreover, the ECJ has often operated as a balancing actor between market and solidarity principles (Poaires Maduro, 1998).

The first trend points in the direction of a full constitutionalization of citizenship rights. As is known, the Nice European Council of December 2000 adopted a Charter of Fundamental Rights which contains an articulated list of rights persons (not necessarily citizens) who find themselves within the EU territory. In some points, this document suffers from an excess of detail and ambition (can access to free placement be considered as a fundamental right?). Supported by a stronger legal force, the Charter could however play precisely that role of normative re-balancing in favour of citizenship, including social citizenship, which the ECJ has been able to play only partially so far, constrained as it was by the norms of a 'constitution' essentially oriented towards the market and competition. The Constitutional Treaty adopted in Dublin in June 2004 envisages the full incorporation of the Charter (part II of the Treaty). It must be underlined that the Constitutional Treaty establishes a new 'right of free residence' for EU citizens which could ultimately tilt the balance away from those national prerogatives in this field that are still operative, as we have seen, in the defence of the *sancta sanctorum* of national solidarity, that is, social assistance (space 'D' in our map). The anchoring of the right of residence to the EU, rather than to national authorities, would have a high destructuring potential but could also, precisely for this, create a framework of opportunity for the establishment of some sort of redistributive scheme on a continental scale: for example a minimum income guarantee against poverty and social exclusion, in line with recent proposals (for example, Schmitter and Bauer, 2001).

The second novelty is the launch of the open method of coordination (OMC) as a new instrument of multi-level governance in the social policy sphere (Regent, 2003; cf. also Mau, in this volume). Initially inaugurated in the field of employment, starting from 1997, this instrument has been subsequently extended to the field of social inclusion, pensions and – more timidly – health care. From our perspective, the OMC is promising both from a procedural and substantive point of view. Centred as it is on the identification of grand strategic objectives for each sector of intervention, on the monitoring and evaluation of national institutions and practices through benchmarking exercises, this method can play an important 'restructuring' role in respect of both the symbolic and the substantive components of welfare policies. The OMC can contribute to an 'opening' of national systems of social citizenship from the point of view of normative and cognitive

frames, it can invite them to puzzle on the issue of new boundaries and their implications, to identify new ways for reconciling the need to respond to common challenges and priorities with the desire to maintain different traditions and identities (Scharpf, 2001). At the procedural level, the OMC can work (as it is already working) as a fulcrum for a gradual and at least partial restructuring of domestic political games around welfare reform (Ferrera, Matsaganis and Sacchi, 2002). In sum, the open method of coordination can provide stimuli and opportunities for remodelling loyalty dynamics and reorienting voice dynamics in the direction of greater Europeanization.

It will not be easy for the European Union to find in the coming years a stable equilibrium between openness and closure, solidarity and market. In the constitutional juncture which Europe is now crossing, the signs and risks of destructuring seem higher than the signs and opportunities of restructuring. For this reason, the journey of institutional reform must definitely make further progress in the future.

REFERENCES

- Alber, J. (1982) *Von Armenhaus zum Wohlfahrtsstaat*, Frankfurt, Campus.
- Bartolini, S. (1998) *Exit Options, Boundary Building, Political Structuring*, EUI Working Papers, SPN no. 98/1.
- Bartolini, S. (2000) *Old and New Peripheries in the European Process of Territorial Expansion*, Madrid, Juan March Institute, WP 2000/53.
- Briggs, A. (1961) 'The welfare state in historical perspective', *European Journal of Sociology*, II: 251-58.
- Cornelissen, V. R. (1996) 'The principle of territoriality and the Community Regulations on social security', *Common Market Law Review*: 13-41.
- European Commission (2003) *Commission Communication on immigration, integration and employment*, COM (2003) 336.
- Ewald, F. (1986) *L'Etat Providence*, Paris, Grasset.
- Ferrera, M. (1993) *EC Citizens and Social Protection*, Bruxelles, European Commission, DG V Report.
- Ferrera M. (2003) 'European integration and national social citizenship: new boundaries, new structuring?' *Comparative Political Studies*, vol. 6: 611-652.
- Ferrera, M., Matsaganis, M. and Sacchi, S. (2002) 'Open coordination against poverty: the new EU 'social inclusion process'', *Journal of European Social Policy*, vol. 12, no. 3: 227-239.
- Flora, P. and Alber, J. (1981) 'Modernization, democratization and the development of welfare states in western Europe', in Flora, P. and Heidenheimer, A. (eds.) *The Development of Welfare State in Europe and America*, New Brunswick, Transaction, pp. 37-80.

Geddes, A. (2000) *Immigration and European Integration: Towards Fortress Europe?*, Manchester, Manchester University Press.

Giubboni, S. (2003) *Diritti sociali e mercato. La dimensione sociale dell'integrazione europea*, Bologna, Il Mulino.

Heclo, H. (1974) *Modern Social Politics in Britain and Sweden*, New Haven, Yale University Press.

Hirschman, A. O. (1970) *Exit, Voice and Loyalty*, Cambridge, Harvard University Press.

Keating, M. (1998) *The New Regionalism in Western Europe: Territorial Restructuring and Political Change*, Cheltenham, Edward Elgar.

Leibfried, S. and Pierson, P. (eds.) (1995) *European Social Policy between Fragmentation and Integration*, Washington D. C., Brookings Institution.

Leibfried, S. and Pierson, P. (2000) 'Social policy', in H. Wallace and W. Wallace, *Policy - Making in the European Union*, fourth edition, Oxford, Oxford University Press, pp. 267-291.

Marshall, T. H. (1950) *Citizenship and Social Class*, Cambridge, Cambridge University Press.

Mabbet, D. and Bolderson, H. (2000) *Non-discrimination, free movement and social citizenship in Europe: contrasting provisions for the EU nationals and asylum-seekers*, paper presented at the ISSA conference in Helsinki, September 2000; then in ISSA, *Social security in the global village*, International Social Security Series, Transaction Publishers, New Brunswick.

Perrin, G. (1969) 'Reflections on Fifty Years of Social Security', *International Labour Review*, 99: 242-92.

Poaires Maduro, M. (1998) *We, the Court: the European Court of Justice and the European Economic Constitution*, Oxford, Oxford University Press.

Regent, S. (2003) 'The Open Method of Coordination: a New Supranational Form of Governance?', *European Law Journal*, Vol. 9, no. 2: 190-214.

Rimlinger, G. (1971) *Welfare Policy and Industrialization on Europe, North America and Russia*, New York, Wiley.

Sbragia, A. (2004) 'La democrazia post-nazionale: una sfida per la scienza politica', *Rivista Italiana di Scienza Politica*, no. 1: 43-68.

Scharpf, F. W. (1996) 'Negative and positive integration in the political economy of European welfare states', in G. Marks, Scharpf, F. W., Schmitter, P. C. and Streeck, W., *Governance in the European Union*, London, Sage.

Scharpf, F. and Schmidt, V. (eds.), (2000) *Welfare and Work in Open Economies*, 2 vols., Oxford, Oxford University Press.

Scharpf, F. (2001), *European Governance: Common Concerns vs. the Challenge of Diversity*, Jean Monnet working paper. Internet site:

<http://www.iue.it/RSC/Governance/>.

-
- Schmitter, P. C. and Bauer, M. W. (2001) 'A (modest) proposal for expanding social citizenship in the European Union', *Journal of European Social Policy*, vol. 11, no. 1: 55-66.
- Sciarra, S. (1999) 'From Strasbourg to Amsterdam: prospects for the convergence of European social rights policy', in Alston, P. (ed.), *The EU and Human Rights*, Oxford, Oxford University Press, pp. 473-501.
- Shoukens, P. (ed.) (1997), *Prospects of Social Security Co-ordination*, Leuven, Acco.
- Sindbjerg Martinsen D. (2004), *European Institutionalization of Social Security Rights: A Two Layered Process of Integration*, Ph. D. Dissertation, Florence, European University Institute.
- Streeck, W. (2000) 'Competitive solidarity: rethinking the 'European social model'', in Hinrichs, K. *et al.* (eds.), *Kontingenz und Krise: Institutionenpolitik in kapitalistischen und postsozialistischen Gesellschaften*, Frankfurt a.M., Campus, pp. 245-261.
- Tinbergen, J. (1965) *International economic integration*, Amsterdam, Elsevier.
- Van der Mei, P. A. (2003) *Free Movement of Persons within the European Community*, Oxford-Portland, Hart.

Figure 11.1: *The New Spatial Architecture of Social Citizenship in the EU*